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ANNUAL REPORT OF THE UNITED NATIONS JOINT STAFF PENSION BOARD

The report made in 1974

1. Pursuant to the requirement in Article 14(a) of the Regulations of the United Nations Joint Staff Pension Fund [1] that the United Nations Joint Staff Pension Board present an annual report to the General Assembly of the United Nations and to the member organizations of the Fund, the United Nations has published the report presented by the Board in 1974 as Supplement No. 9 to the Official Records of the General Assembly: Twenty-Ninth Session (A/9609).
2. The report has thus already been communicated to Governments. However, if any Member should require additional copies, the Secretariat is ready to obtain them.

[1] Set forth in United Nations document JSPB/G.4/Rev.7.

UNITED NATIONS JOINT STAFF PENSION FUND

**REPORT
OF THE
UNITED NATIONS
JOINT STAFF PENSION BOARD**

GENERAL ASSEMBLY

OFFICIAL RECORDS: TWENTY-NINTH SESSION

SUPPLEMENT No. 9 (A/9609)



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New York, 1974

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.

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I. INTRODUCTION

1. The United Nations Joint Staff Pension Fund was established in 1949, under Regulations adopted by resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their service with the United Nations. These Regulations, as amended at various times by the Assembly, provide for the admission of other organizations to the Fund and were subsequently accepted by the specialized agencies and the International Atomic Energy Agency. There are in consequence now 11 organizations, including the United Nations, which are members of the Fund.
2. Under the Regulations, the 11 member organizations jointly administer the Fund through the United Nations Joint Staff Pension Board, consisting of 21 members. One third of the members are elected by the General Assembly and the corresponding legislative bodies of the organizations, one third are nominated by the executive heads, and one third are elected by the participants. The Board reports annually to the General Assembly on the operation of the Fund and from time to time recommends amendments to the Regulations which govern, inter alia, the rates of contribution by the participants (7 per cent of their pensionable remuneration) and the organizations (14 per cent), the manner in which the assets of the Fund are invested, the conditions of eligibility for participation and the various benefits to which staff and their dependants may become entitled. Legislative authority to amend the Regulations, when necessary, is exercised by the General Assembly on behalf of all 11 organizations. Expenses incurred by the Board in the administration of the Fund - principally the cost of its central secretariat at United Nations Headquarters in New York and the management expenses for its investments - are met by the Fund.
3. The present report is submitted by the Board following its nineteenth session, held in July 1974 at the Regional Office for Europe of the World Health Organization in Copenhagen. The report contains an account of the proceedings of that session and includes recommendations relating to the adjustment of benefits in payment, and to various other matters submitted for consideration and approval by the General Assembly. It also includes financial statements and schedules (annex I), and statistics on the operation of the Fund for the period ended 31 December 1973 (annex II), together with the report of the Board of Auditors on the annual audit of the Fund (annex IV).

II. MEMBER ORGANIZATIONS

4. The member organizations of the Fund are the United Nations and the following:
Food and Agriculture Organization of the United Nations;
Inter-Governmental Maritime Consultative Organization;
Interim Commission for the International Trade Organization;
International Atomic Energy Agency;

International Civil Aviation Organization;
International Labour Organisation;
International Telecommunication Union;
United Nations Educational, Scientific and Cultural Organization;
World Health Organization;
World Meteorological Organization.

III. SUMMARY OF THE OPERATION OF THE FUND DURING THE PERIOD
ENDED 31 DECEMBER 1973

5. The number of participants in the Fund increased during the period from 36,768 to 38,089.
6. The principal of the Fund increased from \$701,425,038.52 on 30 September 1972 to \$821,044,178.36 on 31 December 1973 (see annex I).
7. The current income of the Fund from interest and dividends during the year, less investment management costs, was \$37,433,000. A summary of the investments as at 31 December 1973 and a comparison of their book and market values at that date are contained in annex I, schedules 2 and 3.
8. The Fund on 31 December 1973 was paying 2,558 retirement benefits, 1,716 deferred and early retirement benefits, 952 widows' and widowers' benefits, 1,714 children's benefits, 192 disability benefits and 23 secondary dependants' benefits. In the course of the period it also paid 4,132 lump-sum withdrawal and other settlements (annex II).

IV. NINETEENTH SESSION OF THE BOARD

A. Membership and attendance

9. The following members and alternates were accredited to the Board by the staff pension committees of the member organizations of the Fund in accordance with the rules of procedure:

<u>Members</u>	<u>Alternates</u>	<u>Representing</u>
<u>United Nations</u>		
Mr. S. Kuttner	Mr. R. Schmidt	General Assembly
Mr. G. J. McGough	Miss K. Whalley	General Assembly
	Mr. S. Refshal	General Assembly
Mr. D. Miron	Mr. C. Timbrell	Secretary-General
Mr. W. H. Ziehl		Secretary-General
Mr. A. J. Friedgut	Mr. A. A. Garcia	Participants
Mrs. P. K. Tsien	Mr. J. M. Wood	Participants
	Mr. A. Landau	Participants
	Mr. S. P. Padolecchia	Participants
<u>International Labour Organisation</u>		
Mr. H. S. Kirkaldy	Mr. P. Juhl-Christensen	Governing Body
	Mr. W. Yoffee	Governing Body
Mr. P. M. C. Denby	Mr. C. von Stedingk	Executive Head
	Mr. J. Paléologos	Executive Head
	Mr. A. Ali	Executive Head
<u>Food and Agriculture Organization of the United Nations</u>		
Mr. N. Oliveti	Dr. A. M. Kesseba	Governing Body
Mr. F. H. Thomasson	Mr. J. Greig	Executive Head
	Mr. J. Wrigley	Executive Head
<u>United Nations Educational, Scientific and Cultural Organization</u>		
Mr. A. Chakour	Mr. R. Barnes	Executive Head
Mr. P. Coeytaux	Mr. W. Zyss	Participants

<u>Members</u>	<u>Alternates</u>	<u>Representing</u>
<u>World Health Organization</u>		
Mr. W. W. Furth	Mr. J. F. Carney	Executive Head
Dr. J. Burton	Mr. G. Dazin	Participants
<u>International Civil Aviation Organization</u>		
Mr. Y. Lambert	Mr. E. A. Olaniyan	Governing Body
Mr. F. X. Byrne		Participants
<u>International Atomic Energy Agency</u>		
Mr. H. Bittencourt	Mr. M. C. Clancy	Governing Body
Mr. W. Price		Participants
<u>International Telecommunication Union</u>		
Mr. C. Baudazzi		Governing Body
<u>World Meteorological Organization</u>		
Mr. A. Weber		Executive Head
<u>Inter-Governmental Maritime Consultative Organization</u>		
Mr. L. Goll	Mr. C. Zimmerli	Participants

10. The following attended the session as observers for certain organizations:

<u>Observer</u>	<u>Organization</u>
Mr. E. Thomson)	ILO
Mr. K. G. L. Harrold)	
Dr. A. Sauter)	
Mr. C. Lhoest)	WHO
Mrs. B. Poggipollini)	FAO
Mrs. J. F. Bénard)	UNESCO
Mr. L. Alonso de Huarte)	IAEA
Mr. C. Glinz)	ITU
Mr. P. Mathon)	
Mr. D. P. Taylor)	ICITO
Mr. Y. Øgaard)	

<u>Observer</u>		<u>Organization</u>
Mr. W. Ertel)	IMCO
Mr. M. Landey)	
Mr. E. Renlund)	WMO
Mr. W. W. Cox)	FAFICS
Mr. P. H. Home)	
Mr. J. Armstrong)	CCAQ

11. Also present during the discussion of relevant items on the agenda were the Chairman of the Board of Auditors, Dr. J. E. Escallon O. (Colombia) and Messrs. G. R. Long (Canada) and Z. Ahmad (Pakistan) of the Board of External Auditors, as well as Mr. G. A. Murphy, Chairman of the Investments Committee, Mr. R. M. Brown, Jr., The Honourable David Montagu, Governor B. K. Nehru and Mr. Y. Oltramare, members of the Investments Committee, and Mr. F. Netter, member of the Committee of Actuaries. The Board was assisted, additionally, by Messrs. G. Ashley Cooper, D. Borton and R. Leblond representing George B. Buck Consulting Actuaries, Inc. (Consulting Actuary to the Fund), Mr. J. J. Wilson, Consultant on real estate, Mr. H. Fowler, Chairman of the Board of the Fiduciary Trust Company of New York and Mr. P. Collins, Chairman of the Investment Policy Committee, First National City Bank, the Fund's investment advisers. Mr. A. C. Liveran and Mr. B. W. Pringle attended as Secretary and Deputy-Secretary, respectively, of the Board.

12. The Board elected the following officers:

<u>Chairman:</u>	Mr. G. J. McGough (representative of the General Assembly of the United Nations)
<u>First Vice-Chairman:</u>	Mr. A. Weber (representative of the Executive Head of the World Meteorological Organization)
<u>Second Vice-Chairman:</u>	Mr. P. Coeytaux (representative of the participants of the United Nations Educational, Scientific and Cultural Organization)
<u>Rapporteur:</u>	Mr. Francis X. Byrne (representative of the participants of the International Civil Aviation Organization)

13. The group of members elected to the Board by the General Assembly and the corresponding legislative bodies of the other member organizations comprised the following nationalities: Argentina, Australia, Brazil, Denmark, Egypt, France, Germany (Federal Republic of), Italy, Nigeria, Norway, United Kingdom of Great Britain and Northern Ireland and United States of America. The group nominated by the executive heads comprised the following nationalities: Greece, India, Israel, Lebanon, Sweden, Switzerland, United Kingdom of Great Britain and Northern Ireland and United States of America. The group elected - directly or indirectly - by the participants in the various organizations comprised the following nationalities: China, France, Ireland, Italy, Norway, South Africa, Switzerland, United Kingdom of Great Britain and Northern Ireland and United States of America. In responding to the request of the General Assembly for information regarding nationalities, the

Board decided that it should be furnished in this form as it might be misleading if presented differently, in view of the representative character in which members from all three groups serve on the Board.

B. Decisions and recommendations

14. The main item on the agenda of the session was the study called for by General Assembly resolution 3100 (XXVIII) of 11 December 1973, on a possible selective system of pension adjustment according to the country of residence of the pensioner. The Board's decisions and recommendations with respect thereto are to be found in paragraphs 15 to 50 below. The Board, however, also formulated recommendations for approval by the General Assembly on certain other aspects of the pension system, the most important of which relates to the removal of the differentiation which presently exists in the entitlements of males and females under the Regulations of the Fund (see paras. 51 to 53). Other recommendations relate to an enlargement of the Fund's Committee of Actuaries (paras. 54 to 56), coverage by the Fund of staff employed by the organizations on a part-time basis (paras. 57 to 59), the future operation of the Emergency Fund established in 1973 (paras. 60 to 62) and estimates of the Fund's administrative expenses for 1975 and supplementary estimates for 1974 (paras. 63 to 68). In addition, the Board dealt with a number of items of a broad management character - within its own authority under the Regulations of the Fund - which are described in paragraphs 69 to 86 below.

C. Recommendations for action by the General Assembly

(i) Adjustment of pensions

Introduction

15. The General Assembly, at its twenty-eighth session, after approving in modified form the proposals of the United Nations Joint Staff Pension Board relating to the adjustment of pensions in payment and after noting the Board's expressed intention to continue its search for more effective methods of adjustment, requested the Board: 1/

"to carry out an in-depth study on various selective systems designed to compensate for currency changes and inflationary movements in the countries of residence of pensioners and to explain the administrative and financial implications thereof"

and to report thereon to the Assembly at its twenty-ninth session.

Background

16. When the Fund was established in 1949, there was no provision for compensation for losses in the purchasing power of pensions and for their adjustment to take account of these losses. The contribution rates and actuarial bases were fixed by

1/ General Assembly resolution 3100 (XXVIII), section III.

the General Assembly, on the advice of consultants, with no special regard for a need to maintain the purchasing power of the benefits produced by the scheme during the remaining lifetime of the beneficiaries. In the economic climate of the time, it was not considered essential to incorporate such provisions in the scheme.

17. When the first comprehensive review of the pension scheme was carried out in 1960, the Pension Review Group ^{2/} recognized that the scheme was essentially a civil service scheme, with special features reflecting the international (and largely expatriate) character of the service, and it was the Pension Review Group which first recommended, together with some other major changes in the scheme, acceptance of the principle of pension adjustment. This was to be on what was called a "universal" basis, that is, a basis under which each pensioner should receive the same percentage cost-of-living increment to his pension regardless both of whether he had previously belonged to the Professional or the General Service category and of where he was residing after retirement. The Group recognized that this would produce "uneven" results because of the varying rates of cost-of-living increase in different parts of the world (the exchange-rate factor against the Fund's United States dollar-based pension had not yet appeared as an additional complication), but considered that any form of attempted "country-by-country" adjustment would be so difficult at the time as to be impracticable. Because, moreover, the Fund had not been financed for such a purpose, the Group felt that it could recommend no more than what was a virtually token 1 per cent per annum adjustment for pensions in payment, which, however, it deemed important because it embodied recognition of the need for the adjustment of pensions after award.

18. The principle thus having been established, and there being little disagreement that equity required more than merely token recognition of generally rising living costs, the Assembly approved, in 1965, a carefully constructed scheme submitted by the Board, under which, broadly speaking, pensions in payment to retired staff of all categories would be adjusted for cost of living according to the cost-of-living component in the increases applied from time to time to the Professional and higher category salary scales. The scheme maintained its averaging feature - regardless of the different rates of cost-of-living increase being experienced in different countries - but was, nevertheless, because of the generally higher rates of adjustment produced by it, a considerable advance on the one initiated by the Pension Review Group. It was able to be financed from within the Fund, moreover, by certain refinements of actuarial method, devised by the then newly-established Committee of Actuaries, which were linked, in essence, to the excess of actual investment yield over that which could prudently be assumed for purposes of the Fund's valuation. However, as neither rates of cost-of-living increase nor of investment yield could be predicted with sufficient certainty, the scheme was made subject to review by the Assembly at intervals of three years.

19. Until the modifications approved by the General Assembly at the twenty-eighth session, however, and applied from 1 January 1974, the scheme remained essentially as described above, the only significant alteration being a reduction, on 1 January 1972, of the period over which the cost-of-living component was required to be averaged, from five to three years.

^{2/} A committee of independent governmental experts, appointed under General Assembly resolution 1310 (XIII) of 10 December 1958, which came to be known as the Pension Review Group.

20. Doubts regarding the efficacy of the adjustment scheme in dealing with the marked erosion of purchasing power due to increasingly rapid inflation and substantial changes in currency relationships assumed serious proportions with the initial depreciation of the United States dollar in 1971, which had by 1972 resulted in diminutions of the local currency equivalents of pensions, paid in countries where the local currency appreciated in relation to the dollar, of up to 11 per cent, the weighted average loss amounting to between 8 and 9 per cent. Pensioners living in those countries were thus in many cases receiving lower pensions in local monetary terms, while at the same time encountering higher rates of increase in living costs. It was thought, nevertheless, that the system could be retained in operation if temporary supplements were applied over a limited period to overcome its most serious apparent defect - the time-lag of three years between the fall in purchasing power of the pension and the compensatory adjustment. The General Assembly approved, therefore, a recommendation by the Board to apply, with effect from 1 January 1973, supplements of 9, 6 and 3 per cent to the first \$3,000 of pensions for the next succeeding three years, by which time it was expected that, given reasonably stable economic conditions, the normal operation of the scheme would have produced an adequate level of compensation.

21. The further depreciation of the United States dollar in 1973, however, the virtual disappearance of fixed international exchange parities, and the sharp and apparently continuing rises almost everywhere in the cost of living, which had raised the weighted average loss in local currencies in some countries by mid-1973 to nearly 21 per cent, finally forced the Board to abandon entirely the principle of a direct relationship between the cost-of-living component in Professional and higher-grade base salaries and the rate of pension adjustment, together with the attendant three-year time-lag. It substituted, with effect from 1 January 1974, with the approval of the General Assembly, a new system under which the adjustments would be related directly to the movement of an index of the weighted average of post adjustments (WAPA) at the major organization duty stations, measured at intervals of three months - with any movement of 3 per cent or more, upwards or downwards, therein being applied forthwith to the pension. ^{3/} The result, on 1 January 1974, of the new system was a compromise adjustment of 20.2 per cent for all pensioners, restoring only a part of the purchasing power of those residing in countries where currencies had appreciated and cost of living had increased more than the average, but at the same time giving somewhat more than was strictly necessary to restore such purchasing power to groups residing elsewhere. Since that adjustment was approved, there has been further substantial erosion of purchasing power in almost all countries.

22. The Board had, of course, been aware that results such as these would be produced by any system that maintained the principle of averaging the effects of exchange-rate fluctuations and cost-of-living movements throughout the world, and it made strenuous efforts to devise a workable alternative. But practical as well as theoretical difficulties associated with a possible restructuring of the scheme on a selective basis were weighed against what was considered at the time to be the less radical alternative of improving the averaging method to the extent that it would provide at least broadly equitable results.

^{3/} A lump-sum transitional adjustment, compensating for exchange losses sustained in 1971, 1972 and 1973, equivalent to 30 per cent of the first \$4,000 of the pension, was approved by the General Assembly at the same time.

23. When the matter reached the Fifth Committee of the General Assembly, however, it appeared that many of the constraints which the Board had felt obliged to impose on itself in proposing what was essentially a compromise solution were not shared by all those who took part in the debate (although the Board's proposals, as modified by the Advisory Committee on Administrative and Budgetary Questions, were ultimately adopted). The opinion was expressed that, in fact, a more, rather than less, radical approach was needed in the new conditions of rapid inflation and general currency instability, and that the attempt should be made to measure the pensioner's losses more precisely against the compensation provided. These views were eventually reflected in the resolution referred to in paragraph 15 above.

Systems considered

24. The Board has inquired into international pension schemes which might fall within the terms of the General Assembly's resolution. The scheme introduced in 1973 by the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF) appears to be the only such scheme in operation. The Board also examined a number of other schemes developed by its secretariat and by member organizations.

25. The IBRD and IMF are located in Washington D.C. and have an internationally-recruited staff analogous to that of the United Nations, but few overseas duty stations. Until their new scheme was introduced, pensions - which are also computed in dollars - had been adjusted, regardless of the residence of the beneficiary, according to the movement of the Washington consumer price index. The new scheme provides, in essence, for an option to the retiring participant to denominate his pension in the future either (a) in dollars - in which case, again regardless of where he actually lives, it is adjusted, as under the old scheme, according to the Washington index, or (b) in the currency of his designated "country of resettlement" - in which case, as long as he continues to reside there, it is (i) paid at a pegged exchange rate against the dollar (which is the average rate over the five years immediately preceding his retirement) and (ii) adjusted for the future according to the local cost-of-living index movements. The "country of resettlement" however, may afterwards be altered upon proof of residence in a different country for at least a year; and the pensioner may also, under certain restrictive conditions, change his option to that of the dollar.

26. The prime advantage to the pensioner of a scheme such as this is, of course, that to the extent that option (b) is exercised, a local currency pension is established that (i) is initially cushioned, through the five-year averaging device, from the full effect of any previous currency revaluation vis-à-vis the dollar, (ii) can never fall below its initial figure in the local currency through a further adverse exchange movement and (iii) maintains its purchasing power in terms of domestic inflation rates. The cost of the above scheme, if it were to be operated by the United Nations Joint Staff Pension Fund, would be of the order of \$50 to \$60 million as an actuarial lump sum.

27. In the absence of any other scheme in operation that could be considered to be based on the criterion of selectivity based on residence, the Board examined a number of possible schemes that might conceivably meet the various criteria required. Thus it recognized that a possibility exists that would, in broad terms,

equate the situation of staff in the General Service and Professional categories ^{4/} by first incorporating the average post adjustment component of the latter into the pensionable base for contribution purposes; it would, at the time of retirement, then establish the pension for this category from a base consisting of the gross salary plus the post adjustment of the country of residence; and it would thereafter adjust pensions of all former staff according to the movements of the post adjustment class of the country of residence subsequent to the retirement date.

28. The Board believes that, on balance, the advantages of a scheme such as this are outweighed by its disadvantages. While it would equate the pensionable base for the General Service and the Professional categories and restore a proper pension-to-pay relationship for the latter, the effect of including the post adjustment component at the present time would imply substantial additional costs in terms of future contributions. The Board consequently considers this to be a solution which cannot, without considerable variation, be contemplated at present, although it would hope that means could sooner or later be found to create a closer relationship between the pensionable remuneration of Professional and General Service staff.

29. Another scheme was considered that would provide for time-to-time adjustment of pensions in the country of residence of the pensioner based on movements of the Post Adjustment Index (PAI) by multiplying the base pension by a fraction consisting of the PAI of the day of payment of the benefit divided by the PAI of the day of retirement in the country of residence. The pensions of existing pensioners would be adjusted on the current PAI of New York until such time as the local PAI system results in a more favourable adjustment. While reaching a consensus that the scheme could meet the problem satisfactorily, the Board considered that the post adjustment system was based on a pattern of expenditure somewhat different from that required for pension adjustment purposes.

30. The Board also examined - but discarded as unrealistic - various devices based upon the so-called "Bretton Woods dollar", or "unit of account", which would in essence do no more than re-establish the value of the United States dollar for pension purposes in terms of other currencies at its approximate May 1971 level.

Objectives of an adjustment system

31. On the basis of its study of both the existing system and of theoretical systems based on selectivity, the Board arrived at the conclusion that, in order to respond to the needs of officials retiring from international service under the conditions of the common system, the objectives of any pension adjustment scheme should be the following:

(a) The system should provide for early, adequate and equitable adjustments for pensioners wherever they reside, without loss due to either inflation or exchange-rate changes - that is, it should maintain the purchasing power of the original pension in a reasonable manner and be capable of responding promptly to changing conditions in the future;

^{4/} Including Field Service and other categories.

(b) The system should be readily susceptible of further refinement and improvement;

(c) The system should be applicable to all pensioners, present and future;

(d) The system should maintain the right of pensioners, in accordance with article 48 of the Fund's Regulations, to have their pensions paid in dollars or in another currency of their choice, at the option of the pensioner;

(e) The system should also maintain equal rates of contributions to the Fund and, for Professional and higher category staff, equal pensionable remuneration for contribution purposes, whatever the duty station;

(f) The system should not reduce the pensions of some participants for the benefit of others;

(g) The system should be administratively practicable;

(h) The system should be financed from the Fund's own resources.

The Board also considered whether the varying impact of direct taxation should be taken into account in these objectives. For a variety of reasons, including administrative feasibility, it was agreed to postpone consideration of this question until a later session.

Summary

32. Although the terms of reference of the General Assembly request appear to be limited to a study, the Board has taken the view that economic developments over the last year have had such an effect on the purchasing power of pensions in payment as to require further remedial action.

33. Also the Board has noted that the continuing depreciation of pension entitlements has been the subject of consideration not only in the United Nations General Assembly, but in a number of governing bodies and other organs of the member organizations of the Fund. For example, the Executive Board of UNESCO has drawn attention to the "serious depreciation of pension entitlements for staff members and in particular of the value in local currencies of pensions ... to former staff members". ^{5/} And the Conference of Plenipotentiaries of the International Telecommunication Union has again noted the need for: ^{6/}

"The speedy adjustment of pensions paid in order (i) to restore as far as possible the purchasing power of pensions to a level equivalent to that prevailing before May 1971, and (ii) to maintain that purchasing power by adjusting pensions within the shortest possible time."

^{5/} See decision 7.5 taken by the Executive Board of UNESCO at its ninety-third session.

^{6/} See recommendation No. 3 adopted by the Conference of Plenipotentiaries of the International Telecommunication Union, held at Malaga-Torremolinos, 1973.

34. Finally, the Board has received a statement adopted unanimously by the Administrative Committee on Co-ordination on 4 July 1974, in which it noted, inter alia:

"with grave concern the situation in which a substantial proportion of the pensioners of the United Nations Joint Staff Pension Fund find themselves as a result of the depreciation in recent years of the monetary unit in which their pensions are established."

The ACC was of the view that "determined action is necessary to ensure that the benefits and pension adjustments of the Joint Staff Pension Fund shall provide reasonable security for present and future pensioners over both the short and the long term". The ACC statement concluded with the earnest hope "that the current study of possible solutions will lead to the proposal of a revised system of pension adjustments which would provide early, adequate and equitable compensation for pensioners wherever they reside".

35. It is against this background, and against the history of the question as set out in the paragraphs above, that the Board has provided recommendations for action.

The system recommended

36. The Board has come to the conclusion that, if a selective system is to become the means by which the problems of adjustment can effectively be resolved in present economic conditions, the existing system of pension adjustments would have to be modified in line with the criteria set out in paragraph 31 above. It took as a point of departure the present adjustment procedure adopted by the General Assembly in 1973 and agreed that it would be appropriate to add to it some of the positive features of the IBRD and IMF system.

37. The adjustment system proposed would therefore offer the pensioner two choices, subject to certain restrictions explained below: one, based on the adjustment of benefits according to changes in purchasing power in the country of residence, the other, continuing unchanged the present WAPA adjustment procedure regardless of the country of residence.

38. As its essential element, the first choice would offer to present and prospective pensioners the possibility of having their pensions adjusted regularly in the future in relation to the evolution of the cost of living in their place of residence, as well as of having them protected against future loss in value in local currency terms. This would be achieved by recording the pensioner's election of country of residence (supported by acceptable documentary evidence) and the subsequent indexing of the pension to the movement of the national consumer price index for that country. Protection against exchange rate losses would be effected by denominating the pension in local currency at the average exchange rate over the 12 months immediately preceding retirement.

39. In so far as existing pensions are concerned, while it is true that there has never been any formal commitment that the rate of WAPA adjustment would for all time be maintained, expectations have been built up and, once a pensioner has received a certain level of income on a regular basis so that it has become built into his standard of living, the Board does not believe it should be reduced merely because the system has been changed. Therefore, the Board recommends that the

WAPA system should be maintained, at the option of both existing and future pensioners. What this will mean is that each pensioner, and each participant when he becomes a pensioner, will have the option either to remain under the WAPA system or to have his pension adjusted, either at once or later, according to the new system. The Board would, however, qualify the option's exercise in one important respect - which it believes is not unreasonable. Once a pensioner has decided it is to his advantage to opt for the new system, he would not have the right to revert to the old.

40. The new plan, subject to the options indicated above, would be applied to all new pensions awarded on or after 1 January 1975 and any present pensioner could opt, as from that date, to move to the new plan. In the interest of a smooth and equitable transition to the future adjustment system and to relate it fairly to the present WAPA plan, a transition period of 40 months, dating from 1 January 1974 (the initial date of application of the WAPA plan), 7/ is foreseen. During this period, conversion to the new adjustment scheme would be made from a figure representing the basic pension plus that part of the WAPA adjustment due under the present scheme.

41. The broad effects of the proposed new system (the detailed application of which is explained in Annex V) will be to restore for the future the greater part, if not the whole, of the losses suffered by pensioners in those countries where benefits in local currency have been reduced substantially below their previous level by the operation of exchange factors - which has been one of the Board's principal objectives. The new system, also, can be expected to maintain these benefits in a reasonable relationship to their original value. At this juncture, the maintenance of the present WAPA system, parallel with the new arrangements, is both a necessary and a desirable step, in the Board's opinion.

42. The Board recognized that the above proposal, while adjusting pensions equitably for time-to-time cost-of-living changes once the pensions are established, does not fully solve the problem of establishing the equivalence of purchasing power according to the country of residence. The initial pension can vary considerably, depending on the dollar/local currency exchange rate on the day the participant retires. During the last three years, there have been major abrupt variations due to official devaluations and revaluations and there have been erratic fluctuations due to market factors.

43. The Board intends to study the problem of the base pension adjustment further, but in the meantime proposes that, as a measure for avoiding day-to-day variations, the exchange rate for determining the base pension, where the basis is other than the WAPA, should be averaged over a 12-month period.

Administrative and financial implications

44. The Board has considered the major administrative implications of a selective system. In the first place, there is the problem of obtaining satisfactory

7/ The WAPA plan includes a provision under which the initial adjustment of 20.2 per cent for existing pensioners is reduced by 0.5 per cent per month for pensions coming into payment from 1 January 1974 onwards, the 20.2 per cent thus being exhausted at the end of 40 months.

evidence of the country of residence. In this area, the experience of IBRD and IMF is relevant, since these organizations introduced a selective system in 1973 and have reported no intractable problems. Secondly, additional administrative tasks would be imposed on the Fund by the necessity of obtaining proper option forms and providing participants with sufficient information on which to base their choice. Thirdly, additional work would result from the need to obtain as promptly as possible appropriate consumer price indices for all countries where beneficiaries reside. In addition to these, continuous administrative implications would be the initial effort required to revise the pension payroll programmes and to contact each of the more than 6,000 present beneficiaries to obtain their decisions on the system chosen. The conclusion is that the proposed system would undoubtedly increase the complexity and expense of the Fund's administration, as well as causing delays in benefit payments, but that these consequences could, with sufficient advance preparation, be kept within manageable proportions.

45. The Board estimates that, while much would depend on the experience of the first few years, the above is likely to increase the workload of the Fund's central secretariat to the extent of requiring 3 to 4 additional Professional and 5 to 6 additional General Service staff at a cost of some \$130,000 annually.

46. Finally, the Board ascertained from its expert actuarial advisers that the additional liabilities comprised in the new system would have a quantifiable cost to the Fund in lump-sum actuarial terms of about \$3 to \$5 million in respect of existing pensioners. In addition to this, for future pensioners, it was advised that there would be a conjectural cost - impossible to quantify and dependent largely upon exchange rates and economic conditions in the various countries in which pensioners will reside - that could either be negligible or could rise under conservative hypotheses to some \$10 to \$15 million in lump-sum actuarial terms. About half of this might originate from the operation of the 12-month average and the other from the option offered to participants.

47. The Board is aware that the estimated current excess of liabilities over assets in the Fund, as measured by the most recent valuation on 30 September 1972, is approximately \$51 million, ^{8/} and it would recall to the General Assembly the advice given by the Committee of Actuaries in 1973 that an imbalance of this order of magnitude, while naturally not to be ignored, is, however, also not necessarily to be regarded as a source of special concern. The reason is essentially (a) that the total estimated liabilities of the Fund at the present time are in the neighbourhood of \$3,500 million (of which the \$51 million imbalance is consequently a very small percentage), and (b) that the science of actuarial valuation by its nature must operate within limits of precision considerably wider than this.

48. With these considerations in mind, the Board believes that the two elements of cost involved in the new system can be approached separately. The quantifiable element of \$3 to \$5 million, which is the necessary consequence of the higher rates of adjustment to become applicable to a proportion of existing pensioners is, it considers, small enough to be absorbed into the total liabilities of the Fund without giving rise to any further problem of imbalance. The conjectural element, on the other hand, of necessity uncertain in its possible incidence, could, it

^{8/} \$37 million as shown in the 1972 valuation, plus \$14 million as the cost of the WAPA system.

feels, properly be approached in the light of future valuation results, which will themselves reflect the effects of other varying factors, such as the rate of future inflation and salary increases. It therefore believes that no serious risk would be involved to the Fund's financial stability by the adoption of the new system. The Board believes, however, that, if such costs should arise to any significant degree, consideration could be given to the possibility of meeting them out of the refunds presently made to organizations in respect of participants who separate from the service before completing five years.

Conclusions

49. The Board, after examining various schemes for compensating pensioners for currency changes and inflationary movements, as requested under the terms of General Assembly resolution 3100 (XXVIII), has designed a scheme which, it believes, could serve the purpose envisaged in that resolution. It accordingly submits the scheme for the consideration of the General Assembly.

50. The members representing the General Assembly reserved their position on the substance, but did not object to the transmission of the scheme to the General Assembly. Other members representing governing bodies expressed their concern that any new scheme submitted by the Board should not entail additional costs to Governments. In supporting the proposed system, some members representing the participants wished it to be recorded that it was their understanding that, if the proposed scheme were to go into effect, present and future recipients would continue to have their benefits determined and adjusted as at present, unless they should wish to exercise an option for the alternative adjustment system.

(ii) Entitlements of males and females under the Regulations of the Fund

51. The Regulations of the Fund differentiate in certain respects between the benefit entitlements of male and female participants. The Board had reached a consensus in 1973 that, as a matter of principle, these should be eliminated. It had refrained, however, from proposing immediate measures to this effect, because of the elements of cost involved, at a time when more urgent action was required for the adjustment of pensions in payment.

52. After further discussion of the matter in 1974, the Board is of the opinion that, despite the cost aspects, action can no longer be justifiably postponed. The main differentiation in entitlements is in the provision of survivor's benefits, which in the case of male participants is automatic, but in the case of females requires proof that the surviving widower is without means to support himself and is unable, by reason of age or infirmity, to engage in substantial gainful employment. The Board proposes that a first step towards full ultimate alignment of entitlements should be taken by way of eliminating this differentiation in circumstances where death has occurred in service or if the participant has been retired for disability. The cost in lump-sum actuarial terms of such a measure would be about \$2.1 million (as against approximately \$10.3 million were the differentiation to be removed for death in all circumstances); the necessary amendments to the Regulations of the Fund have been included in annex VII below.

53. The Board wishes to stress in connexion with the above, however, that, while it recognizes the importance of the cost aspect, it does not consider this to be overriding where the issue is the basic principle of equality. The Board believes that that principle should be fully implemented as soon as possible, and it intends at its next session to examine the range and priorities of the various further measures required for this to be done, together with such methods of self-financing as may be appropriate.

(iii) Committee of Actuaries

54. The Committee of Actuaries, consisting of three independent actuaries appointed by the Secretary-General on the recommendation of the Board, was established in 1961, under article 9 of the Regulations of the Fund, by General Assembly resolution 1561 (XV). The statutory function of the Committee is to advise the Board on actuarial questions arising out of the operation of the Regulations, including the assumptions and methods to be used in the periodic valuations of the Fund performed by the Board's Consulting Actuary, the review of the results of these valuations and the provision of studies, such as that undertaken in 1973 at the request of the General Assembly on the adequacy of the Fund's contribution rates.

55. In 1973, the suggestion was made by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly that, given the continuing growth of the Fund and its system-wide operation, the Board should consider enlarging the Committee of Actuaries to a membership of not more than six. The Board has examined this suggestion carefully and has come to the conclusion that, while there is probably no technical need for the Committee to be enlarged, there may well be advantages in the wider range of expertise which could be anticipated from doing so. It proposes, therefore, that the number of members be increased from three to four and that article 9 of the Regulations be amended to this effect.

56. The Board intends, at its next session in 1975, if the above proposal is adopted by the General Assembly, to apply to the composition of the Committee in the future the principle of rotation of membership through staggered terms of office, so that one new appointment, or a reappointment, would take place each year. In furtherance of this principle, the Board decided to recommend to the Secretary-General the renewal of the terms of office of the present members for one year only, leaving to its next session the precise application of the rotation method to the future membership of the Committee from 1 January 1976 onwards. Candidatures already submitted for membership will accordingly be retained until that time.

(iv) Coverage of part-time staff

57. The member organizations of the Fund are making use to a significant degree of part-time staff for certain types of work where recruitment on a full-time basis has become difficult, such as secretarial staff in some areas and language staff in many others. As the pattern of such employment has now become fairly well established, the Board was asked to consider modifications to the Regulations which would facilitate the recruitment of the staff in question by providing pension and

related coverage through the Fund, and so aligning their conditions of service with those of full-time employees.

58. The Board was informed that approval of the proposal could result, inter alia, in some economies to the organizations, in so far as marginal needs can often be met through the use of part-time rather than full-time staff. It has also satisfied itself, on the advice of the Committee of Actuaries, that appropriate coverage can be provided without imposing any additional financial burden on the Fund. The coverage would be restricted to staff holding at least half-time appointments, with eligibility for participation otherwise being governed by the same length of service periods as those applicable to regular staff; pensionable remuneration, length of contributory service and entitlements flowing therefrom would, however, be computed according to an actual-work formula, under which, for example, two years of half-time service would equal one year of regular contributory service. All other entitlements would follow those applicable to full-time staff, except that validation of prior service would not be permitted in respect of any period prior to the change.

59. The Board has formulated amendments to the Regulations designed to accomplish these purposes, which are set out in annex VII. It recommends that they be approved by the General Assembly with effect from 1 January 1975.

(v) Emergency Fund

60. The Board established, in 1973, an emergency fund 9/ derived from voluntary contributions by member organizations, staff organizations and individual contributors, for the broad purpose of dealing with cases of hardship among pensioners - in a manner analogous to the assistance provided from time to time by the organizations to serving staff in critical circumstances. The intention, however, was to submit later to the General Assembly proposals which would enable the resources of the Fund itself to be used for this purpose. The main immediate objective of the Board was to relieve distress, particularly among those in receipt of small pensions, resulting from the currency fluctuations and cost-of-living increases of the time, until compensatory action by the General Assembly could be authorized. By the end of 1973, as will be seen from schedule 4 of annex I below, an amount of \$65,373 had been contributed from various sources, \$61,250 of which was distributed to the pensioners most severely affected.

61. The action authorized by the General Assembly in 1973 with respect to pension adjustment to some extent alleviated the problems of most of those who had received assistance, and the question arose in 1974 of whether the emergency fund should nevertheless be continued, in order to serve the Board's original purpose of providing aid in individual hardship cases where there was a proved need for relief. If so, the extent to which the Fund's own resources might reasonably be committed thereto needed to be considered.

62. The Board was encouraged by the proposal made during the 1973 discussions in

9/ Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 9 (A/9009 and Corr.1 and 2), vol. I, chap. IV, paras. 41 and 42.

the Fifth Committee 10/ for the use of the Fund's own resources for hardship relief, rather than reliance solely upon those derived from voluntary contributions. It believes that there will always be situations in which illness, infirmity, ill-fortune or some other cause beyond a pensioner's control will necessitate extra aid. The Board considers that the Fund should accept its due share of responsibility in such cases - particularly if the pensioner lives in a developing country where, because of the absence of a comprehensive social security system, the need for assistance is great, and the Board proposes, therefore, that for an experimental period of one year it should be authorized to expend a sum of up to \$50,000 (in addition to such voluntary contributions as may continue to be received) for this purpose, to be administered under appropriate flexible guidelines developed by its Standing Committee and to be reviewed after the first year of experience. A modest amount of this order can be accommodated within the excess of the allocation for administrative expenses (0.14 per cent of the contribution rate) over the actual amount expected to be utilized (0.10 per cent) in 1975 (see para. 64 below).

(vi) Administrative expenses

63. The Regulations of the Fund provide, in article 15, that expenses incurred by the Board in the administration of the Fund - as distinct from those incurred by member organizations in local pension administration - shall be met by the Fund itself, and that estimates thereof shall be submitted annually to the General Assembly for approval. The Board submits, under this head, estimates of \$2,147,600 (net) for 1975 and supplementary estimates of \$96,800 (net) for 1974 (see annex III below). These expenses are a charge entirely on the Fund and do not involve the budget of the United Nations in any way or that of any other member organization.

64. Concerning the estimates, the Board wishes to observe in general that the guideline recommended by the actuaries and followed consistently for a number of years - of distinguishing between administrative costs, properly so-called, and investment costs, and of holding the former within 0.14 per cent of the total pensionable remuneration of the Fund's participants - has been maintained. The investment costs, which now include provision for investment staff in the United Nations Office of Financial Services, as well as for the contractual fees payable to the two financial institutions responsible for advisory and custodial services, are estimated to amount to \$1,393,300 out of the total chargeable to the Fund, and the balance of \$754,300, which represents administrative costs, is approximately 0.10 per cent of total pensionable remuneration anticipated for 1975.

65. The 1975 estimates show, at the same time, an over-all increase above the net appropriations for 1974 of \$483,300, the greater part of which is attributable to the need for additional staff and to increased investment costs. In so far as staffing is concerned, the Board has found that its policy of attempting to absorb a continually increasing administrative workload without corresponding additions to its staff has resulted in severe strains on the Fund's central secretariat, which, it is recognized, must now be alleviated. The problem is largely in the junior levels of the Professional and in the General Service category, where the cumulative effect of factors, such as the steady increase in the number of

10/ Ibid., Twenty-eighth Session, Annexes, agenda item 88, document A/9386, para. 11.

participants and pensioners, the greater complexity of the pension system, banking and other difficulties associated with currency fluctuations on a world-wide basis, and the like, have heightened to an unprecedented degree the level of correspondence, benefit computation, response to inquiries and general administrative work. After a full reassessment of the staffing situation, the Board finds itself obliged to recommend the addition of 10 new posts (three at the junior Professional level and seven in the General Service category) to the central office in New York, the creation of a small liaison office of the Fund at Geneva, to be staffed by a junior Professional and a General Service category staff member, and the addition of one General Service category staff member (at the senior level), to those furnished to the Office of Financial Services for the control of the Fund's investments. These posts do not include the additional personnel, referred to in paragraph 45 above, which will probably be required eventually should the Board's proposals with respect to the revised scheme of pension adjustment be approved, which the Board proposes to deal with by way of a supplementary estimate, to the extent necessary, in 1975.

66. The strengthening of the central secretariat of the Fund in New York is essentially to provide a P-3 level post as cashier, in order to handle the increased level of transactions involving banks, a further assistant-auditor at the P-2 level to monitor benefit computations, an additional administrative officer at P-2, four additional accounting clerks at the G-3/G-4 level, two similar clerk-typists, and one trainee computer programmer at the G-4 level. The establishment of a small office of the Fund at Geneva, which, it is proposed, will consist initially of a junior Professional at the P-3 level together with a secretary/clerk, is intended to provide more extensive liaison with the organizations and expanded advisory service for staff and beneficiaries located there and to deal with day-to-day problems, particularly with regard to the payment of benefits arising in the European area. The office will replace an existing service of the same kind hitherto furnished through the United Nations Office at Geneva, which is no longer adequate for the Fund's needs. Finally, the senior-level General Service category staff member, who, it is proposed, will be furnished by way of additional assistance to the Office of Financial Services, at the request of the Secretary-General, will give increased emphasis to the surveillance of investment accounts and reports. A breakdown of the establishment, as proposed, is shown below in annex III, table 2.

67. The greater part of the increase in the investment costs referred to in paragraph 65 above, is in the fees payable to the two institutions now providing advisory and custodial services for the Fund's portfolio under the Secretary-General's over-all responsibility. These fees are linked, contractually, to the market value of the investments themselves and have been estimated by the Secretary-General to amount to \$1,200,000 for 1975, as against appropriations of \$1,040,000 for 1974. Increases have also been requested by the Secretary-General in the amount provided for investment consultants, from \$3,000 in 1974 to \$16,000 in 1975, mainly in connexion with real estate, and in an amount (\$1,500) required for hospitality in connexion with meetings of the Investments Committee and certain related activities of the investment management staff. A further increase over 1974, unrelated to the investments, however, is in the amount of \$45,000, required for the actuarial valuation of the Fund as at 31 December 1974, which will be carried out by the Consulting Actuary in early 1975.

68. In so far as the supplementary estimates of \$96,800 for 1974 are concerned (annex III, table 3), the principal items are an amount of \$31,000, representing an increase in gross salaries for both General Service and Professional categories in

the central secretariat of the Fund - the latter as the result of the consolidation of five classes of post adjustment on 1 January 1974 - a corresponding amount of approximately \$14,000 for the investment management staff (which includes, however, provision for the additional G-5 post mentioned in paragraph 66 above, from 1 July 1974), an amount of \$18,000 by way of temporary assistance required to implement 1973 decisions of the Board and the General Assembly, approximately \$13,000 in respect of real estate investment services, \$5,000 in fees to the Consulting Actuary for assistance in connexion with the study of a selective pension adjustment system requested by the General Assembly in 1973, \$4,100 to provide for the attendance of the three members of the Board of Auditors at the session of the Pension Board in Copenhagen and \$8,200 for the purchase of a Wang 1200 Cassette Typing System as a further step towards mechanization of the Fund's procedures.

D. Further action by the Board

69. The action taken by the Board within its own powers under the Regulations related principally to the annual review of the Fund's investment position and investment policy, consideration of the methodology and assumptions for the next actuarial valuation of the Fund (as at 31 December 1974), the introduction of certain minor changes in the Administrative Rules, proposals made for the recognition of prior contributory service and consideration of the question of the maximum length of contributory service. The Board also examined and approved the various financial statements, schedules and statistics annexed to the present report, and discussed with the Board of Auditors, the members of which had been invited to attend the session, the latter's report to the General Assembly on the accounts of the Fund for the year ended 31 December 1973 (see annex IV).

(i) Investments of the Fund

70. The Board's review of investment policy and of the returns currently being obtained from the portfolio was carried out on the basis of detailed reports and charts furnished for the purpose by the Secretary-General, who, under the Regulations, is responsible, in consultation with the Investments Committee 11/ and in the light of observations and suggestions made by the Board, for the investment and management of the Fund's assets.

71. The Board noted from the information provided that the Fund's holdings were at present 68 per cent in equities (common stocks, convertible bonds and real estate),

11/ The Committee consists of six members appointed by the Secretary-General after consultation with the Board and the Advisory Committee on Administrative and Budgetary Questions and subject to confirmation by the General Assembly. The present membership is as follows: Mr. Eugene Black (United States of America), Mr. R. Manning Brown (United States of America), Mr. Jean Guyot (France), The Honourable David Montagu (United Kingdom of Great Britain and Northern Ireland), Mr. George Murphy (United States of America) and Governor B. K. Nehru (India). In addition, Mr. Yves Oltramare (Switzerland) has been serving as a co-opted member of the Committee, on an ad hoc basis, during 1974.

10 per cent in short-term fixed-interest obligations, and 22 per cent in long-term fixed-interest obligations (bonds), ratios which are about the same as during the previous year. Approximately 70 per cent of the equity portfolio continues to be invested in United States' securities, with the balance spread among other holdings.

72. Statistics were presented to the Board which illustrated the yield on the various components of the Fund's portfolio. They showed, inter alia, a cumulative annual rate of return on the United States equity section (realized and unrealized capital gains or losses plus dividends) over the 10 years ending 31 March 1974 of about 5.30 per cent, although there had been a decline in over-all capital value of about 16 per cent in the current year due to adverse market conditions. The non-United States equity section, over the same 10-year period, had shown a cumulative return of about 8.30 per cent, with a corresponding capital decline of about 20 per cent in the current year. Currency fluctuations had not significantly affected the current year's results. At the same time, the long-term fixed-income securities section, historically lower in yield because of the effect of certain low-interest bonds purchased early in the Fund's history (which are gradually being eliminated), had shown an increase in yield to maturity from 6.49 per cent to 6.80 per cent in the past year - as compared with about 4 per cent 10 years previously.

73. The Fund's holdings in real estate are for the most part at present in the form of participation in corporately-owned properties in the United States. The Board noted, however, that it is the intention of the Secretary-General to extend these holdings to other geographical areas as suitable market conditions develop. For this purpose institutional advisory arrangements are being contemplated to ensure appropriate professional expertise as the investment programme develops. The Board agrees that real estate, particularly over the long term, is likely to be an advantageous investment vehicle for the Fund and welcomes these recent initiatives.

74. The Board recognized that in the adverse market conditions prevailing world-wide over the most recent period under review, some decline in average yield had to be expected. It was satisfied, however, from the explanations provided by the Secretary-General, that the management of the portfolio had been such as to hold this to a minimum and that there was no reason to expect any significant decline in yield over the long term. In general, the members of the Board felt, also, that, while the distribution of the Fund's holdings and the ratio of equities to fixed-interest obligations were satisfactory, special attention should be paid to suitable investment opportunities in developing countries.

(ii) Methodology and assumptions for the valuation of the Fund as at 31 December 1974

75. The Board reviewed and approved various changes in the assumptions which the Committee of Actuaries had recommended for the next valuation. The assumptions in question relate for the most part to such items as the rate of withdrawal from service before normal retirement age, mortality and disability rates, rates of increase in salaries etc., the objective being to match these as far as possible with past experience as a realistic guide for the future. In the course of this review, the Board introduced one new assumption, recommended by the Committee of Actuaries, of an annual increase of 3 per cent in the number of participants in the Fund over the next 10 years (having regard to an average actual rate of increase of about 6 per cent annually during the period 1968-1972).

76. The Board further approved, on the recommendation of the Committee of Actuaries, a revised methodology for the valuation of the Fund as at 31 December 1974. Under this, alternative valuations will be carried out assuming, in the first instance, dynamic (or inflationary) economic conditions for the next 10 years and an interest rate of 9 per cent, with static economic conditions thereafter and interest rates of 4 1/4 and 4 1/2 per cent, respectively. In the second, static conditions will be assumed throughout, also with alternative interest rates of 4 1/4 and 4 1/2 per cent. On this basis, the Committee expects to be in a position, once the results of the actuarial computations are known, to formulate its recommendations to the Board with due allowance for present economic uncertainties.

(iii) Amendments to the Administrative Rules

77. In addition to those consequential amendments which would be required if a change were made in the Regulations to provide for automatic benefits for widowers (see paras. 51 to 53 above), the Board decided, in pursuance of its powers under article 4 of the Regulations, to amend the Administrative Rules of the Fund to provide (a) for the possibility of benefits to be paid at the United Nations operational rates of exchange, where the participant has requested a currency other than United States dollars, and (b) for the full reimbursement to a participant who is separated after less than five years of contributory service, of his own contributions at their value in the currency in which they were paid.

78. The purpose of the first amendment is both to stabilize as far as possible the equivalents in local currency of the dollar amounts due to beneficiaries from month to month, and to avoid the sometimes wide variations in rates practiced by commercial banks in the same general area. The purpose of the second is to enable a participant whose remuneration under the terms of his appointment was expressed in a currency other than dollars and who, because of a decline in the value of dollars with respect to such currency would otherwise receive, as his only benefit from the Fund, less in return than he had himself contributed to it, to be paid the difference. Details of the amendments are reported in annex VIII below.

(iv) Recognition of UNRWA service prior to 1961

79. At the request of the United Nations Secretary-General, who informed the Board that the problem of making the requisite payments was still under study, the Board decided to maintain, for the time being, the option extended to UNRWA to include additional prior periods of service on the same basis as that of the original agreement for the period 1961-1966.

(v) Recognition of prior service

80. The general problem of recognizing as contributory, service which for various reasons had not originally been contributory, was further discussed by the Board in connexion with a proposal submitted by the Director-General of the ILO. The proposal would allow a member organization desirous of doing so to make arrangements for having periods of prior service performed by members of its present staff, which, because of the terms of their employment at the time of their entry into the Fund, were not part of their contributory service, made contributory, subject to the

appropriate actuarial costs being paid to the Fund, and subject further to fulfilment of the same basic conditions embodied in the agreement with respect to prior service with UNRWA, referred to above. The Board accepted the proposal for application to the ILO and authorized other member organizations that wished to do so to conclude arrangements with the Fund on similar terms.

(vi) Recognition of UNESCO service prior to 1951

81. The Board considered a proposal by the Director-General of UNESCO to recognize as contributory, subject to approval by its General Conference, the service performed by some UNESCO staff members prior to the entry of that organization into the Fund.

82. The Board, after noting the sui generis character of the problem because of the special circumstances in which it had arisen, decided to accept the proposal on the understanding that UNESCO would pay to the Fund the entire actuarial costs involved, as determined by the Consulting Actuary at the time the arrangements are concluded.

(vii) Maximum length of contributory service

83. The Board faces the problem that, by 1 February 1976, some participants in the Fund will have accumulated 30 years of contributory service, which is the maximum for which credit can be given for benefit purposes under the present Regulations (the earliest date from which such service may be reckoned is 1 February 1946). Other participants will, in due course, reach the same position. It must thus soon be determined whether the 30-year period should be extended to perhaps 35 years or longer - as is the case in most national civil services - and, if so, on what basis credit should accrue for the additional years.

84. The Board believes that action of some kind can not be postponed beyond 1975. It accordingly requested the Consulting Actuary to prepare cost estimates, in conjunction with the forthcoming actuarial valuation, of various alternative methods of recognizing service in excess of the present maximum, and proposes to put forward recommendations on the subject to the General Assembly next year.

(viii) Financial statements of the Fund for the period ending
31 December 1973 and the Report of the Board of Auditors

85. The Board noted the financial statements for the period ended 31 December 1973. It also noted with satisfaction the statement by the Chairman of the United Nations Board of Auditors, who presented the report of the Board of Auditors, that the differences which had existed in the past with regard to certain aspects of the audit had now been overcome. A proposal to regularize and clarify the arrangements under which the external audit of the Fund would in future be carried out was thus unanimously endorsed and, accordingly, the following agreement was signed by the Board of Auditors and the Pension Board:

"Agreement

"The audit of the accounts of the United Nations Joint Staff Pension Fund

by the United Nations Board of Auditors shall be carried out in accordance with the standardized financial regulations and the additional terms of reference relating to external audit approved by the Administrative Committee on Co-ordination at its fifty-third session (26-27 April 1971)."

86. The Board was informed that corrective action had been taken by the Secretary-General with respect to certain points of substance raised by the Auditors in their report in connexion with the investments. In particular, certain income losses due to defective methods of computing the cash balances held by one investment adviser would be recovered; and improvements had been instituted to avoid previous delays in the accounting and transfer of contributions to the Fund from member organizations. The Secretary-General had also taken due note of the need for co-ordination in the activities of the two investment advisers. The Board does not as yet feel able, on the other hand, with the change in the Fund's financial year to the period 1 January-31 December, to set a specific date for the transmission of the annual accounts to the Board of Auditors. Experience and new procedures will be required within the member organizations to enable data to be processed within the new deadlines prescribed under the Administrative Rules, and the Board would prefer to await the results of its efforts to induce the organizations to co-operate effectively in this respect before undertaking delivery of the final accounts by a specific date.

E. Standing Committee

87. The Board elected the following as members and alternate members of its Standing Committee which, under article 4 of the Regulations, acts on the Board's behalf when it is not in session:

<u>Members</u>	<u>Alternates</u>	<u>Representing</u>
<u>United Nations (Group I)</u>		
Mr. G. J. McGough	Miss K. Whalley	General Assembly
	Mr. S. Kuttner	General Assembly
	Mr. R. Schmidt	General Assembly
Mr. W. H. Ziehl	Mr. D. Miron	Secretary-General
	Mr. C. Timbrell	Secretary-General
Mr. A. J. Friedgut	Mrs. P. K. Tsien	Participants
	Mr. A. A. Garcia	Participants
<u>Specialized agencies (Group II)</u>		
Mr. C. Baudazzi (ITU)	Dr. M. C. Clancy (IAEA)	Governing Body
Mr. C. von Stedingk (ILO)	Mr. P. M. C. Denby (ILO)	Executive Head
	Mr. A. Ali (ILO)	Executive Head
	Mr. J. Paléologos (ILO)	Executive Head
Dr. J. Burton (WHO)	Mr. G. Dazin (WHO)	Participants
	Mr. C. Lhoest (WHO)	Participants
<u>Specialized agencies (Group III)</u>		
Mr. Y. Lambert (ICAO)	Mr. E. A. Olaniyan (ICAO)	Governing Body
Mr. F. H. Thomasson (FAO)	Mr. J. Greig (FAO)	Executive Head
	Mr. J. Wrigley (FAO)	Executive Head
Mr. P. Coeytaux (UNESCO)	Mr. P. Roux (UNESCO)	Participants

ANNEX I

FINANCIAL STATEMENTS AND SCHEDULES FOR THE PERIOD ENDED 31 DECEMBER 1973

AUDIT OPINION

We have examined the following appended financial statements, numbered I and II, properly identified, and relevant schedules of the United Nations Joint Staff Pension Fund for the year ended 31 December 1973. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. As a result of our examination, we are of the opinion that the financial statements properly reflect the recorded financial transactions for the year, which transactions were in accordance with the Financial Regulations and legislative authority, and present fairly the financial position as at 31 December 1973.

(Signed) J. E. ESCALLON O.
Controller-General of Colombia

(Signed) J. J. MACDONELL
Auditor-General of Canada

25 June 1974

(Signed) A. HAMID
Auditor-General of Pakistan

Annex I
Statement I

Statement of assets and liabilities as at 31 December 1973
with comparative figures as at 30 September 1972

		<u>1973</u>	<u>1972</u>
	\$	\$	\$
<u>Assets</u>			
Cash in banks		767 185.44	1 388 466.38
Contributions receivable from member organizations		7 224 354.89	6 153 753.02
Accounts receivable		182 887.98	116 013.87
Accrued income from investments		6 661 261.33	6 012 226.87
Receivable for securities sold		3 687 285.66	2 340 318.63
Investments (schedules 2 and 3)			
Bonds - at cost			
(market value -			
\$249 545 120.97)	270 232 205.01		
Convertible bonds - at cost			
(market value -			
\$65 129 554.00)	65 085 660.53		
Stocks - at cost			
(market value -			
\$544 218 140.00)	<u>474 161 035.81</u>	809 478 901.35	695 109 989.00
Prepaid benefits		<u>1 473 844.02</u>	<u>941 717.65</u>
		<u>829 475 720.67</u>	<u>712 062 485.42</u>
<u>Liabilities and principal of the</u>			
<u>Fund</u>			
Benefits payable		3 093 466.38	1 731 574.85
Held in trust		160 000.00	870 827.91
Payable for securities purchased		4 034 302.02	7 732 830.37
Other accounts payable		1 143 773.91	302 213.77
Principal of the Fund			
Pension Reserve	211 800 000.00		
Participants' Account	208 004 402.43		
Balancing Account	<u>401 239 775.93</u>	821 044 178.36	701 425 038.52
		<u>829 475 720.67</u>	<u>712 062 485.42</u>

Certified correct:

(Signed) W. H. ZIEHL
Acting Head, Office of Financial Services
United Nations
(for cash balances and investments of the
Fund only)

(Signed) Arthur C. LIVERAN
Secretary
United Nations Joint Staff Pension Board

13 May 1974

Annex I
Statement II

Statement of source and application of funds for the period
ended 31 December 1973 with comparative figures as at
30 September 1972

	<u>1973</u>	<u>1972</u>
	\$	\$
<u>Source of funds</u>		
Contributions by participants		
7 per cent of pensionable remuneration	45 588 628.10	31 951 964.22
Additional contributions to validate prior non-contributory service	731 082.95	1 045 846.29
Repayment of benefits to restore prior contributory service	712 039.02	540 324.80
Voluntary deposits	43 983.37	42 313.29
14 per cent of pensionable remuneration to make periods of leave without pay contributory service	81 933.84	60 344.52
	<u>47 157 667.28</u>	<u>33 640 793.12</u>
Contributions by member organizations		
14 per cent of pensionable remuneration	91 177 256.20	63 903 928.44
Additional contributions to make prior service contributory	1 317 136.43	1 549 664.95
4 1/2 per cent of pensionable remuneration of former associate participants	-	620.20
	<u>92 494 392.63</u>	<u>65 454 213.59</u>
Interest received from participants and member organizations on validation and restoration of prior service	<u>253 847.81</u>	<u>237 216.56</u>
Contributions with interest received from non-member organizations for participants transferred under agreements	<u>2 853.78</u>	<u>77 534.35</u>
Investment income		
Interest earned	22 313 203.11	16 592 654.34
Dividends	16 306 666.69	10 241 106.92
Profit on sales of investments	30 266 828.50	9 040 453.44
Loss on sales of investments	(35 569 896.29)	(15 970 252.10)
	<u>33 316 802.01</u>	<u>19 903 962.60</u>
Totals	<u>173 225 563.51</u>	<u>119 313 720.22</u>

Annex I
Statement II (continued)

	<u>1973</u>	<u>1972</u>
	\$	\$
<u>Application of funds</u>		
Payment of benefits		
Withdrawal settlements and full commutation of benefits	10 214 421.95	5 954 673.61
Retirement benefits	21 967 136.90	12 919 756.69
Early and deferred retirement benefits	7 715 802.53	3 313 571.51
Disability benefits	904 721.76	453 733.23
Death benefits (other than to children)	3 058 806.89	1 570 646.81
Children's benefits	1 392 140.96	752 503.68
	<u>45 253 030.99</u>	<u>24 964 885.53</u>
Contributions with interest remitted to non-member organizations for participants transferred under agreements	<u>380 771.06</u>	<u>230 178.94</u>
Contributions refunded to member organizations	<u>6 280 637.98</u>	<u>3 627 692.79</u>
Administrative expenses		
Administrative cost	622 196.53	423 284.51
Investment costs chargeable to gross income from investments	1 185 156.72	634 653.45
	<u>1 807 353.25</u>	<u>1 057 937.96</u>
Adjustments to prior year benefits (net)	(<u>115 369.61</u>)	<u>22 811.48</u>
Transferred to Principal of the Fund	<u>119 619 139.84</u>	<u>89 410 213.52</u>
Totals	<u><u>173 225 563.51</u></u>	<u><u>119 313 720.22</u></u>

Certified correct:

(Signed) Arthur C. LIVERAN
Secretary
United Nations Joint Staff Pension Board

13 May 1974

Schedule of administrative expenses

	<u>Administrative costs</u>	<u>Investments costs</u>
	\$	\$
Established posts	383 385.73	117 058.74
Overtime and temporary assistance	84 299.40	766.15
Common staff costs	87 488.20	21 062.96
Custodial services and investment counsel		1 048 827.15
Consultants	72 244.73	2 713.56
Travel of staff	21 738.31	1 714.54
	<hr/>	<hr/>
	649 156.37	1 192 143.10
Staff assessment	(71 306.80)	(21 823.44)
	<hr/>	<hr/>
	577 849.57	1 170 319.66
Investments Committee		13 437.69
Committee of Actuaries	5 382.77	
External audit	7 500.00	
Staff computer services rendered by the United Nations	25 000.00	
Communications services	5 000.00	
Hospitality	932.55	
Miscellaneous charges	531.64	1 399.37
	<hr/>	<hr/>
	622 196.53	1 185 156.72
	<hr/>	<hr/>

Summary statement of investments as at 31 December 1973
(000's omitted)

	Balance 1 October 1972		Purchases and acquisitions		Sales maturities and exchanges			Balance 31 December 1973		Income	Estimated
	Par value	Cost	Par value	Cost	Par value	Proceeds	Profit or (loss)	Par value	Cost	1972/1973	yield on cost
<u>United States dollar bond section</u>											
United States Government Agency and Authority bonds	2 300	2 253	1 000	944	65	65	5	3 235	3 138	208	5.96
Other Government bonds	16 477	15 888	2 821	2 524	4 889	4 292	(379)	14 409	13 751	1 118	6.31
International monetary agencies	8 339	7 457	5 502	4 466	1 900	1 479	(120)	11 941	10 304	730	7.02
Corporate bonds											
Railroads	1 786	1 737			25	25		1 761	1 712	81	3.78
Public utilities	66 855	59 880	19 103	14 332	26 851	21 185	(2 641)	59 107	50 386	3 273	5.05
Industrials	143 180	134 587	46 782	42 544	44 616	40 765	(1 129)	145 346	135 237	11 112	7.24
Total United States dollar bond section	<u>238 937</u>	<u>221 781</u>	<u>75 208</u>	<u>64 810</u>	<u>85 135</u>	<u>67 811</u>	<u>(4 264)</u>	<u>235 799</u>	<u>214 517</u>	<u>16 521</u>	<u>7.02</u>
<u>United States dollar convertible bond section</u>											
Corporate bonds											
Public utilities	1 952	1 948	250	193	2 202	1 582	(599)	22 351	23 854	115	5.92
Industrials	40 966	43 655	12 265	15 098	30 880	32 616	(2 285)			1 941	
Total United States dollar convertible bond section	<u>42 918</u>	<u>45 603</u>	<u>12 515</u>	<u>15 291</u>	<u>33 082</u>	<u>34 198</u>	<u>(2 842)</u>	<u>22 351</u>	<u>23 854</u>	<u>2 056</u>	<u>5.92</u>
<u>Non-United States dollar convertible bond section</u>											
Corporate bonds	9 104	10 277	50 500	50 181	19 638	19 671	446	39 966	41 232	2 034	7.90
Total non-United States convertible bond section	<u>9 104</u>	<u>10 277</u>	<u>50 500</u>	<u>50 181</u>	<u>19 638</u>	<u>19 671</u>	<u>446</u>	<u>39 966</u>	<u>41 232</u>	<u>2 034</u>	<u>7.90</u>
											<u>Average yield</u>
<u>United States dollar stock section</u>											
Financial		26 647		46 138		8 118	2 433		67 100	1 255	2.69
Public utilities		29 320		15 563		3 645	(1 816)		39 422	2 486	7.24
Consumer		84 601		16 701		27 076	(2 742)		71 484	2 769	3.55
Semi-capital		84 496		44 485		28 471	7 218		107 728	3 912	4.07
Capital		78 936		26 961		38 059	(3 920)		63 918	1 678	2.35
Total United States dollar stock section		<u>304 000</u>		<u>149 848</u>		<u>105 369</u>	<u>1 173</u>		<u>349 652</u>	<u>12 106</u>	<u>3.70</u>
<u>Non-United States dollar stock section</u>											
Financial		29 958		9 193		23			39 128	1 374	3.98
Utilities		418							418	40	9.57
Consumer		32 998		8 157					41 155	1 213	3.27
Semi-capital		25 863		3 817		3 282	154		26 553	1 163	4.44
Capital		12 212		5 126		113	30		17 255	411	2.79
Total non-United States dollar stock section		<u>101 449</u>		<u>26 293</u>		<u>3 418</u>	<u>184</u>		<u>124 509</u>	<u>4 201</u>	<u>3.72</u>
Temporary investment (idle cash)	<u>12 000</u>	<u>12 000</u>	<u>3 250 835</u>	<u>3 250 548</u>	<u>3 207 120</u>	<u>3 206 833</u>		<u>55 715</u>	<u>55 715</u>	<u>1 702</u>	<u>5.03</u>
TOTAL PORTFOLIO		<u>695 110</u>		<u>3 556 971</u>		<u>3 437 300</u>	<u>(5 303)</u>		<u>809 479</u>	<u>38 618</u>	<u>4.68</u>
										Less Investment Costs:	1 185
										Net Investment Income:	<u>37 433</u>

Comparison of cost value and market value of investments as at 30 September 1972 and 31 December 1973

	30 September 1972				31 December 1973			
	Cost \$	Percentage of total	Market value \$	Percentage of market value to cost	Cost \$	Percentage of total	Market value \$	Percentage of market value to cost
<u>United States dollar bond section</u>								
United States Government bonds	2 253 028.50	0.3	2 007 500	89.1	3 137 533.75	0.4	2 850 250	90.8
Other Government bonds	19 164 232.89	2.8	16 926 030	88.3	13 741 028.25	1.7	12 275 370	89.3
International monetary agency bonds	7 436 693.13	1.0	6 902 930	92.8	10 303 814.38	1.3	9 668 171	93.8
Corporate bonds								
Railroads	2 611 820.00	0.4	2 212 180	84.7	1 711 820.00	0.2	1 305 010	76.2
Public utilities	59 190 970.88	8.5	48 030 740	81.1	50 386 271.88	6.2	40 452 650	80.3
Industrials	131 124 532.15	18.9	125 335 645	95.6	135 236 736.75	16.7	127 278 670	94.1
Total United States dollar bond section	221 781 277.55	31.9	201 415 025	90.8	214 517 205.01	26.5	193 830 121	90.4
<u>United States convertible bond section</u>								
Corporate bonds								
Public utilities	1 947 862.50	0.3	1 586 000	81.4				
Industrials	43 655 526.46	6.3	52 697 130	120.7	23 854 087.34	2.9	23 352 260	97.9
Total United States convertible bond section . .	45 603 388.96	6.6	54 283 130	119.0	23 854 087.34	2.9	23 352 260	97.9
<u>United States dollar stock section</u>								
Financial	26 647 266.52	3.8	26 454 182	99.3	67 100 574.21	8.3	73 672 072	109.8
Public utilities	29 319 560.97	4.2	26 350 000	89.9	39 422 431.32	4.9	32 094 000	81.4
Consumer goods	84 600 973.99	12.2	153 371 071	181.3	71 483 439.86	8.8	110 724 792	154.9
Semi-capital	84 495 673.99	12.2	108 623 504	128.6	107 727 786.98	13.3	120 917 550	112.2
Capital	78 936 421.35	11.3	101 431 733	128.5	63 917 557.47	7.9	65 124 520	101.9
Total United States dollar stock section	303 999 896.82	48.7	416 230 490	136.9	349 651 868.84	43.2	402 532 934	115.1
<u>Non-United States dollar convertible bond section</u>								
Corporate bonds								
Industrials	10 276 311.86	1.5	14 089 691	137.1	41 231 573.19	5.1	41 777 294	101.3
Total non-United States dollar convertible bond section	10 276 311.86	1.5	14 089 691	137.1	41 231 573.19	5.1	41 777 294	101.3
<u>Non-United States dollar stock section</u>								
Financial	29 957 816.29	4.3	40 370 365	134.8	39 127 595.27	4.8	45 884 385	117.3
Public utilities	418 396.11	0.1	432 000	103.3	418 396.11	0.1	450 000	107.6
Consumer goods	32 997 862.84	4.7	50 668 637	153.6	39 182 740.34	4.8	49 225 427	125.6
Semi-capital	25 863 043.49	3.7	34 430 355	133.1	28 525 512.53	3.5	31 241 254	109.5
Capital	11 005 183.94	1.6	11 613 000	105.5	14 854 393.20	1.8	15 597 690	91.5
Construction	1 206 811.14	0.2	1 242 000	102.9	2 400 529.42	0.4	1 286 450	53.6
Total non-United States dollar stock section . .	101 449 113.81	14.6	138 756 357	134.8	124 509 166.97	15.4	141 685 206	113.8
Temporary Investments (idle cash)	12 000 000.00	1.7	12 000 000	100.0	55 715 000.00	6.9	55 715 000	100.0
TOTAL PORTFOLIO	695 109 989.00	100.00	836 774 693	120.6	809 478 901.35	100.0	858 892 815	106.1

EMERGENCY FUND

Assets and balance as at 31 December 1973

Assets

Cash in banks	\$4 123.12
---------------	------------

Balance

Total	<u>\$4 123.12</u>
-------	-------------------

Source and application of funds as at 31 December 1973

Source of funds

Contributions from

Member organizations	\$13 400.52
Staff organizations	51 729.63
Individual contributors	243.82
	<u>\$65 373.97</u>

Application of funds

Payments	\$61 215.12	
Bank charges	35.73	61 250.85
	<u> </u>	<u> </u>
	Balance	<u>\$ 4 123.12</u>

Certified correct :

(Signed) Arthur C. LIVERAN
Secretary
United Nations Joint Staff Pension Board

13 May 1974

ANNEX II

Annex II
Table 1

STATISTICS ON THE OPERATION OF THE FUND FOR THE PERIOD ENDED 31 DECEMBER 1973

Table 1

Member organi- zations	Participants as at 30 September 1972	<u>Number of participants as of 31 December 1973</u>					Participants as at 31 December 1973
		New entrants	Transfers in	Total	Separations	Transfers out	
United Nations	16 064	3 385	293	19 742	2 308	91	17 343
ILO	2 903	565	28	3 496	476	59	2 961
FAO	6 269	724	29	7 022	909	60	6 053
UNESCO	3 711	656	50	4 417	662	36	3 719
WHO	4 681	685	18	5 384	518	14	4 852
ICAO	745	176	5	926	102	9	815
WMO	354	63	4	421	65	2	354
ICITO	339	49	6	394	28	153	213
IAEA	839	131	0	970	125	7	838
IMCO	121	31	2	154	16	2	136
ITU	742	146	4	892	81	6	805
	<u>36 768</u>	<u>6 611</u>	<u>439</u>	<u>43 818</u>	<u>5 290</u>	<u>439</u>	<u>38 089</u>

Table 2

Annex II
Table 2Benefits awarded to participants or their beneficiaries
during the period ended 31 December 1973

Member organization	Retirement benefits	Early retirement benefits	Deferred retirement benefits	Withdrawal settlements		Children's benefits	Widow benefits	Other death benefits	Disability benefits	Secondary dependants' benefits	Transfer to other funds	TOTAL
				Less than 5 years	Over 5 years							
United Nations	160	70	121	1 601	288	217	33	5	17	-	8	2 520
ILO	46	20	52	318	25	31	7	1	6	-	-	506
FAO	82	37	121	597	37	79	17	1	11	-	6	988
UNESCO	58	11	60	472	47	51	10	1	2	-	1	713
-34- WHO	67	24	39	314	46	93	14	4	3	-	5	609
ICAO	9	4	11	58	14	4	2	2	2	-	-	106
WMO	1	1	2	50	9	1	-	-	1	1	-	66
ICITO	1	-	1	21	3	2	2	-	-	-	-	30
IAEA	4	1	6	109	5	1	-	-	-	-	-	126
IMCO	-	1	-	13	2	-	-	-	-	-	-	16
ITU	4	2	3	62	6	4	3	1	-	-	-	85
Totals	432	171	416	3 615	482	483	88	15	42	1	20	5 765

Table 3

Annex II
Table 3Analysis of periodic benefits as at 31 December 1973 -
participants or their beneficiaries

Type of benefit	As at 30 September 1972	New	Transfer to survivor	Total	Discontinued	As at 31 December 1973
Retirement	2 201	432	(45)	2 588	(30)	2 558
Early and deferred retirement	1 218	589	(12)	1 795	(79)	1 716
Widow and widower	812	89	67	968	(16)	952
Disability	163	46	(10)	199	(7)	192
Child	1 475	483	-	1 958	(244)	1 714
Secondary dependant	25	1	-	26	(3)	23
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	5 894	1 640	-	7 534	(379)	7 155
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

ANNEX III

ESTIMATE OF ADMINISTRATIVE EXPENSES FOR 1975

Table 1

Estimate of administrative expenses for 1975

(In US dollars)

Items of expenditure	1975 estimates	1974 appropriations	1973 expenses
Salaries and wages			
Established posts	553 000	335 600	308 602.00
Overtime	10 000	10 000	8 677.23
Temporary assistance	87 100	73 500	59 228.19
Common staff costs			
Established posts	120 000	70 400	60 126.25
Temporary assistance	16 000	15 200	11 989.08
Investment costs			
Contractual investments	1 200 000	1 040 000	856 766.64
Salaries and wages			
Established posts	158 000	118 400	90 969.59
Overtime	800	400	766.15
Common staff costs	30 000	24 800	17 279.54
Investments Committee	18 000	15 000	11 687.69
Investment consultants	16 000	3 000	2 713.56
Travel of investment management staff	3 000	3 000	1 714.54
Investment reference services	1 000	1 000	1 399.37
Hospitality	1 500	-	-
Consultants			
Actuarial services	45 000	7 500	69 328.00
Management	-	-	1 719.00
Medical examinations and subscriptions	1 000	1 000	296.73
Travel of staff			
To meetings	13 000	11 700	8 139.09
On official business	4 000	3 700	2 207.39
On home leave	10 300	4 400	9 922.78
Committee of Actuaries	2 800	2 500	5 382.77
Cost of external audit	6 000	6 000	6 000.00
Computer services	20 000	20 000	20 000.00
Communications services	4 000	4 000	4 000.00
Hospitality	900	900	828.45
Miscellaneous supplies and services	1 200	1 200	346.42
	<u>2 322 600</u>	<u>1 773 200</u>	<u>1 560 090.46</u>
Less: staff assessment	<u>(175 000)</u>	<u>(108 900)</u>	<u>(70 469.70)</u>
TOTAL	<u>2 147 600</u>	<u>1 664 300</u>	<u>1 489 620.76</u>
Increase over 1974	<u>483 300</u>		

Annex III
Table 2

Table 2
Manning table for 1975

Category and level		1975	1974	1973
<u>Director and Principal Officers</u>				
Director	(D-2)	1	1	1
Principal Officer	(D-1)	1	1	1
<u>Professional</u>				
Senior Officer	(P-5)	2	2	2
First Officer	(P-4)	3	3	4
Second Officer	(P-3)	5	3	1
Associate Officer	(P-2)	7	4	5
Assistant Officer	(P-1)	-	-	-
<u>General Service</u>				
Principal level	(G-5)	7	4	3
Senior level	(G-4)	13	12	13
Intermediate level	(G-3)	15	12	10
TOTAL		54 ^{a/}	42 ^{b/}	40 ^{b/}

^{a/} Includes three Professional and five General Service posts for investment management provided to the United Nations Office of Financial Services.

^{b/} Includes three Professional and four General Service posts for investment management provided to the United Nations Office of Financial Services.

Table 3

Supplementary estimates for 1974 as compared
with the appropriations a/

Description	1974 appropriations	Revised estimate	Net increase or (decrease)
Salaries and wages			
Established posts	335 600	366 600	31 000
Overtime	10 000	13 000	3 000
Temporary assistance	73 500	91 500	18 000
Common staff costs			
Established posts	70 400	75 700	5 300
Investment costs			
Salaries and wages			
Established posts	118 400	132 400	14 000
Overtime	400	800	400
Common staff costs	24 800	27 300	2 500
Investments Committee	15 000	18 000	3 000
Investment consultants	3 000	16 000	13 000
Hospitality	-	1 500	1 500
Consultants			
Actuarial services	7 500	12 500	5 000
Committee of Actuaries	2 500	3 100	600
Cost of external audit	6 000	10 100	4 100
Miscellaneous supplies and services	1 200	9 400	8 200
TOTAL	668 300	777 900	109 600
<u>Less: Staff assessment adjustment</u>			<u>(12 800)</u>
Total net increase			<u>96 800</u>

a/ Limited to items in respect of which additional appropriations are requested.

ANNEX IV

REPORT OF THE BOARD OF AUDITORS

1. In accordance with article 14 of the Regulations and Rules of the United Nations Joint Staff Pension Fund approved by the General Assembly in resolution 2524 (XXIV), an audit of the accounts of the Fund shall be made annually by the Board of Auditors in a manner agreed between the Board of Auditors and the Joint Staff Pension Board. Its report on the accounts shall be included in the annual report of the United Nations Joint Staff Pension Board to the General Assembly and to the member organizations.

2. The Board of Auditors, established under General Assembly resolution 74 (I) functions in accordance with financial regulations 12.1 through 12.12 of the United Nations and the annex thereto.

3. The Secretary of the United Nations Joint Staff Pension Board submitted for audit the following two financial statements as at 31 December 1973, together with four related schedules and an additional statement containing accounts of the Emergency Fund.

Statement I.	Assets and liabilities
Statement II.	Source and application of funds
Schedule 1.	Administrative expenses
Schedule 2.	Summary statement of investments
Schedule 3.	Comparison of cost value and market value of investments, and
Schedule 4.	Emergency Fund -- assets and balance

Scope of the audit

4. The scope of audit of the Board of Auditors is governed by the Financial Regulations and Rules of the United Nations, which state that:

"The audit shall be conducted in conformity with generally accepted common auditing standards and, subject to any special directions of the General Assembly, in accordance with the additional terms of reference set out in the annex to the present Regulations.

"The Board of Auditors may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the Organization.

"The Board of Auditors shall be completely independent and solely responsible for the conduct of the audit.

"The Advisory Committee on Administrative and Budgetary Questions may request the Board of Auditors to perform certain specific examinations and issue separate reports on the results."

5. Paragraph 1 of the annex to the Financial Regulations requires that:

"The Board of Auditors shall perform jointly and severally such audit of the accounts of the United Nations, including all trust funds and special accounts, as it deems necessary in order to satisfy itself:

"(a) That the financial statements are in accord with the books and records of the Organization;

"(b) That the financial transactions reflected in the statements have been in accordance with the Rules and Regulations, the budgetary provisions and other applicable directives;

"(c) That the securities and moneys on deposit and on hand have been verified by certificate received direct from the Organization's depositaries or by actual count;

"(d) That the internal controls, including the internal audit, are adequate in the light of the extent of reliance placed thereupon;

"(e) That procedures satisfactory to the Board of Auditors have been applied to the recording of all assets, liabilities, surpluses and deficits."

6. The Board's examination was carried out in accordance with the above and included a general review of the accounting procedures and such tests of the accounting records, systems of internal financial controls and other supporting evidence as it considered necessary in the circumstances.

Audit observations and recommendations

General

7. By an amendment to Administrative Rule D-4, it was decided that, with effect from 1974, the financial year of the Fund should be the period from 1 January to 31 December inclusive. Consequently, the present accounts cover a period of 15 months from 1 October 1972 to 31 December 1973.
8. The principal of the Fund increased from \$701,425,039 as at 30 September 1972 to \$821,044,178 as at 31 December 1973.
9. The investment income of the Fund during the period of 15 months ending 31 December 1973 was \$33,316,802 (proportionate for 12 months \$26,653,442) as compared to \$19,903,963 for the year 1972. The income consisted of:

	<u>15 months</u> <u>ending 31 December</u> <u>1973</u>	<u>12 months</u> <u>ending 30 September</u> <u>1972</u>
Interest earned	22,313,203	16,592,654
Dividends	16,306,666	10,241,107
Profit on sales of investments	<u>30,266,829</u>	<u>9,040,454</u>
	68,886,698	35,874,215
<u>Less:</u> Loss on sales of investments	<u>35,569,896</u>	<u>15,970,252</u>
	<u>33,316,802</u>	<u>19,903,963</u>

10. The total investments of the Fund at cost amounted to \$809,478,901 on 31 December 1973 as compared to \$695,109,989 as at 30 September 1972. The market value of the investments amounted to \$858,892,815 (106.1 per cent of cost) on 31 December 1973 as against \$838,031,872 (120.5 per cent of cost) as at 30 September 1972.
11. Investments in non-US dollars have gone up from 16.1 per cent to 20.5 per cent.

Short-term investments

12. According to the present arrangements, the daily cash balances available with the Fund's investment adviser on account of the Joint Staff Pension Fund are required to be placed under short-term investments at prevailing market rates in multiples of \$500,000 every day. Only the breakage remainder of \$500,000 is to be left with the adviser.
13. A review of short-term investments revealed that the method adopted by the adviser for working out daily cash balances was defective in several respects. As a result, large amounts of cash balances remained uninvested.

14. During the months of December 1972 and October 1973, which were selected at random for test checks, average daily cash balances which remained uninvested worked out to \$2 million and \$1.5 million, respectively. At the prevailing market rates, the loss of interest on the uninvested cash balances in these months alone would be approximately \$20,000. Since the method of determining investible cash used by the adviser was similar in other months, the loss for 14 months ending November 1973, projected on the basis of the random sample, could be assessed as \$140,000.

15. A thorough examination of this issue was suggested and the prompt response by the Administration is appreciated. In keeping with the recommendations of External Audit, instructions were immediately issued to the adviser to calculate the daily balances in the suggested manner. Controls were also set up in the Treasury by which the cash balance is calculated promptly on the receipt of a daily cash statement and immediate action is initiated in cases of default. The Board is gratified to note that tests on the accounts for December 1973 revealed the desired improvement.

16. The question of recovery from the adviser of the additional income which would have accrued to the Fund is being examined by the Administration and will obviously take some time. The Board is of the view that the responsibility of the adviser should be determined essentially with reference to the dates on which cash became legally available for investment.

Delay in accounting of contributions of member organizations

17. Member organizations are required to remit their contributions to the Joint Staff Pension Fund in such a way as to be received by the investment adviser on the tenth day of each calendar month. From the records available in the Treasury, the exact date on which the banks of the member organizations had actually effected the transfer was not available. In the absence of this information, it could not be determined if the contributions had been accounted for by the adviser on the dates received.

18. In five cases, where the actual date of transfer was available, it was noticed that there had been a delay of three to 40 days in accounting for contributions. These amounts, which were not accounted for on due dates, were also not utilized for short-term investments and the Fund was deprived of income amounting to approximately \$20,000.

19. External Audit suggested a thorough review by Administration to ascertain if there were other cases of a similar nature. There was obviously a need for strengthening internal controls in the Treasury to verify, on a regular basis, transactions reported in daily cash statements with original records.

20. The Board notes with satisfaction that the Administration took up the matter with the adviser, who understands his responsibility for making up any income which the Fund should have earned from contributions. A thorough investigation of the examples cited, as well as of other similar cases, is in hand.

21. While awaiting the results of investigation, the Board recommends that member organizations be requested to instruct their bankers to inform the Administration of the dates on which funds are transferred to the adviser. This will facilitate a proper check of daily cash statements.

Delay in receipt of monthly contributions to the Joint Staff Pension Fund from member organizations

22. During the 15 months ending 31 December 1973, it was observed that, in 66 cases, contributions from member organizations were shown by the adviser as having been received after the tenth of each calendar month. The delay ranged from one to 36 days. As stated in paragraph 17 above, it could not be verified whether the delay was due to late remittance or due to late accounting.

23. The delay in receipt of contributions creates uncertainty in cash-flow forecasting and forward purchase of securities. It also deprives the Fund of income from short-term investments.

24. If the contributions from all the organizations had been received by the adviser on the tenth of each month and utilized for short-term investment, the Fund would have earned an additional income of approximately \$104,000.

25. In response to the suggestion of External Audit, the Secretary of the United Nations Joint Staff Pension Board has drawn the attention of all member organizations of the Fund to the need for the strictest compliance with the time limits, as well as to ensure that payments are made in United States Federal Funds. The Board suggests a full investigation of all the cases of delay. The need for a vigilant follow-up is also indicated. It is for consideration whether some provision should be made either in the Regulations and Rules of the United Nations Joint Staff Pension Fund or otherwise to enable recovery of loss of income from defaulting member organizations.

Arrangements for investment and custody outside the United States of America

26. A review of the arrangements for investment outside the United States of America revealed considerable cash balances lying unutilized. External Audit observed that there was need for reviewing arrangements for transferring money to the agents in London with a view to ensuring that unutilized balances were kept to a minimum.

27. The Administration has since revised the arrangements. A buffer fund of \$1 million has been placed at the disposal of agents in London and both the buffer fund and the current cash flow allocation are to be kept invested in short-term obligations.

28. The Board hopes that this arrangement will prove beneficial to the Fund. It is suggested that the results of the new arrangements may be watched closely and the system of reporting by the agents in London improved to enable effective checks in the Treasury.

Co-ordination of investment activities

29. With effect from November 1973, the Secretary-General appointed an additional investment adviser to the Fund. The Investments Committee and the Administration now receive advice from both the advisers and, on the recommendations of the former, the Office of Financial Services approves purchases and sales. In managing the Fund with two advisers, it is necessary to co-ordinate their activities and resolve situations of conflict, if any, in the best interest of the Fund. The Administration has been aware of the need for a more vigilant supervision and the Board appreciates the efforts made in tackling the intricate problems.

30. One instance of a conflicting situation came to the notice of the Board. In December 1973, one of the advisers sold 35,000 shares of a stock for \$2,554,065.40 at an average price of \$72.97 per share, although the Investments Committee had approved this stock for purchase and retention. At about the same time, the other adviser bought 6,000 shares of the same stock at an average price of \$84.84 per share. The loss to the Fund on 6,000 shares alone worked out to \$71,220 at an average of \$11.87 per share. On the same basis, the loss on the remaining 29,000 shares could be assessed as \$344,230, as the \$1,359,000 profit realized on the sale could have been greater by that amount.

31. The Administration stated that the approval for sale of the stock by one adviser was accorded in consultation with the Chairman of the Investments Committee to increase cash reserves from \$50 million to \$80 million, while the purchase of the same stock by the other adviser was considered desirable from the point of view of portfolio strategy. As this was a matter of portfolio strategy, contrary approvals were not deemed to be inappropriate.

32. It was noticed, however, that the adviser who had realized \$2.5 million from the sale proceeds of the stock had made purchases of other securities worth about \$9,552,000 in December 1973. The need for additional cash could have been met by a corresponding reduction in purchases.

33. The Board hopes that, in the light of experience gained, it will be possible to ensure that situations of conflict between the advisers are minimized and resolved in the best interest of the Fund. The Board would suggest that, in cases where a change in holdings is necessitated by portfolio strategy, it may be kept under continuous review whether transfers of stocks could be arranged directly between the advisers without resorting to open market operations.

Emergency Fund

34. The voluntary Emergency Fund was established by the Joint Staff Pension Board at its eighteenth session, held in July 1973, in order to relieve the distress of those on small pensions. a/

a/ See Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 9 (A/9009 and Corr.1 and 2), vol. I, chap. IV, sect. D, paras. 41-42.

35. The account of this Fund has been prepared separately. The total contributions to the Emergency Fund during the period ended 31 December 1973 amounted to \$65,374. Payments made to the pensioners amounted to \$61,215. The cash balance of \$4,123 has been verified from the bank statements. No separate confirmation was received from the banks.

36. The Secretary of the Board was authorized to make disbursements out of the Fund according to the principles outlined during the discussion in the meeting of the Joint Staff Pension Board.

37. The Administration has stated that the formal adoption of the guidelines for disbursements out of the Emergency Fund shall be an item on the agenda of the next meeting of the Standing Committee of the Pension Board.

Follow-up action on previous years' reports

38. The recommendations made by the Board of Auditors in its audit report on the accounts for the year ended 30 September 1972 were reviewed with the Administration in several discussions. The Board is satisfied, on the whole, that adequate follow-up action has been taken on most of the recommendations. The Board appreciates particularly that an additional investment adviser has been appointed.

39. However, matters referred to in the succeeding paragraphs require further consideration.

Payment of direct taxes on the purchase/sale of stock

40. As reported in the report of the Board of Auditors to the General Assembly on the accounts for the year ended 30 September 1972, b/ the Administration had promised to accelerate their endeavours with regard to the rescinding of direct taxes on stock transfers.

41. This matter has not been finalized yet, but the Administration feels that they "are very close to a workable solution, which can be put into operation in the near future".

42. The Board reiterates the need for expediting this matter.

Annual accounts

43. The need for specifying a date by which the accounts should be transmitted to the Board of Auditors was commented upon in the audit reports for the years 1970, 1971 and 1972. The Administration stated last year that it would not be possible to fix any date because of the change in the dates of the financial year.

b/ Ibid., annex IV, para. 46.

44. The Board hopes that a specific date could now be fixed in the light of experience gained this year. This would help both the Administration and External Audit to plan their work relating to finalization of accounts and the audit report in a more systematic way.

Acknowledgement

45. The Board appreciates the co-operation it received from the Secretary of the Joint Staff Pension Board, his staff and the Secretariat of the United Nations in the discharge of its duties.

(Signed) J. E. ESCALLON O.
Controller-General of Colombia

(Signed) J. J. MACDONELL
Auditor-General of Canada

26 June 1974

(Signed) A. HAMID
Auditor-General of Pakistan

ANNEX V

NEW PENSION ADJUSTMENT SYSTEM

I. Details of proposed new pension adjustment system

A. General description

1. In essence, the proposed revised system would provide participants with a choice between:

(a) The present adjustment system based on the Weighted Average of Post Adjustments (WAPA), which was adopted by the General Assembly on 11 December 1973 under resolution 3100 (XXVIII), section III, and is referred to in the present annex as the "WAPA system".

(b) A new adjustment system, which for convenience will be referred to as the "CPI system". This system would determine pension adjustments according to the proved country of residence of the retired participant (or beneficiary) and would provide for a fixed amount expressed in the currency of that country, calculated at the time of retirement and afterwards adjusted in proportion to Consumer Price Index (CPI) changes in the country of residence.

2. For descriptive purposes, it is assumed that the revised system would become effective on 1 January 1975. Further details are set out in the following paragraphs, while examples are given in section II below.

B. Determination of the initial pension

3. For participants (and beneficiaries) whose entitlements begin after the effective date of the new system, the initial pension would be computed in steps as follows:

(a) The benefit will first be computed (in US dollars) according to the current Regulations and Rules of the United Nations Joint Staff Pension Fund. Thus a retirement benefit (under article 29) would be calculated as at present by the standard formula:

$$\frac{\text{Final Average Remuneration}}{50} \times \begin{array}{l} \text{years of contributory service} \\ \text{not in excess of 30} \end{array}$$

At this point, the lump sum payment under the commutation provision would be determined and the later steps below would be based on the remaining benefit after any commutation elected.

(b) To the basic pension after commutation, if any, computed in step (a), there would be added the special grading formulas adopted by the General Assembly in December 1973. These formulas essentially consist of an increase of 20.2 per cent to benefits becoming payable on 1 January 1974, reducing by 1/2 per cent for each month between 1 January 1974 and the date of subsequent retirement. These two steps would determine the initial pension under the WAPA system.

(c) For participants (and beneficiaries) electing the CPI system related to the currency of the country of residence, the initial amount of the pension expressed in that currency would be determined by applying to the pension derived from step (b) above the average exchange rate between the US dollar and that currency over the 12 months immediately preceding the effective date of the entitlement. This average would be computed on the basis of the exchange rates on the first day of the 12 consecutive calendar months up to and including the first day of the month of separation.

4. As a result of the above, an initial pension would be determined. It would be expressed in US dollars for benefits payable under the WAPA system and in the currency of the country of residence for pensioners and beneficiaries who have elected the CPI system. (However, the Fund would continue to use US dollars for accounting purposes, and the Regulations would continue to provide for contributions to be received in US dollars.)

C. Indices and exchange rates

5. For computations under the CPI system, the Fund would use the following:

(a) For measuring changes in the CPI for the country of residence concerned, the index used would be the official consumer price index for the country as a whole issued by the national Government and published in the United Nations Monthly Bulletin of Statistics. Where an appropriate index is not readily available, it would be necessary to use another index. For ease of administration, the actual index used in adjusting benefits would lag three months (e.g. the CPI figure for 1 January 1976 would be based on the index for October 1975). Once an index has been utilized, any subsequent amendments would not give rise to retroactive corrections.

(b) The exchange rate would be the number of units of local currency per US dollar according to the system of rates in use by the United Nations Joint Staff Pension Fund for purposes of contributions and determination of pensionable remuneration.

D. Adjustment of the pension

6. As described in section A above, all participants and their beneficiaries would have the right to choose between the WAPA system and the CPI system for the adjustment of the initial pension as determined in section B above. Pension adjustments would be made as follows:

(a) Under the WAPA system, the present procedure, effective 1 January 1974, including operation of the Revised Pension Adjustment Index, would apply. This procedure is described in detail in the report of the United Nations Joint Staff Pension Board submitted to the General Assembly at its twenty-eighth session; a/

a/ See Official Records of the General Assembly, Twenty-eighth Session, Supplement No. 9 (A/9009 and Corr. 1 and 2), vol. I, annex V.

(b) Under the CPI system, benefits payable can be described by the general formula:

$$\begin{array}{l} \text{(Initial pension in currency of)} \\ \text{(country of residence)} \end{array} \times \frac{\text{CPI at time benefit due}}{\text{CPI at time of separation or death}}$$

7. Other details of the proposed CPI adjustment system are as follows:

(a) Adjustments would be made according to the country of residence of the pensioner or beneficiary regardless of the currency in which payment is elected;

(b) In actual practice, the system would operate on a quarterly compounding basis in the identical manner as the present WAPA system; a/

(c) Adjustments would be made with any movement of 3 per cent or more in the consumer price index and would apply both upwards and downwards, subject to the provision described in section J below;

(d) The resulting adjusted pension would continue to be expressed in US dollars for administrative and accounting purposes, although it would first be determined in the currency of the country of residence.

E. Exercise of the option

8. The exercise of the option between the two adjustment systems, as outlined in section D above, would operate as follows:

(a) At the time a benefit first becomes payable to or on the account of a participant, there would be no restriction on the election;

(b) At any later date, the retired participant or beneficiary could elect to change from the WAPA system to the CPI system merely upon giving three months' notice;

(c) Changes from the CPI system to the WAPA system would not be permitted.

9. After a change from the WAPA system to the CPI system, the new benefit would be calculated according to the following general formula:

Adjusted pension at time of change (in US dollars) multiplied by current (not average) exchange rate at time of change multiplied by $\frac{\text{CPI at time payment due}}{\text{CPI at time of change}}$

F. Changes in country of residence

10. If a participant (or beneficiary) who has elected the CPI system should change his country of residence, then, starting on the first day of the month following acceptance of documentary evidence of residence in the new country, he would receive a pension recomputed according to the formula:

a/ Ibid.

Initial Pension x $\frac{\text{CPI at time payment due}}{\text{CPI at time of original separation (but not before 1 January 1973) or at time of change from WAPA to CPI if later}}$

all computed as if he had always resided in the new country of residence. Only one change per year would be permitted.

G. Survivor benefits

11. Benefits under the CPI system payable to survivors would be computed as follows:

(a) At the time of the survivor's entitlement, the starting point would be the participant's adjusted pension immediately prior to that date, with due allowance for any pension previously commuted and following any election previously made;

(b) The exchange rate used for any conversion from the WAPA system to the CPI system would be that in effect at the time the survivor so elects.

H. Application of revised system

12. The CPI system under the proposed scheme would apply to the same range of benefits as the present WAPA system, that is to say, retirement, early retirement, deferred retirement, disability, widow's, widower's, child's, and secondary dependant's periodic benefits, but not to withdrawal and other lump-sum payments. In addition, any benefits arising from voluntary deposits would not be subject to the proposed new adjustment system.

I. Existing pensioners

13. Existing pensioners (and beneficiaries in receipt of periodic payments) at the time the revised system becomes effective would have a free choice between remaining on the WAPA system or switching to the CPI system. Subsequent changes in election, however, would be subject to the conditions described in section E above and paragraph 15 in section J below. If the WAPA system is chosen, the benefit, together with past and future adjustments, would remain unchanged. If the participant selects the CPI system on 1 January 1975 (the proposed effective date of the new procedure), he would receive on that date a pension of:

Initial pension on 1 January 1973 or later date of entitlement x $\frac{\text{CPI for 1 January 1975}}{\text{CPI for 1 January 1973 or later date of separation}}$

14. For this purpose, the Initial Pension would be computed according to the three steps set out in section B above, utilizing:

(a) The adjusted pension on 1 January 1973 for all participants who retired before that date or the actual basic pension for those who retired after that date; in this step, the amount of Transitional Adjustment for the year 1973 would be excluded;

(b) The actual grading formula under the present procedure, for participants who retired on or after 1 January 1974; for participants who retired before 1 January 1974, the grading formula to be applied (see para. 3 (b) above) would be based on that for 31 December 1974;

(c) Application of the average exchange rate over the 12-month period preceding 1 January 1973 or the date of retirement if later.

After 1 January 1975, adjustments would be made according to the procedure described in paragraph 6 (b) above.

J. Basic pensions

15. For all participants, including existing pensioners, the adjusted pension would never be allowed to fall below the basic pension, on the date of entitlement (that is, excluding the special grading formula and other PAI adjustments). It would be guaranteed:

(a) In US dollars if the WAPA election is in force;

(b) In currency of the country of residence if the CPI election is in force. For this purpose, the exchange rate used would be one of the following:

(i) The 12-month average preceding the date of separation if that date is after 1 January 1975 and the CPI system was elected at time of separation;

(ii) The 12-month average preceding 1 January 1973 or date of retirement if later for existing pensioners on 1 January 1975 who elected the CPI system as of that date;

(iii) The exchange rate on the effective date of change for participants and beneficiaries who have changed from the WAPA system to the CPI system.

K. Currency election

16. The retired pensioner would continue to retain the right under article 48 of the Regulations to receive payment in any currency selected by him at the exchange rate on the date of payment.

L. Administrative procedures

17. Administrative procedures, particularly those covering options and the determination and evidence of residence, are in the process of being devised. Three important principles that would be followed are:

(a) If exercise of the CPI option has not yet been completed, benefits would be paid on the WAPA system;

(b) There should be no opportunity for retroactive election, that is to say for choice of a more advantageous system after the facts are known as to which system is more advantageous;

(c) In view of the volume of work involved in recomputing benefits, obtaining options and collecting evidence of residence, some period of grace should be allowed in respect of existing pensioners. It is proposed that a 12-month period, but no longer, be provided during which the election and all related formalities could be processed with retroactive effect to 1 January 1975, the proposed effective date of the new system. The Fund's central secretariat would prescribe a time-table for the various steps to be taken in connexion therewith.

II. Examples under the CPI system

A. Computation of initial pension

18. Assume a participant retires with final average remuneration (FAR) of \$10,000 and contributory service (CS) of 25 years. The participant elects the CPI system related to his country of residence where the exchange rate (in local currency units of \$US 1.00) is according to the following hypothetical pattern:

1 January 1974 through 1 May 1974	- 24.00 (5 months)
1 June 1974 through 1 August 1974	- 30.00 (3 months)
1 September 1974 through 1 January 1975	- 36.00 (5 months)
1 February 1975 through 1 June 1975	- 33.00 (5 months)
1 July 1975 through 1 January 1976	- 28.00 (7 months)

(i) Retirement 1 January 1975

19. The procedure for determining the pension would be as follows:

(a) Basic pension would be $\frac{\text{FAR}}{50} \times \text{CS} (= \frac{10,000}{50} \times 25)$ or \$5,000 per year. It is assumed that no commutation is elected;

(b) The grading formula applicable to a separation on 1 January 1975 is 13.7 per cent. The pension resulting from this step would be \$5,685 ($5,000 \times 1.137$);

(c) The average exchange rate over the 12 months immediately preceding retirement is taken over the first days of the months February 1974 through January 1975 and is computed by:

$$\frac{4 \times 24.00 + 3 \times 30.00 + 5 \times 36.00}{12} = 30.50$$

The annual initial pension expressed in the currency of the country of residence would therefore be 173,393 units ($5,685 \times 30.50$).

(ii) Retirement 1 January 1976

20. The procedure for determining the pension would be as follows:

(a) The basic pension would again be \$5,000 per year calculated as in paragraph 19 (a) above. It is again assumed that no commutation takes place;

(b) The grading formula applicable to a separation on 1 January 1976 is 7.7 per cent. The graded pension would thus be \$5,385 ($5,000 \times 1.077$);

(c) The average exchange rate over the 12 months up to retirement (February 1975 through January 1976) would be:

$$\frac{5 \times 33.00 + 7 \times 28.00}{12} = 30.08$$

This means an annual initial pension in the currency of the country of residence of 161,981 units (5,385 x 30.08).

B. Operation of Consumer Price Index

21. Set out in the tables below are examples of the working of the CPI system after the initial pension has commenced. The examples cover two different countries, but both are based on separation on 1 January 1975 with a basic pension of \$5,000 per year and grading formula of 13.7 per cent.

COUNTRY A

12-month average exchange rate = 30.00

Date	CPI	CPI ratio a/	Ratio utilized	Pension
1 October 1974	110.0	-	-	-
1 January 1975	113.5	-	1.000	170,550
1 April 1975	117.0	113.5/110.0 = 1.032	1.032	176,008
1 July 1975	121.0	117.0/113.5 = 1.031	1.031	181,464
1 October 1975	126.5	121.0/117.0 = 1.034	1.034	187,634
1 January 1976	127.0	126.5/121.0 = 1.045	1.045	196,078
1 April 1976	127.5	127.0/126.5 = 1.004	1.000 ^{b/}	196,078
1 July 1976	132.5	127.5/126.5 = 1.008	1.000 ^{b/}	196,078
1 October 1976	135.0	132.5/126.5 = 1.047	1.047	205,294
1 January 1977	137.5	135.0/132.5 = 1.019	1.000 ^{b/}	205,294

a/ The CPI ratio is the result of: $\frac{\text{CPI for current date}}{\text{CPI 3 months prior (or from date last utilized)}}$
(with CPI determined on 3-month lag).

b/ No change since factor falls below 3 per cent minimum.

COUNTRY B

12-month average exchange rate = 5.40

Date	CPI	CPI ratio a/	Ratio utilized	Pension
1 October 1974	130.0	-	-	-
1 January 1975	131.5	-	1.000	30,699
1 April 1975	131.0	131.5/130.0 = 1.012	1.000 ^{b/}	30,699
1 July 1975	129.5	131.0/130.0 = 1.008	1.000 ^{b/}	30,699
1 October 1975	124.0	129.5/130.0 = .996	1.000 ^{b/}	30,699
1 January 1976	110.0	124.0/130.0 = .954	.954	29,287
1 April 1976	115.0	110.0/124.0 = .887	(.887)	(25,978)
			.922 ^{c/}	27,000 ^{c/}
1 July 1976	121.0	115.0/110.0 = 1.045	(1.045)	27,147
			1.005 ^{d/}	
1 October 1976	130.5	121.0/115.0 = 1.052	1.052	28,559
1 January 1977	132.5	130.5/121.0 = 1.079	1.079	30.815

a/ The CPI ratio is the result of: $\frac{\text{CPI for current date}}{\text{CPI 3 months prior (or from date last utilized)}}$
(with CPI determined on 3-month lag).

b/ No change since factor falls below 3 per cent minimum.

c/ The basic pension provision operates to prevent the pension falling below its basic amount (e.g. initial value excluding 13.7 per cent grading formula which equals 27,000 units).

d/ Movement of less than 3 per cent operates if pension previously at the basic level, provided increase would otherwise be more than 3 per cent.

22. All benefits shown are annual and expressed in the currency of the country of residence.

C. Change in country of residence

23. If the participant retired on 1 January 1975 with residence in Country A, his pension payments for the years 1975 and 1976 would be according to the table above headed "Country A". If he now changes residence (duly evidenced) to Country B as of 1 January 1977, his pension in the currency of that country starting on that date would be 30,815 units. The figure is determined from the amounts under the table headed "Country B", that is, by recomputing his initial pension and adjusted pension as if he had always resided in Country B.

D. Existing pensioners

24. Set out below are examples of the proposed provisions for existing pensioners. For all three examples, it is assumed that the exchange rate has been as follows:

1 January 1972 through 1 July 1972	- 20.00 (7 months)
1 August 1972 through 1 February 1973	- 22.00 (7 months)
1 March 1973 through 1 January 1974	- 24.00 (11 months)

25. It is further assumed that the CPI for the country of residence concerned, the same for all three examples, was 125.00 for 1 January 1973 (October 1972), 130.00 for 1 January 1974 (October 1973) and 140.00 for 1 January 1975 (October 1974).

(i) Retirement 1 January 1971

26. The pension payable on 1 January 1975 (the assumed effective date of the new system) would proceed in four steps as follows:

(a) The starting point is the adjusted pension actually payable on 1 January 1973 after allowing for PAI increases on that date. It is assumed that this amounts to \$4,800 per year (in US dollars);

(b) The special grading formula to be added would be that applicable to retirements on 31 December 1974, that is, 14.2 per cent. This results in a benefit of \$5,481.60 (4,800 x 1.142);

(c) The average exchange rate for the 12 months up to 1 January 1973 would be:

$$\frac{6 \times 20.00 + 6 \times 22.00}{12} = 21.00$$

The initial pension, in currency of the country of residence, would then be (5,481.60 x 21.00) or 115,114 units;

(d) The pension payable on 1 January 1975 would be computed according to the formula:

$$\text{Initial Pension} \times \frac{(\text{CPI for 1.1.75})}{(\text{CPI for 1.1.73})} = 115,114 \times \frac{140.00}{125.00}$$

or 128,928 units per annum.

(ii) Retirement 1 January 1973

27. The four steps would in this case be as follows:

(a) Basic pension on retirement is assumed to be \$5,000 per year, with no commutation;

(b) The special grading formula would again be 14.2 per cent giving rise to a benefit of \$5,710 per year;

(c) The average exchange rate over the 12 months up to 1 January 1973 is 21.00 as determined in paragraph 26 (c) above. The initial pension would, therefore, be 119,910 units (5,710 x 21.00) in the currency of the country of residence;

(d) The pension payable on 1 January 1975 would be:

Initial Pension x $\frac{(\text{CPI for 1.1.75})}{(\text{CPI for 1.1.73})} = 119,910 \times \frac{140.00}{125.00}$
or 134,299 units per annum.

(iii) Retirement 1 January 1974

28. The computation of the pension payable from 1 January 1975 would be as follows:

(a) Basic pension on retirement is assumed to be \$5,100 per year, with no commutation;

(b) The grading formula under the present procedure is 19.7 per cent so the benefit becomes \$6,104.70 per year;

(c) The average exchange rate over the 12 calendar months up to 1 January 1974 would be:

$$\frac{1 \times 22.00 + 11 \times 24.00}{12} = 23.83$$

The initial pension, expressed in the currency of the country of residence, would then be (6,104.70 x 23.83) = 145,475 units;

(d) The pension payable on 1 January 1975 would be:

Initial Pension x $\frac{(\text{CPI for 1.1.75})}{(\text{CPI for 1.1.74})} = 145,475 \times \frac{140.00}{130.00}$
or 156,677 units per year.

ANNEX VI

Draft resolution proposed for adoption by the General Assembly

REPORT OF THE UNITED NATIONS JOINT STAFF PENSION BOARD

The General Assembly,

Having considered the report of the United Nations Joint Staff Pension Board to the General Assembly and to the member organizations of the United Nations Joint Staff Pension Fund for 1974, including the report of the United Nations Board of Auditors, and the related report of the Advisory Committee on Administrative and Budgetary Questions,

I

Adjustment of benefits in respect of cost-of-living changes

Decides to revise the system of adjustment to benefits in payment contained in General Assembly resolution 3100 (XXVIII) of 11 December 1973 and previous resolutions on the same subject, with effect from 1 January 1975, in accordance with the recommendations of the United Nations Joint Staff Pension Board contained in paragraphs 15 to 50 of its report to the General Assembly for 1974, and in annex V thereto;

II

Amendments to the Regulations of the United Nations Joint Staff Pension Fund

Decides that the Regulations of the United Nations Joint Staff Pension Fund shall be amended, without retroactive effect, from 1 January 1975, as set forth in annex VII to the report of the United Nations Joint Staff Pension Board;

III

Administrative expenses

Approves expenses, chargeable directly to the United Nations Joint Staff Pension Fund, totalling \$2,147,600.00 (net) for 1975 and supplementary expenses totalling \$96,800.00 (net) for 1974 for the administration of the Fund, as estimated in annex III to the report of the United Nations Joint Staff Pension Board.

ANNEX VII

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

Existing text	Proposed text	Comments
<p><u>Article 36</u></p> <p><u>Widower's benefit</u></p> <p>A widower's benefit, at the rates and under the conditions applicable in article 35 to a widow's benefit save that it shall not cease upon remarriage, shall be payable to the surviving male spouse of a participant:</p> <p>(a) If he satisfies the Board that he is without means to support himself and is unable, by reason of age or infirmity, to engage in substantial gainful employment; or</p> <p>(b) If his deceased spouse had elected on separation to receive a retirement, early retirement or deferred retirement benefit reduced by an amount equal in actuarial value to a benefit payable under this article.</p>	<p><u>Article 36</u></p> <p><u>Widower's benefit</u></p> <p>A widower's benefit, at the rates and under the conditions applicable in article 35 to a widow's benefit, shall be payable to the surviving male spouse of a participant who was entitled to a disability benefit at the date of her death, or who died in service, or:</p> <p>(a) If the surviving spouse satisfies the Board that he is without means to support himself and is unable, by reason of age or infirmity, to engage in substantial gainful employment; or</p> <p>(b) If the deceased spouse had elected on separation to receive a retirement, early retirement or deferred retirement benefit reduced by an amount equal in actuarial value to a benefit payable under this article.</p> <p><u>Supplementary Article A</u></p> <p><u>Part-time employment</u></p> <p>The provisions of these Regulations and of the Administrative Rules shall apply equally to members of the staff of each member organization whose employment is for at least half the time of full-time members of the staff, except that:</p> <p>(a) The entitlement to and the amount of benefits resulting from such employment shall be reduced in the ratio which it bears to full employment; and</p> <p>(b) Such employment prior to 1 January 1975 shall not be open to validation nor be taken into account for any other purpose.</p> <p>(Introduction of a new supplementary article)</p>	<p>To provide for entitlement to a widower's benefit upon death of a female participant in service or during entitlement to a disability benefit.</p> <p>To provide for the participation in the Fund of part-time staff.</p>

ANNEX VIII

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

SECTION H

Delete rules H.12 (a) and (b) and substitute:

(a) A determination under article 36 (a) shall be made by the Standing Committee upon application by the surviving spouse of a deceased female participant.

(b) The application shall be made not later than one year after the death of the participant and shall be in writing, addressed to the Secretary of the Board.

SECTION J

Delete rule J.2 (c) and substitute:

(c) In the event that the currency selected by the participant is other than dollars, the Secretary shall be authorized (as an incident of making payment under article 48 (b)) to make such payment at the United Nations operational rate of exchange; the rate shall nevertheless, in the case of a participant whose remuneration under the terms of his appointment was expressed in a currency other than dollars, be such that the amount of a withdrawal settlement payable to him in such currency in accordance with article 32 (b) (i) shall not be less than the amount deducted from his remuneration for the purposes of article 25, without interest.

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