

GENERAL AGREEMENT ON TARIFFS AND TRADE

UNITED NATIONS JOINT STAFF PENSION FUND

Recent developments and implications for GATT Staff

I. Background

The common pension system of the Organizations of the United Nations is known as the United Nations Joint Staff Pension Fund (UNJSPF). It provides staff members of sixteen member organizations, which comprise the United Nations and major specialized agencies including ICITO/GATT, with retirement benefits. There are also important benefits on death, disability and other separations from service.

Major decisions concerning the operation of the UNJSPF are controlled by the United Nations Joint Staff Pension Board (referred to in this report as the Board). The Board currently consists of 21 members, with equal representation from governing bodies, participants and administrations of member organizations. Representation among organizations is arranged roughly according to the size of each member organization.

ICITO/GATT applied for membership in the Fund in 1953 and the agreement was signed in 1957.

The number of participants in the Fund is about 54'000 and the beneficiaries are around 25'000. The corresponding figures for ICITO/GATT are 350 active participants and 70 beneficiaries.

ICITO/GATT has one permanent seat on the Board. This membership rotates every two years between the members of the ICITO/GATT Staff Pension Committee. Mrs. E. Michaud (France) represents this organization from 1985 to 1987.

The assets of the Fund as at 31 December 1985 amount to 5 Billion US Dollars. The investment of the assets of the Fund is decided upon by the Secretary-General of the United Nations after consultation with an Investment Committee. The latter consists of nine members appointed by the Secretary-General of the United Nations.

The controlling document, known as the Regulations, sets forth the provisions of the UNJSPF and describes the benefits and contributions payable. Any changes in the Regulations are subject to approval by the General Assembly of the United Nations.

Day to day administration of the UNJSPF is vested in the Secretariat located in New York. However, each organization has some form of "local secretariat," and also has a Staff Pension Committee, responsible for UNJSPF administration within the member organization.

The regulations of the Fund (Article 26) govern the responsibility of the member organizations in the event that an actuarial valuation of the Fund shows that its assets may not be sufficient to meet its liabilities under the Regulations of the Fund.

II. The functioning of the U.N. Pension Fund

From its inception in 1949 until 1971 the Fund developed without serious problems, mainly because of the stability of the U.S. Dollar. It was in May 1971, when the value of the U.S. Dollar was first adjusted downward, that real difficulties began. Since that time, the problems have grown steadily and have been particularly aggravated since the advent of floating exchange rates which can vary substantially from month to month.

As the U.S. Dollar is the currency used by the Fund for benefit calculation and accounting purposes, the purchasing power of the pensions is affected by those fluctuations.

A pension adjustment system has been developed over the years which is intended to remedy partly the exchange rate problem.

New problems arose in the early 1980's when the actuarial valuation showed deficits. The main reasons for this deficit are

- demographic developments,
- average low income from investments of the Fund,
- personnel policies of the organizations, etc.,

all elements which are out of the control of the participants in the Fund.

The shortfall, which initially amounted to nearly 8% in 1980, has been reduced to 3% at the end of 1984 mainly by benefit reductions and also an increase in contributions from 7% to 7 1/4% for participants and from 14% to 14 1/2% from organizations. A gradual increase of the overall contributions from 21% to 24%, to eliminate the existing actuarial deficit of the Fund, was part of a package deal between participants and Governing bodies. However, the General Assembly of the U.N. has refused to make this increase in contributions. Instead, the Assembly at its recent sessions "concerned at the continuing actuarial imbalance of the Fund and the mounting cost of the pension system, requested the Pension Board to consider further economy measures".

In December 1984 the General Assembly adopted a further set of economy measures to the disadvantage of the participants and pensioners.

An entirely new scale of pensionable remuneration for the Professional and higher categories, recommended by the International Civil Service Commission (ICSC) was imposed by the General Assembly of the U.N. on all other organizations participating in the Fund, effective 1 January 1985. The new scale is slightly higher than the December 1984 scale of levels P.1 and P.2, grades from which practically nobody retires, and lower at all other grades, the reductions being graduated and reaching 20% at the highest grades.

The new scale, which was proposed by the ICSC, has been derived from a comparison with the pensions payable to United States civil servants and (unlike the case since 1949) is no longer related to the salary scales for Professional staff of the Common System.

The General Assembly did not approve a recommendation from the ICSC and the Pension Board to the effect that, for existing staff, pensionable remuneration be maintained at the December 1984 levels until these are overtaken by the new scale.

The impact of the introduction of the new scale on the eventual pension benefits of serving staff will vary from individual to individual.

As from 1 January 1985 the adjustment mechanism in article 54(b) of the Regulations by which pensionable remuneration is indexed to the cost of living has been suspended.

The following table shows the reductions in future UN pensions resulting from the economy measures already approved by the General Assembly:

	<u>20 years of service</u>		
	Old \$	New \$	Reduction %
P-3 (top step)	24,282.00	22,548.00	7.1
P-4 (top step)	28,709.00	25,701.00	10.5
P.5 (top step)	33,762.00	30,414.00	9.9
D.1 (top step)	36,452.00	31,864.00	12.6
D.2 (top step)	39,562.00	33,495.00	15.3

Old: Pensions payable to persons retiring on 31 December 1985;
New: Pensions calculated on the basis of the reduced rate of accumulation and the generally lower scale of Pensionable remuneration introduced with effect from 1 January 1985.

Expectations which staff in the professional and higher category had held, on the basis of the earlier scales of pensionable remuneration and of the cost of living increases due as from January 1985, have therefore been frustrated.

III. Resolutions of the General Assembly in December 1985 and mandates given to the ICSC and the Pension Board

In an attempt to further reduce the benefits of the staff in the professional and higher category, the General Assembly in December 1985 requested the ICSC, in co-operation with the Pension Board:

"a) To carry out a comparative study of the levels of pension benefits and the ratios of pensions to salaries under the United Nations pension scheme and those of the comparator country.

b) To complete its review of the methodology for the determination of pensionable remuneration for the Professional and higher categories, for monitoring the level of pensionable remuneration and for adjustment of pensionable remuneration in between comprehensive reviews, taking into account the margin range established for the net remuneration, the views expressed in the Fifth Committee at the fortieth session, including those concerning the evolution of the levels of pensionable remuneration and pensions in recent years, and the different characteristics of the two services, and to submit its recommendation to the Assembly at its forty-first session."

c) By the same resolution, the General Assembly deferred until its forty-first session consideration of the recommendation of UNJSPB regarding amendment of article 54 (b) of the regulations of the United Nations Joint Staff Pension Fund (UNJSPF), and in the meantime extended the suspension of the operation of the adjustment procedure in that article.

The secretariat of ICSC in January 1986 produced a note proposing a number of options concerning the methodology for the determination of pensionable remuneration.

The Standing Committee of the Pension Board and the Consultative Committee on Administrative Questions (CCAQ) both had the opportunity early this year to discuss the draft of the ICSC paper. The secretary of ICSC made it quite clear to these bodies that the wish of the General Assembly is a further reduction of the scale of pensionable remuneration for the Professional and higher categories.

The ICSC will submit proposals to the Pension Board, which is due to meet in June 1986. After that consultation ICSC will finalize the proposals it will address to the General Assembly later this year.

It is against the background of this threat, and the consequent disquieting prospect for the future, and in particular of the arbitrary decisions by the General Assembly concerning the Pension Fund of which at least part is the property of its participants, that the GATT staff has recently requested that the GATT CONTRACTING PARTIES give consideration to the establishment of complementary pension arrangements.

IV. An adequate level of income replacement

The fundamental objective of a contributory occupational Pension Fund such as that to which the GATT staff belong should be to provide to the pensioner an income proportionate to the purchasing power he or she enjoyed at the end of his or her career, taking into account the specific career pattern of the pensioner concerned and the organization's personnel policy.

1) Staff in General Service category

This goal is attained for the GATT participants in the Fund from the General Service category, i.e. 60% of the staff. The main reasons are:

a) The pensionable remuneration of the General Service staff is based on local salary scales which are regularly adapted to the best employment conditions of the private and public sector in Geneva and adjusted, at least once a year, to the cost of living index,

b) The pensionable remuneration is initially determined in Swiss Francs from the total of:

- i) the full grossed-up salary, plus
- ii) language allowance, plus
- iii) non-residence allowance, where applicable.

The total amount is converted into US Dollars for the record,

c) General Service staff are normally hired at an age of between 20 and 30. The number of possible years of contributory service is therefore generally 30 or over,

d) The initial pension benefit payable to a pensioner from the General Service category is calculated in US Dollars using the 36 months of highest pensionable remuneration within the last five years of contributory service. If the resulting Dollar amount at the option of the pensioner is reconverted into Swiss Francs at the average exchange rate of the last 36 months, it at present normally results in a substantial windfall gain.

The combined effect of these features provides a comfortable income replacement rate to the General Service staff in Geneva.

Consequently it can be said, that for the time being, there is in general no problem concerning the income replacement for this category of the GATT staff.

2) Staff in the Professional and higher category (40% of GATT staff)

For the reasons given earlier, most of the problems which have arisen since 1971 concern only the participants of this category of staff.

A basic requirement is to determine the appropriate level of pensions for staff of the Professional and higher category.

Many bodies of the Common System such as the Fifth Committee of the General Assembly, the ICSC, the Board of the UNJSPF, the Staff Pension Committees of the specialized organizations, the Administrative Committee on Co-ordination (ACC), the Consultative Committee on Administrative Questions (CCAQ), the Federation of International Civil Service Associations (FICSA) etc. etc. have studied the issue in the past and tried to define the "adequacy" of pensions for Professional staff of the Common system.

The difficulty of the task stems from the international character of the composition of the staff, the personnel policies of the organizations (age of recruitment, mandatory age of retirement, types of contracts etc.) and the great variety in the future country of residence of the pensioners.

The problem is not new. As long ago as 1975 and 1978, inadequacy of U.N. pensions payable to GATT staff led the Director-General to order a feasibility study of a complementary pension scheme. In those years also a contact group was set up in GATT, representing the CONTRACTING PARTIES, the Secretariat and the Staff, in order to examine the level of salaries and pensions. An amount of SF. 500'000.-, resulting from savings on Salaries and Pension Fund contributions, was credited to a suspense account to be used for compensatory purposes.

When in 1980 the General Assembly decided on the introduction of the "Washington compromise", the CONTRACTING PARTIES considered this improvement to be a satisfactory solution to the pension problem and decided to transfer the SF 500'000.- into the current budget of GATT.

The situation now is not the same as in 1975 and 1978. The problem which then arose has, since 1980, been resolved: the present levels of pensions for staff retiring now and having accumulated a maximum number of years of contributions are satisfactory.

However, the professional staff of GATT are preoccupied by the combined effects of the recent decisions taken by the General Assembly, namely:

- reduction of the accumulation rate,
 - reduction of the scale of pensionable remuneration, effective 1 January 1985,
 - reduction of the amount of lump-sum commutation, and
 - restriction of extension of contracts above age 60,
- as well as the pending further reduction of the scale of pensionable remuneration to become effective in 1987.

V. The drawbacks of United Nations Joint Staff Pension Fund (UNJSPF) and its inadequacy for part of the GATT staff.

a) The representation of specialized organizations in the UNJSPF.

The Pension Fund was established by the United Nations and is administered under the responsibility of the Secretary General of the U.N. at its Headquarters in New York.

More than half of the total number of participants in the Fund are employed by the UN and its subsidiary bodies (UNDP, UNCTAD, HCR, UNICEF, ITC etc.).

Although ICITO/GATT and the specialized agencies are equitably represented at the Pension Board, the nine members from the UN exercise an overwhelming influence and pressure in the debates and on the decisions of the Board. Three of the UN representatives are actually also members of the General Assembly of the United Nations.

The interventions at the Board of representatives from the specialized agencies are noted, but the final, important decisions are taken at the General Assembly. Statements from Governing Bodies of the specialized agencies and the heads of their secretariats, as well as the advice given by the technical bodies (Pension Board and ICSC) have had little effect on recent decisions on salary and pension matters taken by the General Assembly.

The specific needs of the specialized organizations in view of their own personnel policies and the consequences these have for pension matters do not appear to have been taken into account by the General Assembly.

Furthermore, not satisfied with the present composition of the Board the General Assembly, at its 40th session in 1985, adopted a resolution which:

"Invites the competent organs of the member organizations of the United Nations Joint Staff Pension Fund to review the size and composition of the Board, taking into account, where practicable, the views expressed in the Fifth Committee at the fortieth session, and to submit their conclusions to the General Assembly, through the United Nations Joint Staff Pension Board, in time to enable the Assembly to take a decision in the matter not later than at its forty-second session".

The objective of redistribution of the representation at the Pension Board appears to be to increase even more the power of decision by the General Assembly on pension matters.

b) The Currency used by the UNJSPF

During the last fifteen years, exchange-rate related problems have arisen for participants in the Fund working and retiring outside the US Dollar area.

Because contributions and benefits are calculated in dollars, and the adjustment systems for both purposes are expressed in the same currency, dollar-area participants and beneficiaries, and their representatives, have been satisfied with the U.N. pension system, while most of the others have suffered heavy losses.

Whenever in the past an adjustment system was proposed, and after many years of bargaining was approved, the parity of purchasing power of pensions payable in countries with higher costs or stronger currencies than at the Headquarters of the UN was never fully granted.

Consequently, beneficiaries of the UNJSPF living in virtually all countries outside the dollar area suffer a disadvantage. This is the case for most of GATT Professional staff.

Another aspect of the exchange rate problem is the instability in the level of pensions, which within a single year, can fluctuate by as much as 20% up or down. For this reason pensioners or staff nearing retirement age have great difficulty in assessing their future income.

c) Inadequacy of rate of accumulation for Professional staff hired after age 30.

Another important problem for GATT and its participants from the Professional and higher categories is the inadequacy of the regulations of the UNJSPF and the Staff Rules of the UN to deal with the relatively short period of "possible years of contributory service", the latter being a key factor in the computation of the pension entitlement.

Statistics covering the last decade show that the age at entry into service with GATT of Professional staff ranges from 35 to 42 years, with an average of 37 years. These staff members were hired because they met the requirements of the post descriptions as regards the professional calibre and experience. Consequently these new staff members entered into participation of the UNJSPF at an age which will allow them an average maximum participation of 23 years until age 60, which is the mandatory age of separation in accordance with UN staff rules applicable to GATT staff.

As a consequence of the lack of co-ordination in international social security schemes, or total absence of such schemes, most of these GATT staff members cannot expect any pension benefit for periods prior to the entry into the UNJSPF.

Until 1982 the accumulation rate for pension benefits per year of contributory service in the UNJSPF was 2% for the first 30 years and 1% between 31 and 35 years.

As from 1983 the accumulation rate has been reduced for new entrants to the UNJSPF to 1.5% per year for the first 5 years and 1.75% for the following 5 years, rising to 2% per year only thereafter. These provisions are a carbon copy of the pension scheme of the U.S. Civil Service.

Other national pension schemes, in contrast, credit a total of 50% for the first 20 years of service and provide for a lower rate after. The latter formula would fit much better with the career pattern of Professional GATT staff.

Most other pension schemes oblige new participants and their employer to make additional payments to the scheme to complete missing years of contributory service. The UNJSPF in 1968 went in the contrary direction by abolishing the possibility of voluntary contributions to the Fund.

The CONTRACTING PARTIES have never adopted any formal decision tying the staff management of GATT to the UN Common System. If the CONTRACTING PARTIES accept that there are shortcomings in the social protection of its most qualified staff, there could be a number of possibilities open to them to remedy this situation.