Fifty-seventh session
Agenda item 10(d)

UNITED NATIONS
JOINT STAFF PENSION BOARD

Report of the Working Group on Plan Design
Note by the Working Group

UNITED NATIONS

Executive Summary

1. During its fifty-fifth session, which had been held in Rome from 10-18 July 2008, the United Nations Joint Staff Pension Board (UNJSPB) considered a note that referred to various proposals for changes in the benefit provisions of the Fund that had been advanced during the last several sessions of the Board and the diverse views concerning such changes that were being maintained by different constituents of the Board. In order to examine and prioritize the proposals being advanced in a more integrated and comprehensive manner, the Board decided to establish a Working Group, which was tasked with providing specific proposals that could help guide the Board over the next several years.

2. The Board agreed on terms of reference that requested the Working Group to (a) assess the major developments to be taken into account in defining the future needs of the Fund; (b) examine the remaining economy measures adopted since 1983 but not yet addressed, as well as any additional measures that have been under recent consideration by the Board and/or that may arise from the assessment referred to in (a) above; and to (c) formulate and prioritize proposals to meet the future long-term needs of the Fund and its constituent groups.

3. The Working Group recognized three major developments, namely: (i) the significant volatility in the market value of the assets of the Fund since the 31 December 2007 actuarial valuation; (ii) the continuing increase in life expectancy of individuals covered by the Fund with its adverse impact on the actuarial valuation carried out as at 31 December 2007, and (iii) trends in pension reform. In addition to these three developments, the Group took into account the needs of staff with shorter careers and workforce mobility. The Group also recognized the significant and unprecedented growth in the number of individuals serviced by the Fund since 1998, along with the increasing risks associated with such a vast, growing and globally dispersed population.

4. As provided for in its terms of reference, the Group used the report of the 2000 Working Group as its starting point. The Working Group also recalled that it was requested to continue to consider issues aimed at enhancing the mobility of staff and the portability of pensions. In addition, and while carrying out its work, the Group was mindful of the principles suggested in the report of the Committee of Actuaries relating to: income replacement, long-term solvency, intra and inter-generational equity, cost control and stability, simplicity of administration and reduction of risks. The Group also remained cognizant of the relevant General Assembly resolutions, which are reflected in paragraphs 10; 11; 15; 18 and 20.

5. The Working Group also examined trends over the ten-year period elapsed since the 2000 Working Group. It noted the following key elements:

- The number of active participants had significantly increased (contrary to the assumptions) by 65% over the 10 year period;
- The number of beneficiaries had increased over the same period to a lesser extent (30%);
- A significant number of participants separate from the Fund after having served for less than 5 years;
- Average length of service of those taking periodic benefits had remained stable over the same period at some 22-23 years;
- All six actuarial valuations – since 1997 – had been in surplus varying between 0.24% and 4.25% of pensionable remuneration;
- Rates of early retirement and withdrawal settlements had remained stable; and
- Life expectancy of individuals covered by the Fund worldwide had significantly increased for both men and women.

6. On the basis of the various briefings received and its assessment of the recent developments, including the significant volatility in the market value of the assets of the Fund, the improved mortality rates and other trends, the Working Group considered a long list of general topics and possible measures that could be proposed in order to address the long term needs of the Fund. A summary of the Group's initial consideration of this wide range of issues is provided in paragraphs 46-77. The Working Group requested the Consulting Actuary to provide comments and/or actuarial cost/savings estimates in respect to those issues the Group agreed would merit a more focused analysis. The specific questions posed by the Group on these issues and the replies provided by the Consulting Actuary are provided in paragraphs 85-99.

7. Following several discussions with the Consulting Actuary, the Working Group decided to narrow its focus to specific measures that could be taken with the aim of meeting the long-term needs of the Fund. Taking into account the views expressed during the fifty-sixth session of the Board in 2009, the Group aimed to provide specific proposals that would be most relevant to the Board over the next several years, reflecting emerging trends and anticipated challenges. A detailed analysis of specific measures that could be taken is reflected in paragraphs 102 – 199.

8. In respect to benefits, and as mandated in its terms of reference, the Group felt that the balance of the 2002 recommendations continued to deserved special consideration, having already been agreed to by the Board and approved in principle by the General Assembly. The Group also extensively examined several other issues which could lead to possible changes in plan design including the accumulation rates, withdrawal settlements for participants with shorter term contributory service and possible reduction in the vesting period.

9. The Working Group also considered possible measures that would result in actuarial savings. It had extensive discussions on the normal retirement age provision and the early retirement age and reduction factors. The Working Group also, as a matter of principle, considered the eligibility period under article 21. It agreed that, in principle, amendments to current practice in all these areas could be beneficial to the Fund.

10. In addition, the Working Group reviewed a number of possible amendments that would involve minimal actuarial costs. These measures related to survivor benefits under articles 35 bis and 35 ter and child benefits under article 36. Further consideration was also given to possible amendments to certain provisions of the Pension Adjustment System.

11. **In preparing its final report, the Working Group referred to its extensive consultations with the Consulting Actuary and elaborated its conclusions and proposals essentially on the basis of the information and available actuarial cost/savings estimates provided as part of such consultations. As requested by the Board, the views of the Committee of Actuaries on the conclusions and proposals of the Working Group are reproduced in paragraphs 206-213 of this report.**

12. At the time of adoption of its final report, the results of the actuarial valuation as at 31 December 2009 were not available to the Working Group. The Group nevertheless felt that since it had been requested to "provide specific proposals that could help guide the Board over the next several years" it would make proposals with different implementation timeframes, which, together with all the supportive information, would give the Board a "flexible roadmap" intended to assist the Board in making timely and appropriate decisions in relation to the matters addressed by the Group.

13. **The proposals of the Working Group on plan design are included in the table below. These measures include the two benefits already approved by the Board and also approved in principle by the General Assembly, which the Group felt belonged to a special group of measures:**

(a) Measures involving a cost which should be implemented as soon as feasible:

- **Amended withdrawal settlements for short-term staff (estimated actuarial cost of 0.12 % of pensionable remuneration) [paras. 108 - 113]**
- **4 amendments to article 35 (bis) (costs assumed to be minimal) [paragraphs 166 – 173]**
- **Pension Adjustment System: elimination of negative cost of living adjustments (measure not costed but assumed to be minimal) [para. 198]**

(b) Measure with a cost which remains desirable:

- **Accumulation rate (partial and progressive return to pre-1983 rates would carry a lower cost than full reversion (full reversion at an estimated actuarial cost of 2.16% of PR)) [paragraphs 102 – 107]**

(c) Measures which would produce gains:

- **Reduction in the eligibility period for participation from 6 months to 60 days (gains not determined, should be implemented as soon as feasible) [paragraphs 162 – 164]**
- **Increase in the early retirement reduction factors (estimated actuarial savings of 0.14% of PR) [paragraphs 153 – 161]**
- **Increase in the normal retirement age to 65 (estimated actuarial savings of approximately 1.00% of PR) [paragraphs 130 – 152]**

(d) Studies to be carried out immediately:

- **Study on enhancing the scope and flexibility in administering the Emergency Fund [para. 199]**
- **Study by Consulting Actuary on early retirement provisions [paragraphs 153 – 161]**

(e) Measures already approved by the Board and approved in principle by the General Assembly, for priority consideration by the Board:

- **COLA for deferred retirement benefits commencing as of age 50 (estimated actuarial costs of 0.36% of PR) [paragraphs 114 – 120]**
- **Elimination of the 0.5% reduction of the first adjustment due after retirement (estimated actuarial costs of 0.15% of PR) [paragraphs 121 – 129]**

The above proposals are submitted without conditional linkages between them and carry their own timeframe for implementation.

As found by the 2002 Working Group and confirmed by events and developments of the last decade, the Working Group concluded that the UNJSPF is fundamentally sound in its principles, design and implementation. The Fund is constantly subjected to pressures and challenges requiring effective coping and adaptive mechanisms. Existing oversight processes are sensitive to change and identify vulnerabilities in a manner that allow both administration and governance to react effectively to evolving needs. The Working Group hopes that its proposals will allow the Board to further the Fund's capacity to respond to change, ensure its sustainability and continue to serve its growing number of clients.

Report of the UNJSPB Working Group on Plan Design

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I. Introduction

1. During its fifty-fifth session, which had been held in Rome from 10-18 July 2008, the United Nations Joint Staff Pension Board (UNJSPB) considered a note that referred to various proposals for changes in the benefit provisions of the Fund[1] that had been advanced during the last several sessions of the Board and the diverse views concerning such changes that were being maintained by different constituents of the Board. In order to examine and prioritize the proposals being advanced in a more integrated and comprehensive manner, the Board decided to establish a Working Group with an equal number of members representing each group. It had been recalled that a similar approach was followed in 2000, when the Board decided to establish an earlier Working Group to deal with similar issues. The review and analysis that emanated from the previous Working Group provided the Board with a "road map" that has helped guide it during the past several years. Similarly, it was expected that following its review, the Working Group on plan design would be in position to formulate specific proposals that could help guide the Board over the next several years

2. The Board decided to nominate an equal number of members from the Governing Bodies, the Executive Heads, the Participants and FAFICS. It also requested the CEO of the Fund to nominate a staff member from the secretariat of the Fund who could serve as Secretary to the Group. It was subsequently agreed that the Working Group on plan design would be comprised as follows:

	Members	*Alternates*
Governing Bodies	Ms. V. M. Gonzalez Posse (UN) Mr. A. Kovalenko (UN) Dr. J. Larivière (WHO)	Mr. G. Kuentzle (UN)
Executive Heads	Mr. D. Northey (IAEA) Ms. R. Pawlik (UN) Mr. S. Tabusa (ILO)[2]	Ms. C. Hennetier (WHO)
Participants	Ms. S. Hansen-Vargas[3] (WMO) Mr. F. Léger (ILO) Mr. A. Lakhanpal[4] (UN)	M. Q.-L. Sim[5] (WIPO)
FAFICS	Mr. A. Castellanos del Corral Mr. R. Eggleston Mr. W. Zyss	Mr. G. Schramek

3. The CEO of the Fund decided to nominate Mr. Frank DeTurris, Chief of Operations of the UNJSPF, as Secretary and focal point to the Working Group. It was decided by the Working Group that the following individuals would serve as officers of the Group:

[1] Fund, unless otherwise noted, shall mean the United Nations Joint Staff Pension Fund.

Chairman

Dr. J. Larivière (Governing Bodies – WHO)[2]

Vice-Chairman

Mr. F. Léger (Participants representative – ILO)[3]

Vice-Chairman

Mr. D. Northey (Executive Heads representative – IAEA)[4]

Rapporteur

Mr. W. Zyss (FAFICS representative)

II. Terms of reference

4. During its session in 2008, the Board agreed that the Working Group would be tasked with carrying out its work in accordance with the following terms of reference:

(a) Assess the major developments to be taken into account in defining the future needs of the Fund;

(b) Examine the remaining economy measures adopted since 1983 but not yet addressed, as well as any additional measures that have been under recent consideration by the Board and/or that may arise from the assessment referred to in (a) above; and to

(c) Formulate and prioritize proposals to meet the future long-term needs of the Fund and its constituent groups.

The Working Group was requested to limit its focus to prioritizing possible measures that could be taken in light of the continued actuarial surplus, as well as consider measures that could provide savings, which would allow for other changes in the plan design. The Board agreed that the final report of the Working Group established in 2000 should serve as the basis for the new Working Group.

The balance of the 2002 recommendations, already approved in principle by the Assembly, should continue to be considered as priority issues. The Group should also continue to consider issues aimed at enhancing the mobility of staff and the portability of pensions through a possible reduction in the minimum

[2] Following notification from Mr. M. Pace that he would be unable to continue serving as Chair of the Group, the Working Group agreed, during its third meeting in Vienna on 17 July 2009, that Dr. J. Larivière would replace him as Chairman.

[3] In order to avoid having two officers from the same constituent group, the Working Group also decided that Mr. F. Léger of the Participants would replace Ms. V.M. Gonzalez Posse as Vice-Chairman, also as from 17 July 2009.

[4] The Working Group decided that Mr. D. Northey would replace Mr. S. Tabusa as Vice-Chairman as from its 17-19 February 2010 meeting.

period to qualify for a periodic benefit and through possible enhancements in the amount payable for withdrawal settlements.

The Board also requested that, during its deliberations the Working Group take into account the principles suggested in the report of the Committee of Actuaries relating to: income replacement, long-term solvency, intra and inter-generational equity, cost control and stability, simplicity of administration and reduction of risks.

The Board further requested that a preliminary report be presented to the Board in 2009. The Group was also expected to incorporate the views of the Consulting Actuary and the Committee of Actuaries in its final report, which would be presented to the Board in 2010.

Any additional costs for the services of the Consulting Actuary that relate directly to the Working Group of the Board, as well as the usual costs for travel and related daily subsistence allowance for the members of the Working Group (and including the members of the Committee of Actuaries) would be included in the Fund's budget and charged against the Fund as administrative expenses. This would be in accordance with a decision taken by the Board in 2006.

III. First meeting of the Working Group[5]

5. The Working Group held its first meeting at the Geneva office of the Fund, from 22-23 January 2009. This meeting was essentially a brainstorming session, during which the Working Group elected officers, agreed on a working agenda that would provide a blueprint for its future meetings and delineated a number of the many and various issues that would need to be addressed before the Group would be in position to issue its final report. The Group also reviewed a substantial number of background documents that had been requested by various members and other information that was considered useful during the initial discussions of the Group. It agreed to set up a portal through the Fund's website where all documentation used by the Group would be available online to the members and alternate members of the Working Group. The Group was also provided with access to the Fund's Knowledge Management System, where previous documents of the Pension Board, the Standing Committee and the Committee of Actuaries could be accessed directly online.

6. The Working Group recalled that its terms of reference requested that it limit its focus to prioritizing possible measures that could be taken in light of the continued actuarial surplus including the elimination of the remaining 0.5 per cent reduction in the first consumer price index adjustment due after

[5] The members/alternate members of the Working Group attending the first meeting were (i) for the Governing Bodies: Ms. V. Gonzalez Posse (UN); Mr. A. Kovalenko (UN); Dr. J. Larivière (WHO), (ii) for the Executive Heads: Ms. C. Hennetier (WHO); Mr. S. Tabusa (ILO), (iii) for the Participants: Ms. S. Hansen-Vargas (WMO); Mr. F. Léger (ILO); Mr. M. Pace (FAO); and (iv) for FAFICS: Mr. A. Castellanos del Corral; Mr. G. Schramek; Mr. W. Zyss. Mr. F. DeTurris attended as Secretary and focal point to the Group.

retirement, as well as consider measures that could provide savings, which would allow for other changes in the plan design. It was also cognizant of the fact that the terms of reference might need to be viewed in a special light given that the financial situation of the Fund had changed quite dramatically since the Group was first established by the Board in July 2008. The Group recalled that although the actuarial valuation carried out as at 31 December 2007 revealed a surplus of 0.49 per cent of pensionable remuneration (PR), the effective surplus should be considered as 0.24 per cent of PR after accounting for the revised lump sum commutation factors that took effect as from 1 January 2009. The decline in the value of the surplus when compared to the results revealed as at 31 December 2005 (i.e. 1.29 per cent of pensionable remuneration), was largely attributed to the revised mortality tables reflecting increased longevity rates that were incorporated in the 31 December 2007 valuation. It was also recognized that the 31 December 2007 valuation results did not yet reflect the significant fluctuations in the market value of the assets of the Fund since the most recent valuation was carried out. The Group noted that an increase in the normal retirement age, as a response to the increase in longevity of the participants, retirees and other beneficiaries, might be needed to address the impact of declining mortality rates on the Fund. Other members, while agreeing that this might need to be examined at greater length, also noted the need to further consider the overall assumptions used in the actuarial valuations. In any event, the Group agreed that in the early stages of its deliberations all views expressed would be considered only as preliminary in nature.

7. The Group agreed that given its terms of reference and the complex subjects that it was requested to address, the next meeting would need to be longer than the two days initially planned. In addition to and as part of the subject matter that would need to be addressed, the Group also agreed to meet with representatives from other relevant bodies outside the Working Group. In this connection, it requested the Secretary to set up meetings with the CEO of the Fund; the Consulting Actuary; the Director of the Investment Management Service; a representative of ICSC who could provide the Group with the Commission's most up to date views in respect to the mandatory age of separation; and a representative who could update the Group in respect to the views of the CEB/HLCM/HR-Network. With this in mind, the Group decided that its next meeting should be for five working days. The Working Group decided it would hold its second meeting at the Fund's New York Office from 4 to 8 May 2009. It further agreed that a synopsis of its subsequent meetings would be provided in annex to its final report (annex XII).

IV. Synopsis of recent decisions on plan design

8. The Working Group recognized at the outset, that most of the issues it would need to address should be considered in the context of discussions and decisions that have been evolving since 1998, when the improved ac-

tuarial situation first began to emerge. It decided that in order to proceed in a fully integrated and comprehensive manner it would therefore need to take into account the relevant decisions reached since that time. The discussions and subsequent decisions have focused almost exclusively on reversing the economy measures taken in the 1980s. A summary the of economy measures is provided in annex I. A comprehensive list of the possible measures that have been reviewed, considered, recommended and in some cases approved since 2000 is provided in annex II. A chronological synopsis of the related decisions taken since 1998 is provided below for information. The Working Group took these decisions into account when formulating its final proposals.

1998

9. During its session in 1998, on the basis of an improved actuarial situation after nearly 20 years of actuarial deficits, the Board considered possible changes in the plan design of the Fund. Two conditional decisions taken by the Board and reported to the General Assembly that year were to: (a) to change the interest rate applicable to lump-sum commutations of periodic benefits from 6.5 per cent to 6.0 per cent, with respect to contributory service performed as from 1 January 2001; and (b) to recommend to the General Assembly that the threshold for effecting cost-of-living adjustments of pensions in award be reduced from 3 per cent to 2 per cent, effective from the first adjustment due on 1 April 2001.

10. The General Assembly, in its 1998 resolution (A/53/210) had taken note of the Board's intention to further review the changes made in the pension system since 1983, and concurred with the Advisory Committee on Administrative and Budgetary Questions that "the Board should continue to monitor closely the evolution of the actuarial valuation of the Fund and that no attempt should be made to reduce the present rate of contributions to the Fund or change any other features unless and until a pattern of surpluses emerges in future valuations". The Assembly further requested the Board "should there be a positive trend towards actuarial surpluses in future valuations, to consider favourably a reduction in the present contribution rate".

2000

11. During its fiftieth session in 2000, the Board considered various measures that could be taken in light of the positive results revealed in the actuarial valuations carried out as at 31 December 1997 and 31 December 1999. Those valuations revealed surpluses of 0.36 and 4.25 per cent of pensionable remuneration, respectively. The Board approved the two conditional decisions it had taken in 1998. It therefore took action to lower the interest rate for lump sum commutations under its authority in accordance with article 11 (a) of the Regulations of the Fund. It also recommended, and the General Assembly approved the reduction in the threshold for cost-of-living adjustments in its 2000 resolution (A/55/224).

12. During its further discussions in 2000 on other possible modifications, the Board reviewed the "economy measures" it had taken in respect to the plan design of the Fund since 1983 to redress the serious actuarial deficits being experienced at that time. After an extensive exchange of views, the Board decided to establish a tripartite Working Group to undertake a fundamental review of the Fund. The 2000 Working Group was to carry out its work in the light of developments in staffing and remuneration policies in the member organizations of the Fund and pension arrangements at the national and international levels. That Working Group carried out its review on the basis of guidance that was provided in its terms of reference established by the Board, by subsequent comments made during the 2001 Standing Committee and by the Committee of Actuaries in 2001 and 2002. The 2000 Working Group remained mindful of the emerging views to address the trend towards shorter-term employment contracts and the need to provide for better mobility and portability of pension rights. It also remained cognizant of the views expressed, which as a general principle favoured the reversion of the 1983 economy measures over providing for new benefits.

2002

13. The Board revisited the plan design issues during its session in 2002 on the basis of the Working Group's final report and in light of the results of the actuarial valuation carried out as at 31 December 2001, which had revealed a surplus of 2.92 per cent of pensionable remuneration. After a comprehensive review and extensive consideration of the proposals of the Working Group, the Board decided to recommend three specific changes in the plan design of the Fund. In its report that year (A/57/9), the Board had noted that "these measures further promoted the human resources framework adopted by ICSC and the Assembly. In particular, the measures would serve to enhance the mobility of staff and the portability of pensions". The Board therefore recommended the following changes:

a. cost-of-living adjustments to be applied to deferred retirement benefits as from age 50;

b. cost-of-living differential factors for deferred retirement benefits to be applicable as from the date of separation; and

c. elimination of the limitation on the right to restoration based on years of contributory service.

14. The Board also approved the recommendation to eliminate the 1.5 percentage point reduction in the first consumer price index (CPI) adjustment due to existing and future retirees and other beneficiaries, with the understanding that the implementation of this modification would be subject to a surplus being revealed in the next actuarial valuation.

15. In its 2002 resolution (A/57/286), the General Assembly approved, in principle, the changes recommended by the Board that would: (a) apply cost-of-living adjustments to deferred benefits as from age 50; (b) apply cost-of-living differential factors to deferred retirement benefits as from the date of separation; and (c) eliminate the limitation on the right to restoration, "with implementation to begin at such time as the actuarial valuation of the Fund shows a clear upward pattern of surpluses".

16. The Assembly also noted that the Board had approved the recommendation to eliminate the 1.5 percentage point reduction in the first consumer price index adjustment due to existing and future retirees and other beneficiaries, subject to an actuarial surplus being revealed in the valuation to be performed as at 31 December 2003. The Assembly also took note of the decision of the Board to continue to study the problems associated with the adjustment of pensions after award.

2004

17. During its session in 2004, the Board considered the results of the actuarial valuation performed as at 31 December 2003. That valuation revealed a surplus of 1.14 per cent of pensionable remuneration, which was the Fund's fourth consecutive surplus. The Board noted however that the 1.14 per cent surplus was lower than the 2.92 per cent surplus revealed in the previous valuation. It further noted that the Committee of Actuaries had cautioned a "prudent approach" in any use of the 1.14 per cent surplus. The Board reconsidered its 2002 recommendations in light of the reduced surplus and therefore decided to recommend a phased approach to the elimination of the 1.5 per cent reduction in the first consumer price index (CPI) adjustments due after retirement. As a first step, it recommended that the reduction rate be reduced from 1.5 per cent to 1 per cent, with effect as from 1 April 2005. It also agreed to address in 2006, the possible total elimination of the balance of the 1.5 per cent reduction and, on an equal footing, the possible elimination of the limitation on the right to restoration based on length of prior service. In addition, and on the basis of a review carried out in respect to the problems associated with the adjustment of pensions after award, the Board also decided to recommend a new provision that would provide for an adjustable minimum guarantee at 80 per cent of the United States dollar track amount for those who have opted to be paid under the two track feature of the Pension Adjustment System. Retirees and other beneficiaries who had opted for the two-track feature and who resided in countries that experienced steep currency declines without offsetting adjustments for inflation were found to be adversely affected by the 1980s economy measure that introduced the cap provision.

18. In its 2004 resolution (A/59/269), the General Assembly approved, with effect from 1 April 2005, the phased approach in the elimination of the 1.5 per cent reduction in the first CPI adjustment and the addition of the new provision for an adjustable minimum guarantee at 80 per cent of the United

States dollar track amount. In that same resolution, the Assembly decided "not to consider any further proposals to enhance or improve pension benefits until action is taken on the issues contained in section I, paragraph 4, and section II, paragraphs 2 and 3, of its resolution 57/286".

2006

19. In 2006, the Board considered again its 2002 recommendations in light of the actuarial valuation performed as at 31 December 2005, which revealed a surplus of 1.29 per cent of pensionable remuneration. This was slightly higher than the previous result and it was the Fund's fifth consecutive surplus. The Board recalled its decision in 2004 when it agreed to address, in 2006, the possible total elimination of the balance of the 1.5 per cent reduction, and on an equal footing, the possible elimination of the limitation on the right to restoration based on length of prior service.

20. The Board decided to recommend, and in its 2006 resolution (A/61/240) the Assembly approved: (a) that the reduction in the first consumer price index adjustments due under the pension adjustment system be lowered from 1.0 per cent to 0.5 per cent, and (b) elimination of the limitation on the right to restoration based on the length of the prior contributory service.

2008

21. During its session in 2008, the Board considered a number of requests for further and more various changes in the plan design of the Fund. One issue considered extensively in 2008 was the impact of currency fluctuations on UNJSPF pension benefits, which the Board decided to continue monitoring. The Board also reviewed a note (JSPB/55/R.35) by the CEO of the Fund, which had recalled that due to the improved actuarial situation reflected in the valuations performed as at 31 December 1997, 1999, and 2001, the Board had recommended a number of benefit improvements to the General Assembly in 2002. In its resolution that year (A/57/286) the Assembly had approved, in principle, the Board's recommendations, with implementation to begin when the actuarial valuation of the Fund would show a clear upward pattern of surpluses. In 2004 and 2006, the Assembly approved implementation of some of those recommendations on the basis of the continued actuarial surpluses revealed as at 31 December 2003 and 2005. Although the surpluses that were revealed in the valuations had declined, the valuation carried out as at 31 December 2007 confirmed that the Fund was experiencing its sixth consecutive actuarial surplus.

22. In light of the consistently positive actuarial results, the Board was therefore requested in 2008 to decide whether it wished to recommend that the General Assembly approve, for implementation, the balance of the 2002 recommendations concerning (a) the elimination of the remaining 0.5 per cent reduction in the first consumer price index adjustment due after retirement

resulting from the 1983 economy measures and still pending and (b) cost-of-living adjustments applicable for deferred retirement benefits as from age 50. In the note to the Board it had been suggested that action in respect to the third measure, concerning application of cost-of-living differential factors for deferred benefits as from the date of separation, be deferred. It was noted that further consideration would need to be given as to whether all deferred retirement benefits (i.e. including those not eligible for the COLD factor) should have their local currency track benefits established on the basis of the 36 month average rate of exchange at the time of separation or as from the 36 consecutive months up to and including the month of first payment, as currently provided for in paragraph 27 of the Pension Adjustment System. To take a decision in respect to those eligible for the COLD factor but not apply it in respect to the other deferred retirement benefits would result in an inconsistency. In the meantime, the previous action taken in the matter at the Board in 2000 and approved by the General Assembly in resolution A/RES/55/224, consisting of sub-paragraph 5 (d) to the Pension Adjustment System, would be maintained.

23. In 2008, the Board therefore considered its 2002 recommendations made in respect to (a) the 0.5 per cent reduction in the first consumer price index adjustment due after retirement and (b) cost-of-living adjustments for deferred retirement benefits to commence as from age 50. The Board took into account the estimated actuarial costs of implementing these measures in the context of the results of the most recent actuarial valuation performed as at 31 December 2007. Although it was not prepared to recommend these measures to the General Assembly in 2008, given the importance of the matter the Board decided to include reference to this in the terms of reference for the Working Group. The Working Group remained cognizant of the fact that the Board had expressly requested that the "balance of the 2002 recommendations, already approved in principle by the Assembly, should continue to be considered as priority issues".

V. Basic Principles

24. As provided for in its terms of reference, the Working Group considered the final report of the 2000 Working Group. It reviewed the basic principles listed by the earlier Working Group and agreed that they were still valid, although it agreed to review them further. In particular, the need to maintain the defined benefit nature of the Fund was reconfirmed. The Group also agreed that given the importance of this issue, it should be given particular attention in its final report. In addition, the Group recognized that, although the income replacement ratios ultimately obtained by the retirees appeared to be in line with the provisions of the plan, staff members who would not have had the opportunity to contribute for at least 25 years, and who had no other additional pension rights or other outside savings, might consider them to be inadequate. It was in this connection that some members of the Group suggested exploring the feasibility of providing for a supplementary, defined contribution type plan

(i.e., not as a replacement to the existing plan, but one that could be offered either as a separate option, or in addition to and in "parallel" to the Fund's existing defined benefit plan). Other alternatives along these lines would be for the Fund to make an education drive to underscore the importance of saving for the so-called third pillar of retirement planning.[6]

25. The Working Group recalled that, as indicated in the Fund's third Management Charter, "pensions are a critical element of the overall conditions of service for all staff of the member organizations. They are an integral part of the package of pay and benefits that determines the competitiveness of the organizations as employers in the labour market. Taken together, they must adapt to a changing environment in order to continuously attract, retain and reward staff in a competitive and equitable manner, based on merit, skills, competence and performance". The pension benefits provided by the Fund are therefore among the most important features that make the United Nations system an employer of choice. As noted in article 101 of the Charter of the United Nations, "the paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence, and integrity."

26. The 2008 Working Group reviewed the basic principles underlying the Fund, which had been initially established by the 1960 Pension Review Group. The report of the Review Group reflected on the Fund's nature and role as a defined benefit plan and examined the actuarial bases, the level of pensionable remuneration, the plan design, including adjustments after award.

27. Following its review of the basic principles that were delineated by the 2000 Working Group, it agreed that a firm set of principles would be needed to serve as the basis for its ensuing discussions. The 2008 Working Group also agreed that the fundamental tenets of the Fund continue to remain unchanged from those of the 1960 review. The Fund should continue to provide a retirement benefit for the official and his or her dependants and the benefits should continue to be in proportion to the years of contributory service.

28. The Working Group recalled and agreed that the unique circumstances of employment of the participants of the United Nations Joint Staff Pension Fund required the incorporation of certain features generally found in a social security scheme. Moreover, it further recalled and agreed with the following principle included in the report of the 2000 Working Group: "Recognizing that many officials are not covered by other social security schemes, the Group

[6] As indicated in the report of the 2000 Working Group, "it is important to distinguish between trends in developed and developing countries, particularly important as participants in the Fund reside in 190 countries in all stages of development. In developed countries, major reforms were necessary in the 90s to make pension schemes fiscally sustainable and to link them more closely to economic growth, forging a tighter link between contribution and benefit. Today, in these countries, retirement income is generally based on the "three pillars", reducing risk through diversification. The first pillar refers to the mandatory and public social security scheme which should provide a moderate replacement rate of 30 – 40 per cent of the individual's income upon retirement. The second pillar is the occupational pension scheme, an insurance component based on employer/employee contributions. Added to the first pillar, this enables the retiree to make up (after a full career) about two thirds of the pre-retirement income. The third pillar results from voluntary savings accumulated through an individual's working life".

reaffirmed, as did the 1960 Pension Review Group, that the benefits of the United Nations Fund should be framed on the supposition that none of the participants had national social security coverage. The Fund was designed to provide a "complete package" as opposed to national systems which were designed as part of the package. On retirement, officials should be able to count on a pension that, in line with the concept of income replacement, provided a standard of living compatible with that enjoyed in the last years of service".

29. The Working Group recognized that it had been requested to use the final report of the 2000 Working Group as its basis. In other words, rather than reinvent the wheel, the Working Group was to use the previous findings as its foundation. The 2008 Working Group decided therefore to review and reiterate the relevant conclusions reached by the previous Working Group, which it considered still valid; the 2008 Working Group:

- agreed with the general view taken by the 1960 Review Group, that "the United Nations pension scheme must be framed in the light of the best outside practice, making due allowance for any inevitable differences in circumstances between international and national administrations;"
- agreed on the need to maintain the defined benefit nature of the Fund. The Fund might need to adapt to the trend, both within the organizations and outside, towards more task oriented types of employment arrangements rather than lifetime contracts. In recognizing the need to respond to greater mobility in the workforce, the Group felt that pension arrangements, as part of the overall compensation package, should be designed to protect beneficiaries while responding to the changing needs of the organizations;
- re-affirmed that the Fund should continue to apply the income replacement ratio policy adopted by the General Assembly;
- re-affirmed that the purchasing power of pension benefits be protected;
- agreed that, while a balanced approach should be used in dealing with any actuarial surplus, the primary focus should be on reversing the impact of the economy measures adopted in dealing with past actuarial deficits;
- agreed that the present (2:1) contribution ratio should be maintained;
- agreed on the need to provide greater latitude in responding to special needs, such as payments from the Emergency Fund.
- agreed to endorse the principles suggested in the 2009 report of the Committee of Actuaries relating to: income replacement, long-term solvency, intra and inter-generational equity, cost control and stability, simplicity of administration and reduction of risks;

- recalled past practice and agreed that in the course of its review and when formulating its recommendations in respect to benefit improvements, that due consideration be given to applying such improvements prospectively to benefits already in payment.

VI. Defined benefit nature of the Fund

30. As noted in the section on the basic principles, the Group agreed on the need to maintain the defined benefit nature of the Fund. Indeed, given the importance of the matter, it decided that the issue would merit particular attention in its final report. Here again, it is useful to begin by recalling the findings of the previous reviews on the matter.

31. First, the principles upon which the Fund is based were determined largely by the 1960 Pension Review Group. The Review Group had concluded that "The Pension scheme is simply one element in the conditions of service of the Secretariat … the United Nations Pension Scheme is essentially a civil service pension scheme in which the benefits should be more or less proportional to the period of contributory service which a participant has spent in the organization. There are, however, circumstances surrounding employment in the international service – in particular, its predominantly expatriate character – which makes it necessary, in our view, to incorporate in the pension scheme some features more typical of the social security scheme."

32. Before further reflecting on the merits of one type of plan over the other, it is important to be clear as to the distinction between a defined benefit plan and a defined contribution plan.

(a) Defined Benefit: a defined benefit plan is one in which a participant in the plan receives an established monthly benefit amount as from the date of his or her retirement. Such a benefit is guaranteed for the lifetime of the participant or for the joint lives of the participant and his or her spouse. The monthly amount is established on the basis of a pre-determined formula, which takes into account the participants' salary, length of service, accumulation rates and age upon retirement. The benefits are not determined or dependent upon the investment return of the plan, since investment risk is assumed by the plan, or ultimately by the employer. An advantage to this type of arrangement is the very long-term investment horizon typical of the defined benefit plan; the longer the investment horizon the lower the risk. In addition, in most pension systems the benefit also includes cost-of-living adjustments. The provisions in the UNJSPF defined benefit plan in particular also provides for currency protection.

(b) Defined Contribution[7]: a defined contribution plan is one in which the participant contributes to his or her individual account an amount that the employer may or may not match (or possibly even exceed). There is no

[7] The Working Group considered the possibility of offering a defined contribution type "option" to new participants during its second meeting as reflected in the summary of that meeting contained in annex.

guaranteed benefit amount. The benefit is based on how much the individual participant contributes and how well the individual's investments perform. In other words, in a defined contribution plan, the individual assumes the investment risk. The investment horizon is therefore shorter than for a typical defined benefit plan and therefore the risks are greater. In addition, in a defined contribution plan the benefit ceases once the individual account balance reaches zero, regardless of the individual's age or circumstances and notwithstanding the fact that he or she might have survivors.

33. In considering the distinction between defined benefit plans and defined contribution plans, the 2000 Working Group found a number of variables that confirmed the defined benefit plan as the better and most logical choice for the "multi-national population" of the Fund. It found that "ultimately, this is a question of choice and of transfer of risk between individuals and organizations. The UN Pension Fund is generally viewed by governments as an instrument of solidarity for the multi-national international community entailing some sharing of risks. However, the choice should never be against the interest of officials; the ultimate objective is to provide them with reasonable income replacement and the maintenance of the real value of pensions.[8] This concept has been repeatedly affirmed by the General Assembly during the last decade and constitutes one of the underlying tenets of the Fund. The original intention of the Fund was to provide approximately 2/3 of the pre-retirement income to officials with a full career. If one were to make a parallel with modern trends, this would mean that the Fund would have to constitute both the first and second pillars, i.e. the social security benefit plus the benefit from an occupational pension scheme, since many officials of the UN system are excluded from participating in national social security schemes. Furthermore, the UN benefit package does not include certain benefits such as unemployment insurance, an essential element of social security protection. The benefits provided by the Fund must therefore represent an adequate level of income replacement and preserve its competitiveness. Only a defined benefit plan can fully ensure this protection. Moreover, recalling that the Fund has been able to consistently and satisfactorily operate within the limits set by the General Assembly, the Working Group felt that the main reason which prompted some pension systems to depart from the defined benefit formula was not applicable to the UNJSPF".

34. The Working Group considered several papers prepared by the International Social Security Administration (ISSA), which examined the evolution of pension reforms. One paper in particular examined pension reform in Chile. It was noted that "The Pension Reform includes a wide range of measures that combined constitute a new global pension system rather than a collection of partial measures. This change allowed the transfer from a funded individual

[8] The Group recognized the significance of the UNJSPF Pension Adjustment System and the important protection it provided in respect to inflation. It was recalled that the need to provide such protection has been underscored from time to time in judgments of the United Nations Administrative Tribunal (i.e. judgment number 378 of December 1986 stipulated, inter alia, that "Every staff member entering the service of a member organization of the Fund who acquires the status of participant may consider the adjustment system as part of his or her terms of appointment. The right to benefits granted to participants in the Fund includes this system").

account system to one which includes funded individual account within a social protection system based on solidarity financed through taxation and with an important element of voluntary pension savings. In this way, the combination of contributory financed and non-contributory financed pensions ensures that the incentive value of individual contributions is maintained while at the same time the risks of poverty in old-age and disability are minimized."[9]

VII. Assessment of major developments[10]

35. As requested in its terms of reference, the Working Group also assessed the major developments that needed to be taken into account in defining the future needs of the Fund. It recognized two important and most significant developments, namely: (i) the significant volatility in the market value of the assets; (ii) the improved longevity in life expectancy of individuals covered by the Fund and the consequent and adverse impact on the results of the actuarial valuation carried out as at 31 December 2007, and (iii) trends in pension reform. The Working Group also anticipated that the next actuarial valuation could reveal a worsened situation. The Group recalled, however, that it has long been recognized that the results of one valuation would not indicate a trend. It was also recalled that as provided for in its terms of reference, "the Working Group was requested to limit its focus to prioritizing possible measures that could be taken in light of the continued actuarial surplus, as well as consider measures that could provide savings, which would allow for other changes in the plan design."

36. The Working Group therefore would first need to consider possible proposals in the event of a continued actuarial surplus. Under this scenario, it would be incumbent upon the Group to remain mindful that its terms of reference specifically noted that:

(a) the balance of the 2002 recommendations, already approved in principle by the Assembly, should continue to be considered as priority issues; and

(b) the Group should also continue to consider issues aimed at enhancing the mobility of staff and the portability of pensions through a possible reduction in the minimum period to qualify for a periodic benefit and through possible enhancements in the amount payable for withdrawal settlements.

37. The Working Group noted that one possible provision, which could provide savings that would allow for other possible changes in the plan design would be the normal retirement age. In this connection, the Group reviewed the most recent actuarial valuation carried out as of 31 December 2007 and recalled the significant impact that the revised mortality tables reflecting in-

[9] "What lessons can we learn from systematic reforms, in particular countries that have funded systems" – Paula Benavides – Ministry of Finance, Chile – 2009.
[10] This was the first of 3 main points included in the terms of reference for the Working Group.

creased longevity rates had on the results of that valuation. As reflected in the last valuation report, the positive investment experience recorded as at 31 December 2007 reduced the required contribution rate by 1.78 percentage points. That gain, however, was more than offset by the adoption of the 2007 mortality tables and the strengthening of the forecast longevity improvements, which increased the required contribution rate by 1.82 percentage points. In addition, although the actuarial valuation carried out as at 31 December 2007 revealed a surplus of 0.49 per cent of pensionable remuneration, the Group had noted that the effective surplus should be considered as 0.24 per cent of pensionable remuneration after accounting for the revised lump sum commutation factors that took effect as from 1 January 2009 (i.e. after reflecting the revised mortality tables reflecting increased longevity rates).

38. At the time of the second meeting of the Working Group, the assets had declined to about 31 billion dollars from the nearly 42 billion dollar level it had reached as at 31 December 2007 the date upon which the last valuation was carried out. The Working Group reviewed documentation provided on the experience of some pension schemes in other international organizations and national schemes regarding the normal retirement age. From this information the Working Group noted an emerging trend for increasing the age of retirement as a response to financial pressure from increased longevity. With this in mind, the Group decided to consider an increase in the normal retirement age (NRA).

39. In addition to the significant fluctuations in the market value of the assets of the Fund and the notable improvement in longevity and the related mortality tables of the Fund, the Working Group also took into account the needs of shorter-term careers. It recalled that the need to address this had been recognized by the 2000 Working Group as well. Although the 2000 Working Group also agreed on the need to maintain the defined benefit nature of the Fund, it had recognized that the Fund might need to adjust to the trend, both within and outside the organizations, towards more task-oriented arrangements rather than lifetime contracts. It had been noted by the 2000 Working Group that defined benefit plans in general, and including the Fund, tended to favour longer serving staff. In recognizing the need to respond to greater mobility in the workforce, the 2008 Working Group believed that it should aim to provide an overall compensation package that would be designed to strike the right balance between protecting the longer-term and more intermediate term staff, while at the same time providing for the changing needs of the organizations towards shorter-term careers. The Group recalled that the Fund had been initially established for career officials, however, today it is at the same time required to be responsive to flexibility of employment for short-term recruits and the need to provide for better portability of pension benefits to compensate for service of a shorter span.

40. The members recalled and agreed with the findings of the 2000 Working Group: "Although the organizations were facing accelerating changes in

their strategies, programmes and delivery of tasks, their staffing policies, conditions of employment and the structure of compensation packages have not kept pace: they remain in essence those inherited from the days of the League of Nations. Traditional structures were based on the premise that a significant proportion of staff would function as a long-term career civil service in which staff rose through the ranks in an organizational pyramid on the basis of seniority. However, the notion of a lifetime career in the international civil service is less prevalent today.

41. In parallel with changing staffing trends, new types of contractual modalities have become more common, particularly short or fixed term contracts. The phenomenon of "rosaries" of successive short-term contracts is now common and the "permanent" contract is held by lesser number of participants as a lifetime employment mechanism: more emphasis is being placed instead on open-ended or indefinite contracts for long-term work".

42. The 2000 Working Group had also referred to reviews carried out by the International Civil Service Commission (ICSC). It had noted that "specific issues addressed by the Commission so far in its review of pay and benefits include confirmation of the Noblemaire and Flemming principles, which are the foundations for the pay philosophy of the common system and of the process of pay setting. Here the problem was felt to lie with the practical application of those principles and the inflexibilities of the classification, pay and benefits processes. The present system was designed to reflect work practices and assumptions about the nature of work which are no longer valid. For example, a system which rewards a lifetime career in preference to shorter term service does not meet the needs of many organizations whose work is predicated on the regular rotation of staff (IAEA, UNDP, UNHCR), specialized technical inputs (ICAO, ITU, WMO) or time limited service (UN peacekeeping and related field operations). Increasingly, in the face of budgetary constraints, organizations have no choice but to offer non-career appointments of limited duration. The labour market in information technology professionals is characterized world-wide by young expertise, high pay and frequent moves – in few instances does the United Nations common system compete effectively in such a market. …." In its report, the 2000 Working Group went on to note that "much has been made of the "short-term" problem, or more specifically how the pension system should respond better to the needs of shorter-term staff. There has been considerable discussion of the need to introduce flexibility in the pension system for "portability" of pensions, i.e. the terms and conditions under which short term service is recognized and rewarded. …. It would appear that the main initiatives in this area should focus on such elements as the recognition of prior service or the better terms under which to make withdrawals from the Pension Fund at the end of short-term service. Other areas for review would be provident funds and the retirement age, issues that are receiving greater interest". Annex III contains relevant data on the evolution of the Fund's active population.

43. Another development recognized by the Working Group was the significant and unprecedented growth in the number of individuals serviced by the Fund since 1998 and the growing operational risks associated with such a vast and widely dispersed population. As reflected in annex IV, the Fund is currently servicing nearly 173,000 participants, retirees and other beneficiaries residing in some 190 countries worldwide. This represents an increase of more than 53 percent in just 10 years. The Working Group was also mindful of the fact that such growth, along with the Board's desire to address a wider scope of circumstances, was also resulting in an increase in the complexity of the provisions governing the Fund as reflected in its Regulations, Rules and Pension Adjustment System (annex V). With this in mind, the Group recognized that in formulating its final proposals for changes in the benefit provisions, it should take into account the principles cited by the Committee of Actuaries and relating to simplicity of administration and reduction of risks, as included in its terms of reference.

44. Following its consideration of the major developments over the last several years, the Working Group was aware that in light of the significant fluctuations in the value of the assets of the Fund and the impact of the improved mortality rates, it might reach agreement on certain changes in the benefit provisions but any recommendation for implementation of such changes might need to be deferred until the results of at least of two more actuarial valuations are known. Moreover, the Working Group was mindful of another Committee of Actuaries' principle enumerated in its terms of reference and related to the need for long-term solvency. Given the recent turmoil in the markets, the benefit of two more valuation results might therefore be considered advisable as it would place the Board in a better position to gauge the financial situation of the Fund. The Group considered this alternative for two reasons, namely: (i) in the current environment it would be difficult to foresee what the financial situation would be 3-4 years henceforth; and (ii) as both the Management Charter and the Whole Office Review contained recommendations that changes in the benefit provisions should be avoided or at least kept to a minimum during the transition to the new Integrated Pension Administration System (IPAS) platform.

VIII. UNJSPF: 2000-2010 – A memorable decade

45. The Working Group agreed that before beginning a comprehensive evaluation and assessment of various proposals put forth since the last Working Group's report on plan design, it would also be useful to recall the major milestones and developments in the Fund over the last decade. A brief review of the major events and developments that took place in the Fund over the last ten years is provided below:

- The Fund began the new Millennium and its sixth decade on a very positive note, having entered favorable actuarial valuation territory after several difficult years, as a result of the effectiveness of economy measures introduced earlier and the impact of a buoyant global market. The first Working Group on plan design issues since the 1960 Pension Review Group was established by the Board in 2000. This Working Group provided the Board with a blue-print that helped guide the Fund for nearly a decade. In its conclusions in 2002, the Working Group charged with undertaking a fundamental review of the Pension Fund, created in large part to review and possibly restore pension entitlements temporarily suspended in the early 80's as part of the economy measures, stated inter alia: "the adaptability of the Fund and its soundness stem largely from its sound management and investment policies…, the present financial position of the Fund is very solid". The Working Group was also fully aware that the long-term health of the Fund would be increasingly linked to the financial markets, its cycles and volatility. Consequently, together with several strong recommendations to strengthen the Fund's governance, it recommended that an 'actuarial reserve' of 1% should be maintained.

- A new administrative regime, implemented at the beginning of the new decade, allowed the Fund to successfully cope with the sudden global economic adjustments to the overheated IT investment market (i.e. the so called "dotcom bubble"). In several countries, this economic crisis drew close attention to the precarious funding status of many public and private pension funds, not only fuelling debates on equitable long-term liability management, but also leading to short-term reforms, often with uneven results. In a number of countries, new regulations have emerged which are designed to offer better protection both to plan sponsors and retirees. Having adopted benchmarks both for the payment of benefits and the management of investments, the Fund is now better able to track its performance and compare itself to "industry standards". During the decade, the Fund had a strong performance.
- The Fund experienced steady growth since its inception and unprecedented growth during the last ten years in the population it provides services to. From 1998 to 2008 there has been a 67 per cent increase in active participants being serviced by the Fund and a 34 per cent increase in the total number of benefits in payment. At the end of 2008, the Fund was servicing 53 per cent more in total active participants, retirees and other beneficiaries compared to 1998. As of 31 December 1998, the Fund was servicing a total of 112,373 individuals; today it is servicing nearly 180,000 individuals, working and residing in some 190 countries. While the active participant count could begin to level off in coming years, the number of retirees and other beneficiaries is expected to continue growing significantly due to participants retiring in greater numbers and overall improvements in mortality rates.
- In addition to the significant growth in the overall number of individuals being serviced, the number of member organizations has also grown. At the beginning of the decade there were 19 member organizations

covered by the Fund; today there are 23. The growth in the number of member organizations has inevitably raised questions concerning the allocation of member seats and the overall size and composition of the Board. Since 2002, there have been several reviews as to the size and composition of the Board, including a Working Group that considered the matter extensively. Although the Board ultimately decided to maintain its existing arrangements throughout the last decade, it also agreed to adopt six principles that would serve as the criteria for determining its size and composition well into the future. The Board also adopted several recommendations for improved participation and efficiency of its meetings, including guidance on setting up its agenda, special training sessions for its members and the holding of group meetings prior to the substantive discussions of the Board; the Board also decided to revert to holding annual sessions as from 2007. It had been holding its meetings every other year since 1995.

- Following the introduction and adoption of the Fund's First Management Charter in 2002, there have been notable improvements and better monitoring of the Fund's administrative processes. The Management Charter identifies the challenges and action plans to meet such challenges over the medium-term. Since the introduction of its first Charter, the Fund has presented its Second and Third Management Charters. The Third Management Charter, covering the period 2008-2011, recognized the most important challenges facing the Fund as the: (i) growing complexity of the Fund's operations; (ii) growing interdependency of its assets and liabilities; (iii) aging of its information systems and the growing demand for services; (iv) growing need for quality service and high operational standards; and (v) growing social and environmental responsibility.
- The Fund also initiated a new Communications Policy in early 2000. As part of this policy, it began publishing individual booklets on some of the more complex provisions provided for in the Regulations, Rules and Pension Adjustment System of the Fund. The introduction of these booklets was intended to provide more user friendly information to the participants, retirees and other beneficiaries of the Fund. In addition, the Fund began publishing policy documents, in pamphlet form, for the use of the relevant constituents involved with the governance of the Fund. In 2002, the Fund also issued its first annual report to complement the information generally provided in the CEO's annual letter to all participants and beneficiaries of the Fund. The annual report also contains key information on the Fund's operations and aims to highlight a number of significant issues that are important to the Fund's various partners. Finally, the Fund also launched its first website in 2001 and has been making enhancements to this site throughout the last decade.

In 2008, for example, there had been 328,386 user sessions, an increase of some 30 per cent over the previous year.

- Over the last decade, the Fund has been strengthening its risk assessments and management through periodic comprehensive risk reviews and improved governance mechanisms. An Audit Committee of the Pension Board was established in 2006 as an integral part of the Board's machinery to increase transparency and communication with respect to the audit activities of the Fund. The Audit Committee meets three times per year and reports to the Board on progress made in strengthening the risk management culture of the Fund.
- The Fund also carried out several reviews of its governance mechanisms with a view to establish terms of reference for its various committees, working groups and other advisory groups. It has published policy documents with terms of reference for the Audit Committee of the Board, for the Committee of Actuaries and for the SPC secretaries. It has also developed conflict of interest disclosure forms for the Committee of Actuaries and the Investments Committee and a memorandum of understanding between the Representative of the Secretary General for investments and the CEO, which has resulted in improved consultation and coordination between the two offices.
- In recognition of the increasing maturity of the Fund and the enhanced reliance on income from the performance of investments for the payment of pensions, the Fund also initiated regular joint sessions between members of the Investments Committee and the Committee of Actuaries. The first joint session was held in 2002 with the aim of presenting an opportunity for dialogue between these two important committees. The decision to initiate such gatherings was based on the need to enhance the important link between the Fund's investment performance and its long-term liabilities. This has resulted in closer cooperation and coordination between the investment services and benefits administration of the Fund.
- In addition, in 2007 the Fund carried out its first Asset-Liability Management (ALM) study, which confirmed the soundness of the actuarial model and processes. An ALM study is a disciplined way of generating long-term projections of future liabilities and assets, and of integrating both in order to make informed decisions as to the Fund's plan design and/or its investment policy.
- The Fund has made notable progress over the last decade in respect to its social agenda, as it has improved the overall equity and pension entitlements in respect to divorced spouses, child benefits and spouses in various family situations.
- As an example of the Fund's increasing maturity, the ratio of active participants to retirees and other beneficiaries has decreased from about

6.5 to 1.0 in the early 1970s to about 1.7 to 1.0 where it has hovered during most of the decade. Although the first shortfall between contributions collected and pensions in payment was first recorded in 1994, the gap has persisted throughout the last decade, being met by drawing on the income generated by the Fund's investments. Recognition of the increasing longevity of the Fund participants was recently reflected in the adoption of new mortality tables used for the first time in the 31 December 2007 actuarial valuation. Improved life expectancy and the forecast future improvements in longevity represented an actuarial cost exceeding 2% of pensionable remuneration. Given the important impact of life expectancy on the Fund's financial status, close monitoring of the element will continue to be carried out.

- In order to address the unprecedented growth in its operations over the last decade, the Fund decided to relocate to new premises so that it could accommodate such growth, and which would also provide for anticipated growth well into the future. In 2005, the Fund moved into its new office located in close proximity to the United Nations secretariat building in New York. For similar reasons, and to better accommodate the increasing concerns regarding accessibility to the Palais des Nations by the Fund's growing clientele in the Geneva area, the Fund also relocated its Geneva Office in 2007.
- After nearly two decades of deficits, the Fund has experienced six consecutive surpluses as revealed in the actuarial valuations since 1997. The surpluses expressed as a per cent of pensionable remuneration from the valuation carried out as at 31 December 1997 to the valuation as at 31 December 2007 were, respectively: 0.36 per cent; 4.25 per cent; 2.92 per cent; 1.14 per cent; 1.29 per cent; and 0.49 per cent. The latest valuation results reflect the impact of increased longevity as reflected in the new mortality tables.
- In its report in 2008, the Committee of Actuaries recommended the adoption of a principle-based approach towards plan design in order to maintain plan stability, solvency and manageability. This approach was intended to serve as a guide in the work of the Board and its Working Groups, the Consulting Actuary, the Committee of Actuaries, the Fund's secretariat, or other constituencies when designing, analyzing or recommending any changes to the plan design. The Board embraced this approach and requested that the 2008 Working Group consider the following guiding principles in its work: income replacement, long term solvency, intra- and inter-generational equity, cost control and stability, plan design stability, simplicity of administration, and reduction of risks.
- The decade has also seen comprehensive reviews and analyses on the impact that currency fluctuations have on UNJSPF pension benefits and on the ensuing income-replacement (I/R) ratios. The Board has also

been examining, for the first time, the impact of the special index on such I/R ratios. Recent studies of the pension adjustment system, while recognizing that improvements are always possible, clearly indicate that in general pension entitlements are being met fairly and in accordance with agreed policies and regulations.

- The 2008-2009 period was characterized by unprecedented turbulence in the area of investments: As reflected in the CEO's introduction to the Fund's 2009 annual report, the market value of the Fund's assets, which rose from 36.3 billion dollars at the end of 2006 to 41.3 billion at the end of 2007, had decreased to 31.0 billion dollars at the end of 2008. By March 2009, the value had declined further to 26.5 billion dollars. Despite this significant decline, however, the Fund's ability to meet its obligations and pay benefits remained fully intact. By 31 December 2009, the market value of the assets had increased again to above 37 billion dollars.
- The decade concluded with the Board's second Working Group, established to undertake a fundamental review of the Fund's plan design. The Working Group was established with the aim of addressing the various proposals for changes in the benefit provisions of the Fund that had been advanced during the last several sessions of the Board and the diverse views concerning such changes that were being maintained by different constituents of the Board. In order to examine and prioritize the proposals being advanced in a more integrated and comprehensive manner, the Board established the Working Group in 2008. The Group was requested to present its findings and recommendations to the Board in 2010.

IX. Examination of economy measures and other possible changes in plan provisions[11]

46. At its first meeting, the Working Group had a first and very preliminary round of discussions in respect to specific plan design issues. It had before it detailed worksheets that delineated the previous economy measures as well as modifications in the plan design that had been reviewed, considered and in some cases recommended and/or approved since the 2002 conclusion of the last Working Group on plan design. As indicated earlier, this information can be found in annexes I and II. The Working Group agreed that these issues would need further consideration and that an early exchange of views would be useful. The Group recalled the importance it gave to returning the full CPI adjustment due to retirees and beneficiaries in order to fully compensate for the effects of inflation. Notwithstanding this, the Group also referred to the principles cited by the Committee of Actuaries concerning the need to provide for intra- and inter-generational equity among the participants of the Fund and how the Fund had digressed from this principle when it adopted lower

[11] This was the second of 3 main points included in the terms of reference for the Working Group.

accumulation rates for new participants entering the Fund on or after 1 January 1983. The Group agreed that reversal of this previous economy measure should continue to be considered. However, the Group also recognized that the challenges of reversing this particular measure should not be underestimated. In any event, it was noted at the same time that efforts could be made to find a way to neutralize the costs of providing for a consistent accumulation rate.

47. During its second meeting, the Working Group reviewed the extensive list of provisions that had been put forth since 2000 on an item by item basis. It recognized that it would need to consider certain measures in the context of the actuarial implications and especially in the light of recent developments. On the basis of its review and taking into account recent developments and emerging trends, the Group decided to focus more closely on a number of specific topics as described below.

A. 2002 recommendations

48. As indicated earlier, the Group recalled the balance of the 2002 recommendations already approved, in principle, by the General Assembly. These measures were aimed at reversing some of the 1980s economy measures. The Group noted that its terms of reference requested that it consider as priority issues: (a) the elimination of the remaining 0.5 per cent reduction in the first consumer price index adjustment due after retirement and (b) cost-of-living adjustments applicable for deferred retirement benefits as from age 50. In a note to the Board in 2008, the CEO had suggested that action in respect to the third remaining measure, approved in 2002 and concerning cost-of-living differential (COLD) factors for deferred benefits, be delayed. It was noted that further consideration would need to be given as to whether all deferred retirement benefits (i.e. including also those not eligible for the COLD factor) should have their local currency track benefits established on the basis of the 36 month average rate of exchange at the time of separation or as from the 36 consecutive months up to and including the month of first payment, as currently provided for in paragraph 27 of the Pension Adjustment System. To take a decision in respect to deferred benefits eligible for the COLD factor but not apply it in respect to the other deferred retirement benefits would result in an inconsistency. In the meantime, the previous action taken in the matter at the Board in 2000 and approved by the General Assembly (A/RES/55/224), which added new sub-paragraph 5 (d) to the Pension Adjustment System, could continue to be maintained.

49. The Working Group recalled that the proposal to apply COLD factors to deferred pensions as from the day of separation was not a proposal to enhance or improve pension benefits, nor was it a reversal of a previous economy measure. The proposal in this regard was in response to a specific request from the Board to consider amendments to the Pension Adjustment System (PAS) to better align the provisions with a decision taken by the Ad-

ministrative Tribunal, which had been taken to address an issue that had not been provided for in the PAS up until that time. It was noted that the Tribunal decision did not indicate how its conclusion in the related case could be reconciled with the actual provisions of paragraphs 5, 6 and 27 of the PAS. In other words, if COLD factors for deferred benefits were to be applied as from the date of separation, then in order to be consistent the 36 month average exchange rate would have to be applied also as from the same date of separation. However, if this were to be the case, the amended provision would not be consistent with the provisions governing regular deferred benefits (i.e. those without application of a COLD factor) since paragraph 27 of the PAS states that the two-track feature becomes operative on the date of commencement of the payment of the periodic benefit. For such benefits the local currency base amount is established using the 36 month rate of exchange up to and including the month of first payment, not as from the date of separation as would be done if this measure were to be implemented. Moreover, regular deferred retirement benefits are not adjusted for inflation until the retiree reaches age 55. Under the circumstances, and unless and until deferred retirement benefits are again adjusted as from the date of separation, it would appear that the only alternative would be to maintain the decision reached by the Board and approved by the Assembly in 2000. The date from which deferred pensions are to be adjusted is one of the issues which should be examined again at an appropriate time.

50. On the basis of the foregoing, and in accordance with its terms of reference, the Group noted it would focus on (i) the elimination of the 0.5 per cent reduction in the first adjustment due after retirement and (ii) the cost-of-living adjustments applicable for deferred retirement benefits as from age 50.

(i) elimination of 0.5 per cent reduction in the first adjustment due after retirement

51. The Group noted that this measure, already recommended by the Board and approved in principle by the General Assembly, should continue to remain a priority issue as requested by the Board. It agreed that it would therefore be further considered along with the other measures identified, in the course of the Group's current review, as meriting closer consideration.

(ii) cost-of-living adjustments for deferred retirement benefits as from age 50

52. The Working Group recalled that when the Board had agreed to the 2002 recommendations, including the recommendation to adjust deferred benefits as from age 50, it had noted that the measures "further promoted the human resources framework adopted by ICSC and the Assembly. In particular, the measures would serve to enhance the mobility of staff and the portability of pensions." The Group noted in this connection that the adjustment of deferred benefits from an earlier age would also serve to address the need to provide more enhanced benefits for shorter-term staff members who contribute to the

Fund for five or more years, but who separate from service before a full career, at an early age and well before age 55 when cost-of-living adjustments for deferred benefits would begin. In accordance with its terms of reference, the Group remained mindful that it was requested to consider the adjustment of deferred benefits as from age 50 as a priority issue. It also agreed to keep under consideration the possibility of further advancing the cost-of-living adjustments to an earlier age, such as from age 45, as initially proposed by the 2000 Working Group. The Group also did not rule out the possibility of a full reversal of the 1983 economy measure, so that adjustment of deferred benefits could begin as from the date of separation, though it recognized that this would involve considerably higher actuarial costs. The Group agreed that, as with the elimination of the 0.5 per cent reduction in the first adjustment due after retirement, cost-of-living adjustments for deferred pensions as from age 50 should be further considered along with the other measures identified as meriting a closer focus.

B. Reduced vesting period and enhanced withdrawal settlements

53. The Working Group recalled that its terms of reference also requested that it consider issues aimed at enhancing the mobility of staff and the portability of pensions through a possible reduction in the minimum vesting period to qualify for a periodic benefit and through possible enhancements in the amount payable for withdrawal settlements. It decided therefore to assess the merits of both shorter vesting periods and enhancing the amounts payable under the full withdrawal settlement provision.

54. The Group first recalled the comments made by the Committee of Actuaries in respect to the possibility of shorter vesting periods. In its report on its 47th session in 2008 (JSPB/CA/47/R.19), the Committee agreed that if the Fund were to provide for vesting after 3 years of service for example, there would be a substantial increase in the number of retirement entitlements with the associated benefit options (i.e. deferment, two-track feature, commutation of one third the actuarial equivalent, etc.), which would require a significant investment in human and technical resources. Additionally, due to the reduced contributory period, the monthly benefit amounts would be relatively small and more likely affected by proportionately higher banking charges, especially as many of the shorter term staff serve in peace-keeping missions where the local salary scales are considered relatively low. Although it would unlikely result in significant numbers of individuals formally opting for the periodic benefit, the entitlement to such a benefit would inevitably lead to significant increases in requests for estimates, follow-up explanations and what-if scenarios related to the usual requests for information concerning the two-track feature of the Pension Adjustment System (PAS). The Group further considered that if a participant separated after three years, he or she would only have accumulated a benefit of 4.5 per cent of their final average remuneration, provided of course that there are no reductions for early retirement or commutation. In addition, if

such participants are less than age 55 there would be no adjustments for cost of living increases, often for many years. In this connection, the Group noted that if the Fund were to begin adjusting deferred benefits as from the date of separation then this measure might merit further attention. In the meantime and in addition, the Group was mindful that if the Fund were to accept shorter vesting periods at this stage, then the cost of the 2002 recommendation to adjust deferred benefits as from age 50 would increase. Addressing the reduced vesting issue first could therefore have an inadvertent and adverse effect on the measure that the Board had requested the Group to consider as a priority issue.

55. As requested in its terms of reference, the Group also focused on the possibility of enhancing the amounts payable for withdrawal settlements for individuals serving for less than five years, as a possible means to improve the benefit package for the short term staff. In this connection, it is useful to make a distinction for the purposes of this discussion. In the context of this review, "short-term" shall mean participants who serve for less than five years as opposed to "shorter-term" staff which shall mean those who may still have a career with the organizations and who may serve considerably longer than five years but not as long as the "long-term" career staff for whom it has not been unusual to serve 25 or more years. As reflected in paragraphs 40-42, the Group agreed that the Fund would need to be more responsive to the "short-term" staff members who serve for less than five years, notwithstanding the importance the Fund still gave to providing for career staff. The Group recognized that while newer staff may no longer be inclined to serve 25-30 plus years, as had more often been the case when the Fund was initially established, staff members were still serving the organizations for a substantial number of years as reflected in annex III, tables 6-8 and annexes XIV and XV. Having said this, the Group agreed that it should not underestimate the needs of the Fund's "short-term" staff, who serve for less than five years. It was against this background that the Group decided to focus on enhancing the withdrawal settlement benefits for those who have less than five years, which it noted would be a departure from the approach taken in earlier years where the focus was on enhancing withdrawal settlement payments for those who serve for more than five years but who separate well before age 55, when cost of living adjustments would become applicable. The Group made a preliminary review of a number of options for enhancing the full withdrawal settlement benefit and agreed to revisit the issue after it had received from the Consulting Actuary additional cost estimates for enhancing this provision for the short-term staff.

C. Accumulation rates

56. In carrying out its work, the Group had in mind the principles suggested by the Committee of Actuaries, particularly concerning the need to provide for intra- and inter-generational equity among the participants of the Fund. It noted, however, that the Fund had digressed from this principle when it

adopted the lower accumulation rates for new participants entering the Fund on or after 1 January 1983. Some members felt that after 27 years, there was no longer justification to address this economy measure, which is now part of the existing plan design of the Fund. The Group agreed that reversal of this previous economy measure would be desirable but at the same time it was fully aware of the actuarial savings that were being realized as a result of this 1980s decision. While it decided to review the actuarial costs of fully reversing this measure, it also recognized that it might be more viable to explore the possibility of partial and progressive reversals. It was recalled that this approach had been adopted in respect to the elimination of the 1.5 per cent reduction in the first CPI adjustment due after retirement. The Group agreed that any change in the accumulation rate should be designed so as to protect the acquired rights of existing staff. In addition, the Group further agreed (as did the 2000 Working Group) that any enhancement to benefits, in this case the accumulation rate, should apply to all currently serving participants as well as to future participants. The Group also intended to explore the possibility of reflecting any improvement in the accumulation rate to those already retired and who had their pension entitlements calculated on the basis of the reduced accumulation rate (without any retroactive payments).

57. In addition to considering the reversal of the 1980s economy measure either in full or in part, which would involve actuarial costs, the Group also discussed the possibility of a regressive scale of accumulation rates that could be designed to have no additional actuarial costs. Under this scenario, the earlier years of service would be credited with higher accumulation rates to better compensate for the earlier years served and so as to better address the needs of the shorter-term staff, who serve for more than five years, but not necessarily for 20 to 25 plus years. The later years of service would therefore be credited with regressively lower accumulation rates. In order to ensure the acquired rights of existing participants, such a provision would apply to future participants only. The scale would be developed to achieve an actuarial cost neutral accumulation rate and might involve a lower maximum total accumulation rate for new participants than currently prescribed in the Regulations for existing participants.

58. Noting that the accumulation rate was one of the most significant factors used in determining a periodic benefit from the Fund, the Group agreed that a further and more focused review of the accumulation rate would clearly be merited. It decided therefore to request the Consulting Actuary to provide further cost/savings estimates of the various rates under consideration for both reverting the 1983 economy measure (either in full or in part) and for the possibility of regressive rates.

D. Defined Contribution plan as an option

59. It was suggested during the discussions of the Working Group to consider also the possibility of providing future participants with an "option" to

choose a defined contribution type arrangement rather than the Fund's existing defined benefit plan. The Group took into account the emerging trends summarized in paragraphs 40-42 as it had done in connection with the full withdrawal settlement provisions and reiterated the need to be more responsive to the "short-term" participants who serve for less than five years. During its discussions on this matter, the Group recognized the fine line that needed to be drawn in balancing the needs of the short-term participants with the needs of the participants who will have intermediate to longer term careers within the organizations and who had been contributing to the Fund for a longer period. It recognized that in order to provide a competitive package of benefits that would be attractive to all potential new recruits, it would probably need to address both needs.

60. The Group recalled that the 2000 Working Group had also explored the possibility of enhancing the amounts payable under the full withdrawal settlement provisions for the same reasons. It further recalled that in reply to a specific question in respect to increasing the interest rate payable under the full withdrawal settlement provision, the Committee of Actuaries had noted that while such a measure would make the Fund more attractive for shorter term staff, the Fund already had favourable features for such staff. In other words, the Regulations of the Fund, as a defined benefit plan, already had certain elements of a defined contribution plan that provided benefits for that type of participants. It had the full withdrawal settlement for the short-term and shorter-term participants that provided a defined contribution type arrangement, which also included provisions for long term disability and death benefits. It also provided for an additional 3.25 per cent interest rate to be credited over the participants' contributions and additional 10 per cent increments to be credited for each year served over five years. At the same time, the existing provisions of the plan also provided for the longer serving participants through the existing defined benefit nature of the plan.

61. The Group recognized, however, that the 2000 Working Group had focused more on the "shorter-term" participants who would have intermediate careers rather than on the "short-term" participants who might be able to serve only for five years or less. The 2008 Working Group agreed that in addition to considering enhanced full withdrawal settlements for such short-term participants, it would be useful to also consider exploring the feasibility of providing an "optional" defined contribution type plan. It was recognized, however, that the advantages of tax deferred earnings, generally offered in typical defined contribution plans, might pose particular challenges to an international population such as the Fund's. In addition, there would still be complex issues related to currency matters that would need to be addressed. Notwithstanding these challenges, the Working Group agreed to request the Consulting Actuary to provide its views on the matter, including actuarial implications if the Fund were to offer the same employer to employee contribution ratio of 2:1.

The information provided by the Consulting Actuary on this matter is reflected in paragraphs 95-96.

E. Two-track feature

62. The Working Group had an extensive exchange of views on the principles of the two-track feature of the Pension Adjustment System. Although it did not examine the specific details of the provisions, the Group reviewed a breakdown of the countries where the option to be paid under the two-track feature was most prevalent (annex VI). It noted that although about 90 per cent of all two-track cases related to retirees and beneficiaries residing in Europe, there was evidence that the system was increasingly being used by those in other parts of the world as well. It recalled that the two track feature of the pension adjustment system has been in existence for some 30 years and a number of reviews had confirmed that the system had done what it was intended to do. This is to say that it has been providing stability in times of global financial uncertainty. The Working Group also recalled that the actuarial cost of this feature, which had been estimated at 1.90 per cent of pensionable remuneration, must be seen in the context of the impact of currency fluctuations (i.e. upward and downward movements in the value of the US dollar). Although the two-track feature was responding in large part as was intended, the Group also recognized, however, that the two-track feature in certain softer currency countries was not responding as well due to inconsistencies in the relativities between local currency exchange rates and officially published consumer price index data.

63. In its initial discussion on the matter, the Working Group also recalled the comprehensive report on the impact of currency on pension benefits payable by the Fund, which had been presented to the Board in 2008. This review identified a notable difference in the local currency track amounts for separations between 2002-2005. While recalling the importance of the matter and the wide reaching implications of any decision that might be taken in this regard, the Group decided not to pursue this issue as the Board was currently and closely monitoring it. The Group did, however, request the Consulting Actuary to provide additional information that might be useful to the Board during its ongoing consideration of this item. In this connection, the Working Group requested an updated estimate of the actuarial costs of adopting the 120 month average rate of exchange option presented to the Board in 2008 (JSPB/55/R.39). In addition, the Group also requested the Consulting Actuary to provide an estimate of the potential savings that could be achieved if the comparative provision of the two-track feature were to be eliminated. This information is provided in section X of this report.

64. The Group also considered proposals from FAFICS on the pension adjustment system which sought to address adverse effects of wide currency fluctuations on local track pensions, by allowing a one-time reversion to the US dollar track. The proposal aimed to provide a solution for cases where a

beneficiary's local track pension is blocked by the 110% cap at a rate much lower than the dollar track amount. The rationale was that future exchange rates were impossible to predict and in many cases the local track option turned out to be very unfavourable to the beneficiary. It was suggested that the rule be changed to allow a beneficiary to return from the local track to the dollar track one time in his life, after a minimum period of retirement.

65. The Group was sympathetic to the plight of those beneficiaries affected from the currency fluctuations that produced lower than anticipated pension benefit payments. Nevertheless, the Group felt that the real solution to this issue would lay in the context of the Board's ongoing consideration of the impact of currency fluctuations on the value of pensions under the two-track system. It hoped that a remedy will be agreed upon in that way to address these wide variations which may result in different levels of benefits depending on the date on which benefit payments begin.

66. It is hoped that approaching the issue from this angle might make it possible to address the problem for participants contemplating taking the local track option in the future. However, as the local track option is generally considered to be chosen if it is to the advantage of the beneficiary, and therefore is a cost to the Fund, the Group felt unable to support the proposal which would allow for what would be seen as a second adverse selection against the Fund. The Group felt that it was difficult to find a feasible solution for pensions already in payment but that efforts might be focused on information to beneficiaries prior to making the selection.

F. FAFICS proposals

67. In reviewing the list of benefit provisions considered since 2000 (as provided in annex II), the Group noted that a number of other possible options, which had been put forth over the last several years, had emanated from FAFICS. Many of the options proposed involved family related issues, rights of survivors (including divorced spouses), small pension entitlements and several issues related to adjustment of pensions after retirement. The Group agreed that it would be more expedient if FAFICS would prepare a prioritized list of its preferred options, along with a summary of any relevant justifications. Noting the importance of the issues, the Group agreed to take this information into account after it was made available to the members. Given the time constraints, however, it would not be possible for the Working Group to discuss these issues until its meeting after the 2009 session of the Board. FAFICS provided its preferred options during the 56th session of the Board in 2009. An extract of the relevant text providing the views of FAFICS is provided in section XI.

G. Partial disability

68. The Working Group noted that the Fund should continue to follow emerging trends in respect to possible changes in the provisions for partial disability benefits. It recalled that the 2000 Working Group had considered the issue

in the context of Fund participants who might be affected by minor disabilities but not to an extent that would justify a disability benefit under article 33 of the Regulations. After revisiting the issue, the Group agreed that while partial disability should be kept under consideration, it also recognized that it would be more of a Human Resources issue that should first be addressed by the member organizations.

H. Child benefits for children born after separation from service

69. The Group also revisited the issue concerning child benefits, recalling that in accordance with the definitions included in the Regulations of the Fund, "child shall mean a child existing on the date of separation or death in service of a participant and shall include the step-child or adopted child of a participant, and a child in utero upon its birth; in the event of uncertainty as to whether adoption has taken place, the matter shall be decided by the Board". The Group agreed that this issue could be addressed in the larger context of overall family benefits that would be taken up together with a paper to be submitted by FAFICS.

I. Reduced period for eligibility to participate (article 21)

70. The Group considered the possibility of reducing the period of eligibility for participation under article 21 of the Regulations of the Fund. It considered this issue ultimately as one of providing basic social security protection. While it also recognized the potential advantage that this could provide to the individual participants concerned, it also noted that if the eligibility period were to be reduced from six months to three months or less, it would involve additional costs to the organizations. The Group recalled that should the participants involved be in service long enough to become eligible, there was already an optional provision to validate such prior service that could be exercised and which would achieve the objective of providing additional contributory service to the participants concerned. The Group also recalled that the six-month rule for eligibility for Fund participation was introduced, with effect as from 1 January 1983 (replacing the previous 12-month rule) as part of the economy measures taken to improve the actuarial situation at that time. Although the Fund was not currently experiencing a serious trend of actuarial deficits, as it had been when it last reduced the eligibility period, the Group believed that the importance of providing death and disability coverage from day one could outweigh the increased financial and administrative requirements. It was on this basis that the Group agreed to further review this provision in its later discussions.

J. Increase in time-limit for option to validate

71. The Group discussed the possibility of increasing the time limit for electing to validate under article 23 of the Regulations. It took into account an earlier review of this issue, as reported to the Standing Committee in 2003

(JSPB/SC/186/R.23). In that report by the CEO, it was noted that the Committee of Actuaries had recalled that "there would be actuarial costs associated with the elimination of the one-year time limit for electing to validate or restore prior service. It also took the view that these costs ought to be borne in full by the Fund participant concerned. However, it was noted that difficulties would be encountered in ensuring that those actuarial costs would be fully borne by participants so that no cost would fall on the Fund. The Committee of Actuaries noted that, in fact, the existing period of one year for making such elections "was already unusually long". Based on its analysis of the issue, the Committee felt unable to support a recommendation that would provide for the elimination of the current one-year time limit for electing validation or restoration of prior service".

72. The Working Group noted however that if it were to increase the time limit to opt for validation only, the costs would not be as significant as for eliminating the time-limit in respect to restoration. It further noted that rather than eliminate the time-limit entirely it could explore the possibility of extending the time-limit from one-year to three years. Under these new parameters, the Working Group decided to seek the views of the Consulting Actuary on the viability of increasing the one-year deadline for opting to validate from one year to three years. The Group decided therefore that it would consider this issue further when it would be in position to take into account such views and subsequent to the 2009 meeting of the Board.

K. Normal Retirement Age

73. Recalling the significant impact that the revised mortality tables reflecting increased longevity rates had in respect to the results of the actuarial valuation carried out as at 31 December 2007, the Group agreed to consider the normal retirement age (NRA) in the context of ensuring the Fund's sustainability. It recognized, however, that this issue should only be dealt with in synergy with other bodies, such as ICSC and the CEB/High Level Committee on Management (HLCM)/HR Network. In other words, any formal increase in the NRA could only be done after the member organizations had first agreed to raise their mandatory age of separation, otherwise the participants in the Fund would be forced to retire before they could qualify for unreduced retirement benefits. It was with this in mind that the Group agreed it would need to schedule joint meetings with the other relevant bodies on this matter.

74. Also in this connection, the Group noted comparisons of the UNJSPF to pension schemes of other organizations (annex VII); it also requested and reviewed information in respect to the member organizations' practices for "employment after retirement" as well as a survey of the normal retirement age in other international organizations, which is provided in annex VIII. The Group also noted developments affecting national social security schemes.

75. In addition, and in order to get an idea as to the magnitude of the savings that could be realized by increasing the NRA, the Group reviewed a

2003 note on the subject that had been prepared by the Consulting Actuary (JSPB/CA/42/R.7). The Group recognized that the savings rate reflected in that report was due to rather severe early retirement reduction penalties and therefore requested that future estimates also be provided with less onerous early retirement reduction factors. It agreed that the 2003 savings estimate would need to be updated. It also agreed that additional savings estimates should be provided in respect to age 64 as well as 65 and that estimates should be provided if provision were made to allow existing staff to remain in service on an optional basis until age 64 and 65.

76. The Group also considered a note on the mandatory age of separation and normal retirement age, which had been prepared by the FAFICS representatives on the Working Group. The note included relevant background information on these two issues, a chronological review of the matter, as well as an update as to the current status of the two issues. The Working Group agreed that as the early retirement provisions are closely linked with the normal retirement age provisions, both issues should be considered. The Group further recognized that if the actuarial situation deemed it necessary, it would be possible to propose changes in the early retirement provisions, without and/or prior to changing the normal retirement age provisions. The Group had a preliminary exchange of views on the early retirement provisions on the basis of a note prepared by the FAFICS representatives, which is included as annex XVII.

77. The Group recalled that the 2000 Working Group had also addressed the issue of increasing longevity. In fact, referring to the Fund in its report, the 2000 Working Group had already noted that "its demographic characteristics (longevity, flow of new entrants,) will certainly continue to be major factors affecting its financial position. Corrective measures were taken to absorb the impact of these effects within the established contribution rate of the Fund. Increased longevity remains, however, a main point on which actuaries must continue to focus their attention". Given the significant impact that changes in the normal retirement age and early retirement age provisions could have on the actuarial situation, the Group agreed to focus more closely on these issues after the actuarial cost/savings estimates would be available.

X. Actuarial considerations

78. In order to make an assessment of the current actuarial situation, pending the results of the next actuarial valuation that would be carried out as at 31 December 2009 but for which the results would not be known until late spring 2010 the Group reviewed a number of documents containing relevant and up to date information and statistics. An illustration of the market values, actuarial asset values and actuarial asset values needed to be in balance is provided in annex X. The evolution of actuarial results, including actual contribution rates and the required contribution rates to be in actuarial balance is provided in annex XI. The average age of entry into the Fund and the average age of retirement from 1980 to 2007 are provided in annex III, tables 3 and 5.

79. In addition and as specifically requested by the Board in the Working Group's terms of reference, the Group carried out its work mindful of the principles recommended in the report of the Committee of Actuaries (CA/47/R.19; paragraph 105). It was recalled that the Committee of Actuaries had suggested that "the Board may wish to consider the following guiding principles: income replacement, long term solvency, intra- and inter-generational equity, cost control and stability, plan design stability, simplicity of administration and reduction of risks".

80. The Group also took into account the most recent comments on the impact of the world-wide financial crisis on the UNJSPF as provided by the CEO of the Fund in an article posted on the Fund's website and through a more recent briefing given by the CEO to the Group during its second meeting.

A. Committee of Actuaries

81. As also provided for in its terms of reference, the Working Group was requested to incorporate the views of the Consulting Actuary and the Committee of Actuaries in its final report. The Group decided it would first be useful to review the comments that had been provided by the Committee of Actuaries in respect to the earlier examination of plan design issues carried out from 2000-2002. In this connection, the Working Group recalled that during the meeting of the Committee of Actuaries in 2001, the Committee had reiterated its support for the provision of cost-of-living adjustments to deferred retirement benefits from the date of separation, the elimination of the limitations on restoration, and an increase in the interest rate for withdrawal settlements from 3.25 per cent to 5.00 per cent. The Committee of Actuaries had noted at that time that the highest priority should be given to the provision of cost-of-living adjustments to deferred retirement benefits. As a general principle, the Committee agreed that restoring benefits which had been cut should be given priority over providing for new benefits. It noted, however, that the cost of returning the pension accumulation rate to 2 per cent for the first 30 years of contributory service would be very high. The Committee felt that the reserve which was to be retained from the surplus might be reduced below 2 per cent if the financial markets fell significantly below the present level. The five-year-moving-market-average methodology (coupled with the 15 per cent limitation) was intended to protect the valuation results from the impact of wide market fluctuations and should not be considered a safety margin.

82. The Committee of Actuaries had commented again in 2002 on the specific benefit modifications that the 2000 Working Group had agreed upon. In this connection, the Committee reiterated its support for providing cost-of-living adjustments for deferred pensions as from the day of separation, at an estimated actuarial cost of 0.74 per cent of pensionable remuneration. It was recalled that the Committee had commented favourably on other items in 2000 and again in 2001 (e.g. concerning eliminating the limitation on restoration and increasing the interest rate for withdrawal settlements from 3.25 to 5 per

cent): the Committee was asked which other items still merited consideration. The Committee had no other set order of priorities, provided that the total costs of proposals would fall "within the disposable surplus revealed." With specific reference to a question posed in respect to increasing the interest rate for withdrawal settlements, the Committee noted that while such a measure would certainly make the Fund more attractive for shorter-term staff, the Fund already had favourable features for such staff. Although the Committee would not be strongly in favour of increasing the interest rate for withdrawal settlements, neither would it oppose such an idea. The Committee nevertheless pointed out that in light of the recent drop in interest rates being offered elsewhere, a 5 per cent rate might be considered high. Not expressing a preference in respect to the elimination of the limitation on restoration, the Committee noted that it would be a sensible change and, since it involved a small cost, the Committee was "actuarially at ease" with it.

83. The Working Group agreed that given the difficult scheduling constraints and the short time period between when the results of the next actuarial valuation as at 31 December 2009 would be known (i.e. end of May/early June 2010) and the July 2010 session of the Board, it would be more practical to include the Committee of Actuaries' comments on the Working Group findings, in full, in the final report of the Group. The Committee of Actuaries' views on the recommendations of the Working Group are therefore provided, in full, in paragraph 206.

B. Consulting Actuary

84. The Working Group met with the Consulting Actuary during its second (5 May 2009), fourth (4 November 2009) and fifth (18 February 2010) meetings. It had a preliminary exchange of views during its meeting in May. During that meeting, the Consulting Actuary provided the Group with detailed comments concerning the recent and significant decline in the market value of the assets of the Fund. He recalled the methodology for determining the actuarial asset value used in the valuations and noted that while the recent developments would certainly have an impact on the 31 December 2009 valuation results, in order to make a more meaningful assessment of such developments, he noted it would be advisable to await the results of the next two actuarial valuations. Taking this into account, the Working Group requested specific information and actuarial implications for a number of items the Group had identified, which could address the long-term needs of the Fund. The questions raised by the Working Group and the information provided by the Consulting Actuary are provided below under seven categories, namely: (a) full withdrawal settlements; (b) accumulation rates; (c) normal retirement age; (d) early retirement reduction factors; (e) defined benefit and defined contribution plans; (f) expanded deadline for opting for validation; and (g) two-track adjustment feature. The questions posed by the Working Group appear in bold and the replies provided by the Consulting Actuary are reflected in full immediately following the questions:

1. WITHDRAWAL SETTLEMENTS (ARTICLE 31)

85. What if the Fund were to provide for full withdrawal settlements using the additional 10 per cent increments as from the completion of one year rather than 5 years? The 10 per cent increments should be in addition to the 3.25 per cent interest and costing under this option should be carried out in respect to both current and future participants. The first costing should be done on the basis of a maximum of 10 years (i.e. 200 per cent of own contributions after 10 years).

Calculations were made to estimate the actuarial cost of changing the increments schedule for full withdrawal settlements as described above. The cost estimates were calculated based on the data and model used for the 31 December 2007 actuarial valuation (after modification to reflect the effect of changes in commutation factors adopted by the Board in July 2008). The estimated cost of changing the increments schedule is 0.12 per cent of pensionable remuneration.

86. The Working Group recalled the possibility of providing for a 50 per cent return of total organization contributions for separations with less than 5 years of contributory service (there is no request for the Consulting Actuary to provide estimates under this item at this stage, as the Working Group will use the previous estimate of 0.70 per cent; however, the Working Group would like to know if it were to consider providing for a 100 per cent return rather than a 50 per cent return, could it consider the estimated actuarial cost to be about double, i.e., 1.40 per cent?).

It is noted that the 0.70 per cent of pensionable remuneration estimated cost described in the above paragraph was calculated based on the data and model used for the actuarial valuation as of 31 December 1999. There have been substantial changes in the census data and assets during the period between the 1999 actuarial valuation and the most recent valuation conducted as of 31 December 2007. Therefore, the Consulting Actuary elected to recalculate the cost estimate based on the data and model used for the 31 December 2007 actuarial valuation. The recalculation produces an updated estimated cost of 0.71 per cent of pensionable remuneration.

The withdrawal settlement is currently calculated as the sum of (A) and (B):

A. The participant's own contributions (with interest at 3.25%)

B. 10% of (A) for every year of contributory service between five and fifteen years, resulting in a maximum of 200 per cent of the participant's own contributions (with interest).

When estimating the cost of providing for a 50 per cent return of total organization contributions for separations with less than 5 years of contributory service, it was assumed that the withdrawal settlement for separations between five and fifteen years of service would increase to 200 per cent of the participant's own contributions (with interest). That is, it was assumed that there would not be a sharp decrease in the amount of benefits payable to separations with 4 years of service, for example, compared to separations with 10 years of service, for example.

If the Working Group were to consider providing for a 100 per cent rather than a 50 per cent return, the withdrawal settlement amounts would increase significantly. Some examples of the increase in Full Withdrawal Settlement amounts are shown in the following table.

WITHDRAWAL SETTLEMENT AS % OF PARTICIPANT'S OWN CONTRIBUTIONS

Years Of Contributory Service	Current Regulations [I]	Provide 50% Return Of Organization Contributions [II]	Provide 100% Return Of Organization Contributions [III]	Ratio [II]/[I]	Ratio [III]/[I]
4	100%	200%	300%	2.00	3.00
10	150%	200%	300%	1.33	2.00
15	200%	200%	300%	1.00	1.50

As indicated in the above table, the 100 per cent return scenario would produce larger increases in the withdrawal settlement amounts than would be the case under the 50 per cent return scenario. And since the 100 per cent return would also apply to separations with 15 or more years of contributory service, the 100 per cent return scenario would affect a much larger number of participants than the 50 per cent return scenario. Therefore, the Consulting Actuary would expect that the actuarial cost of the 100 per cent scenario would be substantially more than double the cost of the 50 per cent scenario.

2. ACCUMULATION RATES

87. What would be the cost of applying 1.75 per cent to all currently serving staff who joined after 1983 and future participants for the first 10 years, then the regular 2.00 per cent accumulation rates thereafter?

The rates of benefit accumulation applicable to participation commencing after 1982 are currently 1.5 per cent for the first five years of service, 1.75 per cent for the next five years of service, 2 per cent for the next 25 years and 1 per cent for service in excess of 35 years (but not more than 3.75 years). Calculations were made to estimate the actuarial cost of applying a 1.75 per cent accumulation rate to all currently serving staff who joined the Fund after 1982 and future participants for the first 10 years of contributory service. No other changes in the rates of benefit accumulation were assumed other than limiting the 1 per cent accumulation rate for service in excess of 35 years to a maximum of 2.5 years (to limit the maximum total benefit accumulation to 70 per cent). The estimated cost assumes there would be no change in pensions for participants who have retired or terminated service and whose benefits were determined on the 1.5 per cent/1.75 per cent/2 per cent accrual rate.

The cost estimates were calculated based on the data and model used for the 31 December 2007 actuarial valuation (after modification to reflect the effect of changes in commutation factors adopted by the Board in July 2008). The estimated cost of applying a 1.75 per cent accumulation rate for the first 10 years of contributory service as described above is 0.57 per cent of pensionable remuneration.

88. **What would be the estimated savings if, for all future participants, the accumulation rate were to be 1.75 per cent for each year, for the entire career (i.e. no maximum number of years of service would be applicable).**

The rates of benefit accumulation applicable to participation commencing prior to 1 January 1983 are 2 per cent for the first 30 years of service and 1 per cent for service in excess of 30 years. The rates of benefit accumulation applicable to participation commencing after 1982 are currently 1.5 per cent for the first five years of service, 1.75 per cent for the next five years of service, 2 per cent for the next 25 years and 1 per cent for service in excess of 35 years. Calculations were made to estimate the actuarial cost of applying a 1.75 per cent accumulation rate for future participants for each year of their entire career. No other changes in the rates of benefit accumulation were assumed.

The cost estimates were calculated based on the data and model used for the 31 December 2007 actuarial valuation (after modification to reflect the effect of changes in commutation factors adopted by the Board in July 2008). The estimated savings of applying a 1.75 per cent accumulation rate for future participants for each year of their entire career as described above is a decrease of 0.31 per cent of pensionable remuneration.

89. If the Fund were to begin using, for example, a 2.0 per cent accumulation rate (or more) for the first 5 year(s) and then a regressive scale thereafter for all new participants only. The Working Group requests the Consulting Actuary to use its judgment as to the best scale of regression to achieve a cost neutral accumulation rate.

The benefit accumulation rate for new participants was set to 2.0 per cent for the first five years of service and a series of calculations was then performed to determine the accumulation rate applicable to service in excess of 5 years that would result in an overall cost equal to that revealed by the 31 December 2007 actuarial valuation. Based on the data and model used for the 31 December 2007 actuarial valuation, the accumulation rate applicable to service in excess of 5 years was calculated to be 1.775 per cent of pensionable remuneration. Reflecting that result, new participants would have a total benefit accumulation larger than that provided by the current 1.5 per cent/1.75 per cent/2 per cent accrual rates for periods of contributory service less than 21.666 years. However, for periods of contributory service greater than 21.666 years the total benefit accumulation would be smaller than that provided by the current 1.5 per cent/1.75 per cent/2 per cent accrual rates.

It should be noted that this breakeven point could change in the future as the result of demographic changes and especially if the actuarial assumptions are modified.

90. What would be the estimated actuarial cost if the Fund were to adopt a flat two per cent accumulation rate for new participants only?

Based on the data and model used for the 31 December 2007 actuarial valuation (after modification to reflect the effect of changes in commutation factors adopted by the Board in July 2008), the estimated cost of providing a 2.0 per cent accumulation rate for future participants is 1.35 to 1.40 per cent of pensionable remuneration.

3. NORMAL RETIREMENT AGE

91. The Working Group used savings estimates already provided by the Consulting Actuary for all future participants.

It requested further estimates, however, if the Mandatory Age of Separation and the Normal Retirement Age were increased on a mandatory basis to age 65 for all future participants, but also for existing staff on an optional basis. Assumption as to the utilization rate could be if 25 per cent; 50 per cent and 75 per cent of existing staff decided to optionally remain in service with 65 as Normal Retirement Age.

For purposes of preparing these cost estimates, it has been assumed that there would be no change in the Regulations applicable to existing staff other than allowing such staff to remain in service on an optional basis with age 65 as Normal Retirement Age. Also, for purposes of preparing these cost estimates, it has been assumed that the normal retirement age for future participants would be increased to age 65 and early retirement entitlements would begin from age 55 (as described in paragraphs 11 through 14 and 21 through 24 of document JSPB/CA/48/R.6, based on the "illustrative" retirement rate assumptions). In addition, it has been assumed that the increase to 65 in both the normal retirement age and the mandatory separation age would apply without any phase-in.

Increasing the normal retirement age (coupled with the change in mandatory separation age) for existing staff will result in changes to the early retirement behavior of such staff. It is not possible to assess with any precision the extent to which early retirement behavior would be changed.

The Consulting Actuary estimated the effect on costs of increasing the normal retirement age for existing staff by assuming the sample early retirement rates contained in annex XIII (Tables 1 through 4). For comparison purposes, the tables in annex XIII also show the rates of early retirement currently assumed for present participants with a normal retirement age of 60 and 62.

The weighted average retirement age can be derived by applying the following formula, modified so that the "1/2" is not used when FRA = ERA.

$$\frac{\sum_{t=0}^{FRA-ERA} ({}_{t}p_{ERA}) * (q^{r}_{ERA+t}) * (ERA + t + \tfrac{1}{2})}{\sum_{t=0}^{FRA-ERA} ({}_{t}p_{ERA}) * (q^{r}_{ERA+t})}$$

where FRA = age by which everyone is assumed to retire
ERA = age before which nobody is assumed to retire
${}_{t}p_{ERA}$ = probability of surviving at work to age ERA + t
q^{r}_{ERA+t} = probability of retiring at age ERA + t

The effect of the changes in retirement assumptions on the weighted average retirement age for existing staff was calculated using the above formula and the results are shown in the following table.

	Normal Retirement Age Increases From 60 To 65								*Normal Retirement Age Increases From 62 To 65*							
RETIREMENT ASSUMPTIONS	*WEIGHTED AVERAGE RETIREMENT AGE*				*INCREASE IN WEIGHTED AVERAGE RETIREMENT AGE*				*WEIGHTED AVERAGE RETIREMENT AGE*				*INCREASE IN WEIGHTED AVERAGE RETIREMENT AGE*			
	Age Participant Joins The Fund															
	25	30	35	40	25	30	35	40	25	30	35	40	25	30	35	40
	MEN – PROFESSIONAL STAFF															
Current	58.2	59.4	60.0	60.0	–	–	–	–	58.5	60.0	60.8	60.9	–	–	–	–
Sample	59.0	60.3	60.9	60.9	0.8	0.9	0.9	0.9	59.3	60.8	61.7	61.8	0.8	0.8	0.9	0.9
	MEN – GENERAL SERVICE STAFF															
Current	57.3	58.5	60.1	60.1	–	–	–	–	57.4	58.8	60.9	61.2	–	–	–	–
Sample	58.0	59.4	61.2	61.2	0.7	0.9	1.1	1.1	58.2	59.6	61.9	62.3	0.8	0.8	1.0	1.1
	WOMEN – PROFESSIONAL STAFF															
Current	58.0	59.3	60.0	60.0	–	–	–	–	58.4	60.0	61.0	61.2	–	–	–	–
Sample	58.8	60.2	60.8	60.8	0.8	0.9	0.8	0.8	59.1	60.7	61.7	62.0	0.7	0.7	0.7	0.8
	WOMEN – GENERAL SERVICE STAFF															
Current	57.1	58.3	59.8	59.8	–	–	–	–	57.2	58.6	60.6	60.7	–	–	–	–
Sample	57.7	59.1	60.6	60.6	0.6	0.8	0.8	0.8	57.9	59.4	61.2	61.5	0.7	0.8	0.6	0.8

To reflect a 25 per cent utilization rate for existing staff, it was assumed that 75/25 per cent of such staff would retire under the current/sample assumptions, respectively. The 50 per cent utilization rate was reflected by assuming that 50/50 per cent of existing staff would retire under the current/sample assumptions, respectively. And, the 75 per cent utilization rate was reflected by assuming that 25/75 per cent of existing staff would retire under the current/sample assumptions, respectively.

The following examples examine the potential effect on the Fund if existing staff were to remain as active participants past their current normal retirement age. As these examples show, such continuing participation would be somewhat beneficial, at least from the Fund's perspective.

Example 1 (Normal retirement age 60; 1.5%/1.75%/2% accrual rates)

Participant A is age 60 as of 31 December 2009, 24 years of service with FAR of $100,000. Compare Fund liabilities and contributions income if A retires at Age 60, 62 or 65.

Age 60 - Retire effective 31/12/2009

[1] FAR = $ 100,000

[2] Normal retirement benefit = $ 44,250

[3] Annuity value* = 18.847

[4] Retirement liability = [2] x [3] = $ 833,980

Age 62 - Retire effective 31/12/2011

[5] FAR = $ 112,254

[6] Normal retirement benefit = $ 54,163

[7] Immediate Annuity value* = 18.124

[8] Retirement liability = [6] x [7] = $ 981,650

[9] Present value of [8] as of 31/12/2009 = $ 849,454**

Age 60 vs. 62 Comparison

[10] Contributions for 2010 and 2011 (Participant and Organization) =$ 48,822

[11] Present value of [10] as of 31/12/2009 = $ 45,397

[12] Net effect to Fund of delayed retirement = [9] – [11] – [4] = $ (29,923) decrease in Fund obligation

Age 65 - Retire effective 31/12/2014

[13] FAR = $ 132,564

[14] Normal retirement benefit = $ 71,916

[15] Immediate Annuity value* = 16.962

[16] Retirement liability = [14] x [15] = $ 1,219,839

* Male Participant, female beneficiary three years younger
** Discounted at the nominal valuation interest rate of 7.50% per year

[17] Present value of [16] as of 31/12/2009 = $ 849,689**

Age 60 vs. 65 Comparison

[18] Contributions for 2010-2014 (Participant and Organization) =$ 133,325

[19] Present value of [18] as of 31/12/2009 = $ 110,941

[20] Net effect to Fund of delayed retirement = [17] – [19] – [4] = $ (95,232) decrease in Fund obligation

Example 2 (Normal retirement age 62; 1.5%/1.75%/2% accrual rates)

Participant A is age 62 as of 31 December 2015, 18 years of service with FAR of $100,000. Compare Fund liabilities and contributions income if A retires at Age 62, 63 or 65.

Age 62 - Retire effective 31/12/2015

[1] FAR = $ 100,000

[2] Normal retirement benefit = $ 32,250

[3] Annuity value* = 18.124

[4] Retirement liability = [2] x [3] = $ 584,499

Age 63 - Retire effective 31/12/2016

[5] FAR = $ 105,800

[6] Normal retirement benefit = $ 36,237

[7] Immediate Annuity value* = 17.746

[8] Retirement liability = [6] x [7] = $ 643,062

[9] Present value of [8] as of 31/12/2015 = $ 598,197**

Age 62 vs. 63 Comparison

[10] Contributions for 2016 (Participant and Organization) =$ 23,700

[11] Present value of [10] as of 31/12/2015 = $ 22,858

[12] Net effect to Fund of delayed retirement = [9] – [11] – [4] = $ (9,160) decrease in Fund obligation

Age 65 - Retire effective 31/12/2018

[13] FAR = $ 118,093

[14] Normal retirement benefit = $ 45,171

[15] Immediate Annuity value* = 16.962

[16] Retirement liability = [14] x [15] = $ 766,191

[17] Present value of [16] as of 31/12/2009 = $ 616,754**

Age 62 vs. 65 Comparison

[18] Contributions for 2016-2018 (Participant and Organization) =$ 75,278

[19] Present value of [18] as of 31/12/2015 = $ 67,475

[20] Net effect to Fund of delayed retirement = [17] – [19] – [4] = $ (35,220) decrease in Fund obligation

JSPB/CA/48/R.6 (dated 29 April 2009) presented estimates related to the actuarial savings of increasing the normal retirement age for future participants only. The estimates were based on the data and model used for the actuarial valuation as of 31 December 2007, except for the changes in early retirement assumptions for future participants described in JSPB/CA/48/R.6.

Actuarial savings estimates were presented for four scenarios (1) normal retirement age is increased to 65 with early retirement entitlements beginning from age 55, (2) normal retirement age is increased to 64 with early retirement entitlements beginning from age 55, (3) normal retirement age is increased to 65 with early retirement entitlements beginning from age 58 and (4) normal retirement age is increased to 64 with early retirement entitlements beginning from age 57. A savings range was calculated for each scenario by applying three sets of retirement assumptions ("Current", "40% of Current", "Illustrative" and, in the Scenarios with early retirement entitlements beginning from age 57 or 58, "Modified Illustrative").

In July 2009 the Working group requested further estimates, however, if the Mandatory Age of Separation and the Normal Retirement Age were increased on a mandatory basis to age 65 for all future participants, but also for existing staff on an optional basis. Assumption as to the utilization rate could be if 25 per cent; 50 per cent and 75 per cent of existing staff decided to optionally remain in service with 65 as Normal Retirement Age. So these further estimates presuppose that the Normal Retirement Age has already increased to age 65 for future participants.

For purposes of preparing these further estimates, it was assumed that for future participants Scenario 1 would apply (normal retirement age 65/early retirement entitlements from age 55) and the early and normal retirement rate assumptions for future participants are the "illustrative" rates (shown in Tables 2 and 3 of document JSPB/CA/48/R.6).

The following table (extracted from page 9 of JSPB/CA/48/R.6) shows the estimated decrease in the required contribution rate arising from increasing the normal retirement age to 65 (without any phase-in) for future participants and assuming early retirement entitlements begin from age 55 (Scenario 1) and the early and normal retirement rate assumptions for future participants are the "illustrative" rates.

RETIREMENT ASSUMPTIONS	ESTIMATED DECREASE IN CONTRIBUTION RATE AS PER CENT OF PENSIONABLE REMUNERATION		
	Normal Retirement Age 65 Early Retirement Entitlements Begin From Age 55		
	Future Participants	Current Participants	**All Participants**
Exemple	1.26	0.00	**0.91**

The further cost estimates presented in the Note dated 29 October 2009 reflect the assumption that the change in Normal Retirement Age to age 65 for future participants on a mandatory basis had become effective and also reflect the estimated decrease in contribution rate of 1.26 per cent of pensionable remuneration for future participants and 0.91 per cent of pensionable remuneration for all participants.

The actuarial savings estimates shown in the table on page 8 of the Note dated 29 October 2009 represent the additional savings estimates if the Normal Retirement Age were also increased to age 65 for existing staff but on an optional basis.

To present a more comprehensive overview, the following table shows the estimated decrease in the required contribution rate arising from increasing the Normal Retirement Age to 65 for future participants and the estimated additional actuarial savings if the Normal Retirement Age were also increased to age 65 for existing staff but on an optional basis.

PARTICIPANT GROUP	ESTIMATED DECREASE IN CONTRIBUTION RATE AS PER CENT OF PENSIONABLE REMUNERATION			
	Retirement Age 65 Early Retirement Entitlements Begin From Age 55 [A] Mandatory For Future Participants [B] Optional For Current Participants			
	[A] Scenario1 For Future Participants And Illustrative Retirement Assumptions	[A] Scenario 1 For Future Participants And Illustrative Retirement Assumptions [B] 25% Utilization Rate For Current Participants	**[A] Scenario 1 For Future Participants And Illustrative Retirement Assumptions [B] 50% Utilization Rate For Current Participants**	**[A] Scenario 1 For Future Participants And Illustrative Retirement Assumptions [B] 75% Utilization Rate For Current Participants**
Futurs	1.26	1.26	1.25	1.25
Current	0.00	0.30	0.60	0.89
All	0.91	1.01	1.06	1.11
Estimated additional actuarial savings	**N/A**	**0.10**	**0.15**	**0.20**

4. EARLY RETIREMENT REDUCTION FACTORS

Given the significant actuarial costs of providing for early retirement benefits, the Consulting Actuary was requested to provide actuarial savings estimates for the following:

92. What would be the estimated savings if the early retirement provision were to be eliminated for all future participants?

For purposes of preparing these cost estimates, it was assumed that if the early retirement provision were to be eliminated for all future participants, benefit payments for such participants would commence at age 62 (no election to commence from as early as age 55). Eliminating the early retirement provision for future participants will result in changes to the "retirement" behavior of affected participants (compared to the current early retirement assumptions). It is not possible to assess with any precision the extent to which retirement behavior would be changed. In addition, data on any such changes would only become available after elimination of the early retirement provision had been in effect for many years.

The Consulting Actuary estimated a savings range for eliminating the early retirement provision for future participants. The range was estimated by assuming the following alternative patterns of "retirement" behavior for future participants:

(i) The rates of retirement for future participants is exactly the same as currently assumed for present participants with a normal retirement age of 62. Under this alternative, eliminating the early retirement provision for future participants is assumed to have no effect on the "retirement" behavior of future participants.

(ii) The rates of retirement for future participants is exactly fifty per cent of those currently assumed between ages 55 and 61 for present participants with a normal retirement age of 62. The age 62 retirement rates for men and women were increased from the current assumptions so that the proportion of future participants assumed to continue in active service after age 62 is the same as that for present participants with a normal retirement age of 62. Under this alternative, the increase in normal retirement age is assumed to have a significant effect on the early retirement behavior of future participants.

The cost estimates were calculated based on the data and model used for the 31 December 2007 actuarial valuation (after modification to reflect the effect of changes in commutation factors adopted by the Board in July 2008). The estimated decrease in the required contribution rate arising from eliminating the early retirement provision for future participants is shown below:

RETIREMENT ASSUMPTIONS	*ESTIMATED DECREASE IN CONTRIBUTION RATE AS PER CENT OF PENSIONABLE REMUNERATION*		
	Future Participants	*Current Participants*	**All Participants**
Current	1.22	0.00	**0.92**
50% of Current	1.04	0.00	**0.79**

The long-term effect of eliminating the early retirement provision is indicated by the decrease in the required contribution for future participants. There would be no immediate effect on the closed group contribution rate (current participants only). Under the open group funding method, which takes into account all participants (current and future), the overall contribution required to balance the projected liabilities and assets of the Fund would be reduced.

93. What would be the estimated savings if, for all future participants, the early retirement reduction factor were to be a flat 6.00 per cent per year for each year the separation is less than the current normal retirement age; and if the early retirement reduction factor were to be a flat 5.00 per cent for each year.

Under the present Regulations, a participant who has at least five years of contributory service may elect an early retirement benefit beginning from age 55. For each year or part thereof by which the age of the participant on retirement is less than their normal retirement age, the standard retirement benefit is reduced by 6 per cent; with smaller reductions being applied for participants who complete 25 or more years of contributory service at the date of retirement (but the lower reductions are applicable to no more than five years).

The estimated savings of a flat 6.00 per cent or 5.00 per cent early retirement reduction factor for future participants were calculated based on the data and model used for the 31 December 2007 actuarial valuation (after modification to reflect the effect of changes in commutation factors adopted by the Board in July 2008). The estimated decrease in the required contribution rate arising from applying a flat 6.00 per cent or 5.00 per cent early retirement reduction factor for future participants is shown below:

EARLY RETIREMENT REDUCTION FACTOR	*ESTIMATED DECREASE IN CONTRIBUTION RATE AS PER CENT OF PENSIONABLE REMUNERATION*		
	Future Participants	*Current Participants*	**All Participants**
Flat 6.00 per cent per year	0.46	0.00	**0.34**
Flat 5.00 per cent per year	0.16	0.00	**0.12**

94. **What would be the estimated savings if, for all future participants, the early retirement reduction factor for those with 25 years of service or longer but less than 30 years were increased from 3 per cent to 4 per cent a year for each year the separation is before the normal retirement age; and what would be the estimated savings if the early retirement reduction factor for those with 30 years or more were increased from 1 per cent to 2 per cent a year for each year the separation is before the normal retirement age. Likewise, what would be the savings if these same changes were to be introduced in respect to existing participants for all service as from 1 January 2011. In other words the Fund would apply a composite reduction factor for all subsequent service in the same manner it had done as from 1 January 1985 when these factors were last modified.**

The estimated savings of increasing the early retirement reduction factors, as described in the above paragraph, were calculated based on the data and model used for the 31 December 2007 actuarial valuation (after modification to reflect the effect of changes in commutation factors adopted by the Board in

July 2008).The estimated decrease in the required contribution rate is shown below:

	ESTIMATED DECREASE IN CONTRIBUTION RATE AS PER CENT OF PENSIONABLE REMUNERATION		
EARLY RETIREMENT REDUCTION FACTOR	*Future Participants*	*Current Participants*	**All Participants**
4.00 per cent per year for participants with 25 or more but less than 30 years of service and 2.00 per cent per year for participants with 30 or more years of service.	0.12	0.18	**0.14**

5. DEFINED BENEFIT – DEFINED CONTRIBUTION PLANS

95. As discussed with the Consulting Actuary on 5 May, the Working Group requests the actuarial cost implications if new participants were to be offered the option to join a Defined Contribution plan as an alternative to the existing plan. The assumptions should be that 25 per cent; 50 per cent and 75 per cent of all new participants decide to join the Defined Contribution plan and that the Employer would contribute at a 2:1 ratio to the participants as in the existing UNJSPF. While the Working Group noted there would be immediate costs involved, it would also like to have information in respect to potential long-term savings.

For purposes of this current discussion, a defined contribution plan is a retirement savings arrangement in which an employee's benefits during retirement depend solely on the contributions made to and the investment performance of the assets in his or her account, rather than on the employee's years of service and earnings history.

The structure of a defined contribution plan is usually driven by the provision of any tax relief, regulation of plan design, governance requirements, contribution limits (both employee and employer), investment choices, vesting rules/schedule, payout options at retirement, and many other considerations.

The characteristics and risk/reward of defined contribution and defined benefit plans has been a matter of academic and policy debate for a long period of time, and such issues are outside the scope of this Note.

Investment of the assets and administration of a defined contribution plan are usually outsourced to a third party commercial organization (concern of fiduciary liability for investment decisions plays a key role in how extensively employers are involved in sponsoring defined contribution plans).

If new participants were offered the option to join a defined contribution plan, all contributions, investment earnings and assets related to that defined contribution plan would all belong to those participants. Therefore, the defined contribution plan assets would be separate and apart from those related to the existing defined benefit plan and could not be used to fund the existing plan.

It is very important to note the positive effect of future new participants on the funding requirements of the UNJSPF. The 31 December 2007 actuarial valuation revealed the following contribution rate requirements to attain actuarial balance of the Fund (as a per cent of pensionable remuneration).

CONTRIBUTION RATE REQUIREMENTS

Present Participants	30.80%
Future Participants	20.72%
All Participants	23.21%

Contributions on behalf of future participants at the standard rate of 23.70 per cent of pensionable remuneration (Organization and participant combined) is critical to the overall funding requirements of the Fund. As an extreme example, if the Fund were closed to new participants, the required contribution rate to attain actuarial balance would be 30.80 per cent of pensionable remuneration. Therefore, any reduction in the number of future new participants that would result if they were to join a defined contribution plan, rather than the Fund, will increase the Fund's required contribution rate.

Calculations were made to estimate the actuarial cost implications for the UNJSPF if new participants were to be offered the option to join a defined contribution plan as an alternative to the existing plan. The cost estimates were calculated based on the data and model used for the 31 December 2007 actuarial valuation, after modification to reflect the effect of changes in commutation factors adopted by the Board in July 2008.

The estimated increase in the required contribution if new participants were offered the option to join a defined contribution is shown in the tables on the next page. The estimated cost implications expressed in dollar terms is shown in the second table.

These tables indicate the significant increase in the Fund's required contribution rate if future new participants were to join a defined contribution plan. In dollar terms, the Fund would be in deficit (based on the standard 23.70 per cent contribution rate) for both current participants and all participants (current and future participants) if future new participants were to join a defined contribution plan.

ESTIMATED ACTUARIAL COST IMPLICATIONS OF OFFERING A DEFINED CONTRIBUTION PLAN OPTION TO NEW PARTICIPANTS

PER CENT OF NEW PARTICIPANTS JOIN DEFINED CONTRIBUTION PLAN	ESTIMATED INCREASE I CONTRIBUTION RATE AS PER CENT OF PENSIONABLE REMUNERATION
25.	0.58
50.	1.51
75.	3.24

ESTIMATED ACTUARIAL COST IMPLICATIONS OF OFFERING DEFINED CONTRIBUTION PLAN OPTION TO NEW PARTICIPANTS

ESTIMATES IN DOLLAR AMOUNTS

(all amounts in millions)

% OF NEW PARTICIPANTS JOIN DEFINED CONTRIBUTION PLAN	NONE [a]	25%	50%	75%
ASSETS				
Actuarial asset value[b]	$35,620,4	$35,620,4	$35,620,4	$35,620,4
Present value of future contributions on behalf of:				
Present participants	15,575,1c	15,575,1c	15,575,1c	15,575,1c
Future participants	47,397,2c	35,547,9c	23,698,6c	11,849,3c
Total assets	**$98,592.7**	**$86,743.4**	**$74,894.1**	**$63,044.8**
LIABILITIES[d]				
Present value of benefits payable to or on behalf of retired and deceased participants	$21,893.0	$21,893.0	$21,893.0	$21,893.0
Present value of benefits expected to be paid on behalf of:				
Present participants	$34,224.8	$34,224.8	$34,224.8	$34,224.8
Future participants	41,824.9	31,368.6	20,912.4	10,456.2
Total liabilities	**$97,942.7**	**$87,486.4**	**$77,030.2**	**$66,574.0**
SURPLUS/(DEFICIT)				
Present participants, including present retired and deceased participants	$(4,922.3)	$(4,922.3)	$(4,922.3)	$(4,922.3)
All participants, including future participants	$650.0	$(743.0)	$(2,136.1)	$(3,529.2)

[a] "Regular" 31 December 2007 valuation results after reflecting effect of changes in commutation factors
[b] 5-year moving average method.
[c] Based on a net rate of 23.33 per cent (excludes expenses of 0.37 per cent) of pensionable remuneration.
[d] Includes loadings for two-track pension adjustment system.

If, say, 50 per cent of new participants were to join a defined contribution plan then the Fund's required funding rate, based on the results of the 31 December 2007 actuarial valuation would increase from 23.21 per cent to 24.72 per cent of pensionable remuneration. Of course the total pensionable remuneration would be smaller if new participants were to join a defined contribution plan. So the contributions paid to the Fund would reflect a higher theoretical contribution rate but a smaller level of pensionable remuneration.

Assuming the total contributions (Organization and participant) to a defined contribution plan were set equal to the standard 23.70 per cent, the Organization's contribution to the defined contribution would be set at a fixed rate of 15.80 per cent of pensionable remuneration for those participants who join the defined contribution plan. But the Organization's theoretical required contributions to the Fund would increase form 15.80 per cent to 17.31 per cent of pensionable remuneration for those who are Fund participants (assuming 50 per cent of new employees join the defined contribution plan).

As discussed in the above paragraphs, offering a defined contribution plan to new employees would have a significantly negative effect on the Fund's required contribution rate, at least in the immediate and likely long-term. However if, say, 50 per cent of new employees were to join a defined contribution plan the Fund's projected total liability would decrease from $97,042.7 million to $77,030.2 million (a reduction of $20,012.5 million). So in the very long-term the total funding requirements of the Fund would be lowered if new employees were to join a defined contribution plan.

96. The Working Group also requests a summary of the views by the Consulting Actuary in respect to the below proposal. The summary should provide comments and potential actuarial implications if possible based on the information provided:

> ***Combine the current defined benefit with a defined contribution plan:***
>
> **A combined DB and DC plan on an optional basis for current staff members who wish to convert part of their accrued rights (perhaps up to 50%) into a contribution based plan. For new staff members, a partial DB plan combined with an additional DC plan could be offered. Both should be offered at no additional cost to the organizations, and should be structured in a way that reduces the funding risks of the Fund.**

Although the question uses the term "combined" we assume that there would be a separate defined contribution plan. Under a defined contribution plan the participant assumes the investment risk/reward (unlike a defined benefit plan where the sponsor assumes that risk/reward). So a new defined contribution plan would need to be established and all contributions, investment earnings and assets related to that defined contribution plan would solely belong to those plan participants.[12]

If new staff members are offered a partial DB plan with an additional DC plan, the benefit accrual rates under the Fund for new members would necessarily be less than the current accrual rates. It would be an extremely interesting (and difficult) exercise to determine an "appropriate" balance between the DB and DC plans.

[12] It would be possible to establish a hybrid program which has certain defined contribution plan "like" features. For example, under a cash balance plan participants have an individual account balance (notional) and the sponsor makes contributions to those accounts and credits interest earnings. The cash balance plan sponsor assumes the investment risk/reward so that a participant's account balance value will not decrease. Because a cash balance plan is a defined benefit plan, it can be combined with a traditional defined benefit plan and all the contributions, assets, etc. would be available to fund the combined plan.

For purposes of this discussion, suppose the benefit accrual rates under the Fund for new participants are 50 per cent of those currently applicable to participants who join on or after 1 January 1983. Suppose further that the "balance" exercise results in a split of the standard contribution between the Fund and the DC plans. So 11.85 per cent of pensionable remuneration would be contributed to each of the DB and DC plans.

From the Fund's perspective, such a split of accrual rates and contributions would be practically equivalent to the scenario discussed in paragraph 11, where 50 per cent of new employees join a defined contribution plan. So the UNJSPF's contribution rate requirements to attain actuarial balance of the Fund would increase significantly (estimated increase of 1.51 per cent of pensionable remuneration).

If current staff members were offered the option of converting part of their accrued benefits into a DC plan, the meaning of "accrued rights" would need to be determined. For example, a participant with 8 years of contributory service would have a total accumulation of 12.75 per cent of their current FAR. If the participant continues in active service their benefit related to those 8 years of service will increase as FAR increases. And when the participant retires they will expect periodic cost of living adjustments (COLAs) to their pension. Should FAR increases and COLAs be considered as accrued rights for purposes of determining the lump sum conversion value if the participant elects to convert part of their accrued rights into a DC plan? If the answer is yes, (i) what assumptions should be used to project FAR increases and COLAs, (ii) how many years should FAR increases be projected (to first early retirement age, normal retirement age or some other period) and (iii) if the participant terminates before the projection period the calculated conversion value would be too generous? If the answer is no, would the conversion value be "fair" to the participant who elects to convert part of their Fund benefit to a DC plan relative to a similarly situated participant who did not make such an election?

Any conversion of accrued rights under a defined benefit plan into a contribution based plan raises many issues/questions, some of which would include:

(A) What mortality assumptions should be used

(B) Should turnover/retirement be reflected in the calculation

(C) Should conversion value be different if married/single

(D) Should conversion value be different if male/female

(E) How should antiselection risk be addressed

Another important issue is the interest rate assumption used to determine the conversion values. Currently the Fund assumes a real return assumption of 3.5 per cent. Some participants may feel that such a level of return is unachievable under the DC plan. But if the Fund calculates conversion values based on an interest rate lower than 3.5 per cent real, it will lose a portion of the expected investment return.

Would the commutation factors be an upper bound for the conversion value factors?

If current staff members could convert part of their accrued rights into a contribution based plan, there could be a significant amount of moneys transferred from the Fund to the DC plan, particularly when the option is first offered. Depending on the timing and if the Fund needs to sell stocks/bonds to cover the amounts transferred, the Fund could realize investment losses.

And, of course, such an option would greatly increase the administrative burden.

In summary, the proposal to combine the current defined benefit plan with a new defined contribution plan poses many challenges for both participants and the Fund, only some of which are addressed in the above paragraphs.

6. EXPAND DEADLINE FOR OPTING FOR VALIDATION

97. The Working Group also sought the views of the Consulting Actuary on the viability of increasing the one year deadline for opting for validation from one year to three years.

At its fifty-first session in July 2002, the Pension Board requested the Secretary/CEO to undertake a study of the provisions in the Fund's Regulations on validation, restoration and leave without pay, in order to provide consistency with respect to the time limit for making such elections, and on the elimination of the one-year time limit for electing to validate or restore prior service. The study was to determine resource requirements and be presented to the Standing Committee, together with observations thereon of the Committee of Actuaries.

In considering these matters at its June 2003 meeting, the Committee of Actuaries had before it a note prepared by the Consulting Actuary (JSPB/CA/42/R.8). The Committee noted there would be actuarial costs associated with the elimination of the one-year time limit for electing to validate or restore prior service. It also took the view that these costs ought to be borne in full by the Fund participant concerned. However, it was noted that difficulties would be encountered in ensuring that those actuarial costs would be fully born by participants so that no cost would fall on the Fund. The Committee of Actuaries noted that, in fact, the existing period of one year for making such elections was already unusually long. Based on its analysis of the issue, the Committee felt unable to support a recommendation that would provide for the elimination of the current one-year time limit for electing validation or restoration of prior service.

7. TWO-TRACK ADJUSTMENT FEATURE

98. Given the recent movements in exchange rates since the Consulting Actuary presented its note to the Board (JSPB/55/R.39/Add.2) on the estimated costs of addressing the impact of currency fluctuations on UNJSPF pension benefits, could you confirm whether the estimated additional costs of providing for a 120 month average exchange rate in the establishment of the local currency track amount would still be valid today. It should be recalled that the estimated additional actuarial cost for this change in the provisions of the Pension Adjustment System was given at 0.67 per cent of pensionable remuneration.

The cost estimates presented in JSPB/55/R.39/Add.2 were based on a twenty-year history of monthly currency conversion rates (obtained from unjspf.org), between June 1998 and May 2008. For purposes of this costing exercise, the historical data was updated to reflect the twenty-year period ending December 2009.

Applying the same model described in the Appendix of JSPB/55/R.39/Add.2 and the updated currency exchange history, produces the following estimates of the ranges of costs of providing for a 120 month average exchange rate in the establishment of the local currency track amount:

Cost As Percent of Pensionable Remuneration

Currency Exchange Modeled	Range of costs	Average of range	Additional cost vs. current design
36 Month Average (Current)	1.65% - 2.26%	1.96%	--
120 Month Average	1.97% - 3.20%	2.59%	0.63%

99. **What would be the estimated savings if the Fund were to reduce the cap on the US dollar track from 110 per cent to 100 per cent. In other words there would be no more opportunity to gain from a strong US dollar and once a beneficiary selected the local track, there would no longer be a comparative feature.**

The estimated savings if the Fund were to reduce the cap from 110 per cent to 100 per cent for all future retirees was determined by applying two methodologies.

- The Appendix of JSPB/CA/48/R.7 reviewed an actuarial model for estimating the long-term cost of the two-track system. That model was adjusted to reflect an assumed 100 per cent cap for future separations.
- Benefit payments to retirees and beneficiaries is reported by the Fund for each year since 1990, including payments under the two-track option. That data is used to monitor the emerging costs of the two-track

adjustment system and to also provide an assessment of the savings from reduction of the cap from 120 per cent to 110 per cent (effective for separations on 1 July 1995 or later). That data was used to estimate the savings if the cap is reduced to 100 per cent for future separations.

Based on the actuarial model, the estimated savings if the cap is reduced to 100 per cent range from 0.20 per cent to 0.50 per cent of pensionable remuneration, with the higher savings reflecting a reduction in utilization rate from 35 per cent to 25 per cent.

Applying the actual two-track data, the estimated savings if the cap is reduced to 100 per cent range from 0.15 per cent to 0.20 per cent of pensionable remuneration, which estimate does not reflect any reduction in utilization rate.

Based on these results, the actual savings if the Fund were to reduce the cap to 100 per cent will depend on the effect of such a change on the utilization rate of the two-track option. Reducing the cap to 100 per cent would decrease the potential value of the two-track system for future separations. But using the average exchange rate for the 36 consecutive months up to and including the month of separation when deriving the retiree's dollar pension amount establishes the value of the two-track system at the retiree's date of separation. Therefore, reducing the cap to 100 per cent may not materially change the utilization rate of future separations.

100. The Working Group decided that given the time constraints and the fact that it would not have the results of the actuarial valuation as at 31 Dec 2009 until June 2010, that it would be more practical to present its report to the Committee of Actuaries and then to incorporate the Committee of Actuaries views thereon in full, in a separate section in the final report of the Working Group.

XI. Views expressed during 56th session of the Board in 2009

101. As noted earlier, the Working Group was also requested to present a progress report to the Board during its 56th session in 2009. The Rapporteur of the Working Group introduced the interim progress report (JSPB/56/R.20), which updated the Board as to the work of the Group.

An extract from the Board's report, reflecting its views on the Working Group's progress report, is provided below:

- "There was also an extensive exchange of views as to what should be included in the final report. It was noted that the Group should put forth concrete proposals that would be based on technical analysis rather than on broad statements of opinion. It was also recognized that the review being carried out in respect to the plan design of the Fund was a work in progress. Although many views were expressed concerning the need to focus on the normal retirement age provision, there was also a wide range of other issues that should be considered as well. The Board therefore agreed that there would be no reason to focus on one particular issue. It was noted that the Working Group had discussed the possibility of considering the impact of currency fluctuations on UNJSPF benefits, however, as the Board was currently considering the issue, the Group had decided to await the conclusion of the Board on the matter. It was also pointed out that the Working Group should take into account the emerging trends and changes in the personnel policies of the member organizations.

- FAFICS provided the Group with a list of its priorities, namely that: (i) the defined benefit nature of the Fund should be maintained; (ii) the normal retirement age should be extended to age 65; (iii) the accumulation rate should revert to 2 percent a year; (iv) full withdrawal settlement provision should provide for enhanced benefits for those separating with less than five years; (v) benefits for family members should be enhanced; and (vi) the 0.5 per cent reduction in the first CPI adjustment due after retirement should be eliminated. It was noted that increasing the normal retirement age should not only be looked at in terms of the positive financial impact, but consideration should also be given to increasing the age, believing that employees should have the right to go on working to any age as long as they are capable of doing the job well.
- Given the impact that increasing longevity will have on the financial situation of the Fund, the Group would need to consider the emerging trends in personnel policies further and possibly in conjunction with the normal retirement age provisions. It was stressed, however, that such issues would require close consultations with ICSC and the HLCM.
- Several members of the Board recommended that the Working Group should take into account the recent developments identified in its progress report. The Working Group should also aim to provide specific recommendations that would be most relevant to the Board over the next several years, especially given such developments and the emerging trends in the personnel policies of the organizations.
- **Given the wide range of issues that were to be addressed, the short time frame between when the results of the next actuarial valuation would be known, the next meeting of the Committee of Actuaries and the 57th session of the Board, consideration was given to extending the mandate of the Working Group until July 2011. However, following an extensive discussion of the progress report, the Board decided that the Working Group should present its final report in July 2010. If during that meeting, the Board decides that further work is required it could reconsider extending the mandate of the Group at that time. "**

XII. Measures considered subsequent to 56th Session of the Board

A. Accumulation rates

102. Following its extensive exchange of views regarding the accumulation rate during its second meeting in May 2009, the Group agreed that the accumulation rate was one of the most significant factors used in determining a periodic benefit from the Fund. It had recalled the principles recommended by the Committee of Actuaries concerning the need to provide for intergenerational equity among the participants of the Fund and agreed that the Fund had digressed from this principle when it adopted lower accumulation rates for new participants entering the Fund on or after 1 January 1983. The Group recognized the high estimated actuarial cost for reversion of the 1983 economy measure, which had been estimated at 2.16 per cent of pensionable remuneration if it were to be applied to both existing and future active participants. It was of the view, however, that should the funds be available, it would recommend reversion of the 1983 economy measure so that all existing and future participants would benefit from a 2.0 per cent accumulation rate for their first 30 years of contributory service. The Group noted that should this be the case, further consideration should also be given to revising the accumulation rate for those who had already retired but who had had the lower accumulation rate applied in the determination of their benefits. In this connection, the Group recalled that the estimated cost (2.16 per cent of pensionable remuneration) of reversion of the 2.00 per cent accumulation rate did not include those already in receipt of a periodic benefit. It noted that should it decide to pursue extending this measure to the broader population, there would be additional costs and further costing exercises would be required. Recognizing that the Fund would not have an adequate level of surplus in the near future for a full reversion of the accumulation rate, the Group decided to explore several variations that would be aimed at reversing the relevant 1983 economy measure in increments. The Group also agreed to give further consideration to the possibility of regressive rates of accumulation so that the more favourable rates would be credited during the earlier years of service.

103. The Working Group requested the Consulting Actuary to provide comments and actuarial cost/savings estimates in respect to the various rates under consideration for both partially reverting the 1983 economy measures and for regressive rates. This information is provided in section X part B of this report. It was noted that should the Fund modify its accumulation rates so that a 1.75 per cent rate would be applied for the first 10 years to all currently serving staff who joined after 1983 and to all future participants who were yet to join the Fund, and then the regular 2.00 per cent accumulation rate thereafter, the estimated actuarial cost would be 0.57 per cent of pensionable remuneration. The Group also explored the possibility of revising the accumulation rate downward, if in the event the Fund might need to find savings. In this connection, it requested the Consulting Actuary to provide the estimated

savings if, for all future participants, the accumulation rate were to be 1.75 per cent for each year for one's entire career. The Consulting Actuary noted that the estimated actuarial savings under this scenario would be about 0.31 per cent of pensionable remuneration.

104. In addition to the modifications that would increase the accumulation rate at an additional cost to the Fund, and other modifications that could yield savings, the Working Group also explored the possibility of regressive rates of accumulation, which would be intended to provide greater accumulation rates during the early years of one's career and then lower rates towards the later years. The Group recognized that this could be designed in such a way so as to not involve additional actuarial costs. As part of a paper prepared on this subject, the Consulting Actuary noted that if the Fund wished to apply 2.00 per cent for the first 5 years of contributory service, then based on the data and model used for the 31 December 2007 actuarial valuation, the accumulation rate applicable to service in excess of 5 years would be 1.775 per cent of pensionable remuneration should the Fund wish to incur no additional costs. If the Fund were to adopt such regressive rates of accumulation, using a 2.0 per cent accumulation rate for the first 5 years and then 1.775 per cent thereafter for new participants only, then the new participants would have a total benefit accumulation rate larger than that provided for by the current accrual rates (i.e. 1.5 per cent / 1.75 per cent / 2.0 per cent) for periods of contributory service less than 21.66 years. However, for periods of contributory service greater than 21.666 years the total benefit accumulation would be smaller than that provided for by the 1.5 per cent / 1.75 per cent / 2.0 per cent accrual rates.

105. While many members of the Group were of the view that if changes were to be made it should be in the direction of a full reversion to the pre-1983 rates, the Group agreed that most scenarios envisaged would result in the addition of a new tier of participants, which was something the Working Group aimed to avoid. In addition, any change in the accumulation rate for existing participants would need to be done in such a way so as to protect acquired rights; especially for those who had already served ten years or more and who were therefore currently accumulating 2.0 per cent per year. The Group further noted that if the intention were solely to provide more equitable benefits for shorter-term staff, as some members of the Group preferred, it might be more appropriate to focus on the possibility of a reduced vesting schedule and/or further enhancements in the withdrawal settlement provisions (i.e. as addressed in the following paragraphs). It was in this connection that the Working Group recalled its terms of reference, where the Board had requested it to continue to consider issues aimed at enhancing the mobility of staff and the portability of pensions through a possible reduction in the minimum period to qualify for a periodic benefit and/or through possible enhancements in the amount payable for full withdrawal settlements.

106. Following its extensive consideration of the accumulation rates the Working Group agreed that this issue must be one area in the plan design of the Fund where the Board should continue to focus its attention, with a view towards finding a more equitable arrangement. **The Working Group recalls and associates itself with the conclusions of the 2002 Working Group relative to the accumulation rate that in the event of a sustained improvement in the actuarial situation of the Fund, the Board should consider restoration of the contributory service accumulation rate back to 2 per cent. The issue was debated extensively by the 2008 Working Group. Aware that the full reversion of a 2 per cent accumulation rate, desirable as it may be, carried a significant cost, the Working Group explored several approaches aimed at mitigating the inter-generational inequities resulting from the current practice and also aimed at improving the situation of participants separating from the Fund after a short period of employment. The Working Group examined several scenarios, which would progressively move accumulation rates closer to 2 per cent per year of contributory service.**

107. The Working Group discussed the accumulation rates mindful of its terms of reference, which stipulate inter alia, that the Working Group should "examine the remaining economy measures adopted since 1983 but not yet addressed..." There was general agreement in the Working Group that the adoption of lower rates of accumulation in 1982 as part of the economy measures to improve the actuarial imbalance of the Fund was a severe measure which not only affected future generations of participants but also digressed from the principle of intra-and inter-generational equity among the participants of the Fund. The Group therefore agreed to consider the possibility of changing the current accumulation rates. The various options considered by the Group are summarized below in tabular form reflecting both the estimated costs\savings and the different ensuing total benefit accumulation rates for

While the above cost/saving estimates for the proposals are very important, equally important is to consider what would be the effect of the proposed accumulation rates on the initial pension level. The following table shows what the pension level after 10, 15, 20, 25 and 30 years of service would be applying the proposed accumulation rates.

Total accumulation rates under various scenarios

	Pension level as percentage of FAR				
	Years of service				
Proposal	*10*	*15*	*20*	*25*	*30*
Current accumulation rates (1.5/1.75/2.0)	**16.25**	**26.25**	**36.25**	**46.25**	**56.25**
2.0 per cent for all years 20.00 30.00 40.00 50.00 60.00 of service up to 30 years (pre-1983 rate)	20.00	30.00	40.00	50.00	60.00
1,75 per cent for the first 10 years, then 2.0 per cent	17.50	27.50	37.50	47.50	57.50
2.0 per cent for the first five years and then 1.775 per cent	18.88	27.75	36.63	45.50	54.38
1.75 per cent for all years	17.50	26.25	35.00	43.75	52.50

Following its extensive consideration of the accumulation rates, the Working Group agreed that this issue must be one area in the plan design of the Fund where the Board should continue to focus its attention, with a view towards finding a more equitable arrangement.

B. Reduced vesting period and enhanced withdrawal settlements

108. In preliminary discussions of the measures considered since 2000, the Working Group had recalled that its terms of reference also requested that it consider issues aimed at enhancing the mobility of staff and the portability of pensions through a possible reduction in the minimum vesting period to qualify for a periodic benefit and through possible enhancements in the amount payable for withdrawal settlements. Following its first round of discussions on these issues, the Group agreed to consider further and assess more carefully the merits of both shorter vesting periods and enhancing the amounts payable under the withdrawal settlement provisions provided for under article 31 of the Regulations of the Fund.

109. In this connection and following the 56th session of the Board, the Working Group decided to examine more closely specific data on the average contributory service in years, by year of separation from 1995 to 2008. The Group analyzed the data provided in annex XIV, on the average contributory service in respect to withdrawal settlements, periodic benefits and withdrawal settlements combined with periodic benefits. The Group also reviewed the average contributory service for those who opted for deferred retirement benefits, early retirement benefits and full retirement benefits separately and combined. The Working Group concluded that there was no discernable trend towards shorter averages in the participants overall contributory service. In addition to the detailed analysis provided in annex XIV, the Group also reviewed information covering the period 1980 to 2007 that had been provided in the actuarial valuations carried out by the Consulting Actuary. This information, which is provided in annex XV, demonstrates similar findings.

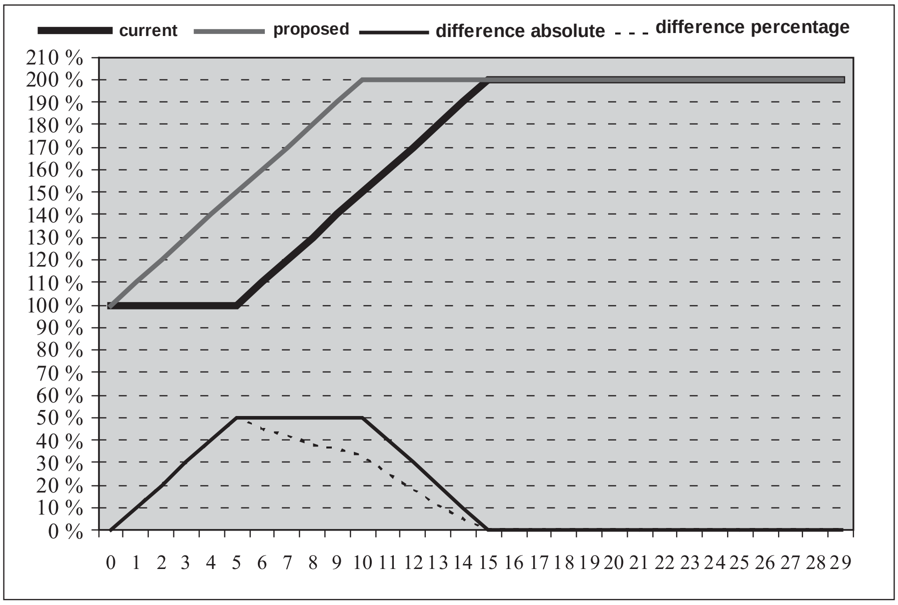
110. Although there has been an increase in the number of shorter-term contracts, there was no emerging trend towards shorter-term overall careers.

The data provided in annexes XIV and XV appear to confirm what the previous Working Group had referred to as "rosaries" of successive short-term contracts. The Group had given serious consideration to providing more favourable benefits for the short-term staff by reducing the five year vesting period. A summary of its initial discussions on the matter is included in section IX of this report. Based on its findings, however, the Group decided that although shorter vesting periods would be desirable, this issue should not be its immediate focus. In addition to the findings based on its statistical analysis, the Group also recalled the comments made in respect to the possibility of shorter vesting periods by the Committee of Actuaries, as well as the Group's earlier discussion on the matter. The Group recalled that if the Fund were to accept shorter vesting periods at this stage, then the cost of the 2002 recommendation to adjust deferred benefits for cost of living increases as from age 50 would increase. Addressing the reduced vesting issue first could therefore have an inadvertent and adverse effect on the measure that the Board had requested the Group to consider as a priority issue. In addition the Group recognized that the 2002 recommendation, for the adjustment of deferred benefits from an earlier age, would provide a better opportunity to those with five or more years of contributory service to maintain money in a pension vehicle as from their date of separation. This measure would therefore, effectively, better address the Board's request to consider issues aimed at enhancing the portability of pensions, since if this measure were to be implemented the entitlement to a lifetime annuity (with survivor benefits) would be maintained in significantly more instances. After its further consideration of this issue, the Group decided therefore not to focus at this time on shorter vesting periods. The Group recognized, however, that although there was no discernable downward trend in the average number of years of contributory service, there were nevertheless many participants who were in fact serving for less than 5 years and that this group should not be forgotten.

111. Instead of introducing shorter vesting periods as a possible means to improve the benefit package for short-term staff, the Group decided to give further consideration to enhancing the withdrawal settlement provision for participants with less than 5 years of contributory service (which would also improve the amounts payable for those serving for up to 15 years). The Group recalled its initial discussions on this issue as reflected in section IX of this report and the subsequent actuarial cost estimates provided by the Consulting Actuary and included in section X. The Group also considered a note (attached as annex XVI) by the representatives of FAFICS on other changes that would enhance the withdrawal settlement provision for short-term staff through greater use of the principles applied in transfer agreements. That note, in order to enhance the portability of pensions, considers the possibility of providing enhanced withdrawal settlements solely to those former participants who use their withdrawal settlement to purchase (or transfer) pensionable service in another qualified plan. The rationale behind this proposal would be that the purpose of increasing the amount payable for withdrawal settlements is to prevent,

or at least reduce, the portability losses for the short-term staff who wish to purchase (or to transfer) pension rights to another pension plan. Although the Group recognized the merits of this idea, especially as it would encourage former staff members to maintain their pension money in a retirement vehicle, it was unable to support such an approach. The Working Group recalled the multinational status of the member organizations and the fact that many former participants would not have the opportunity to transfer their money to a qualified retirement vehicle. In addition to the inequities that this would create, the Working Group also recognized the administrative complexities that this would add, especially at a time when the Board had requested the Working Group to carry out its work mindful of the principles recommended by the Committee of Actuaries; most notably the need for simplicity of administration and reduction of risks. More specifically, should the Fund provide for enhanced withdrawal settlements under this scenario, it would be required to ascertain that the monies it paid out were actually transferred to qualified retirement plans in any of the some 190 countries where the Fund pays benefits.

112. The Working Group nevertheless agreed that enhanced withdrawal settlements for participants with less than five years of contributory service (which would also improve the amounts payable for those serving for up to 15 years) should continue to be considered as a priority. The results of the modification in the withdrawal settlement provision, as costed by the Consulting Actuary and summarized in paragraph 85 above, would be as reflected below:



	Withdrawal settlements			
	current	*proposed*	*difference absolute*	*difference percentage*
0	100%	100%	0%	0%
1	100%	110%	10%	10%
2	100%	120%	20%	20%
3	100%	130%	30%	30%
4	100%	140%	40%	40%
5	100%	150%	50%	50%
6	110%	160%	50%	45%
7	120%	170%	50%	42%
8	130%	180%	50%	38%
9	140%	190%	50%	36%
10	150%	200%	50%	33%
11	160%	200%	40%	25%
12	170%	200%	30%	18%
13	180%	200%	20%	11%
14	190%	200%	10%	5%
15	200%	200%	0%	0%
16	200%	200%	0%	0%
17	200%	200%	0%	0%
18	200%	200%	0%	0%
19	200%	200%	0%	0%
20	200%	200%	0%	0%
21	200%	200%	0%	0%
22	200%	200%	0%	0%
23	200%	200%	0%	0%
24	200%	200%	0%	0%
25	200%	200%	0%	0%
26	200%	200%	0%	0%
27	200%	200%	0%	0%
28	200%	200%	0%	0%
29	200%	200%	0%	0%

113. It decided therefore to review more carefully the various proposals for withdrawal settlements that have been considered since 2000 and the most recent formulas it had referred to the Consulting Actuary for actuarial cost estimates. Following this further review, **the Group decided to propose that the withdrawal settlement provision under article 31 be amended to provide for additional 10 per cent increments as from the completion of one year of contributory service rather than the existing five year requirement.** Under this arrangement, the 10 per cent increments would be in addition to the provision for 3.25 per cent interest. The new schedule would be applicable in respect to both current and future participants for a maximum of 10 years (i.e. 200 per cent of the participant's own contributions after 10 years). **As calculated by the Consulting Actuary in 2009, the estimated actuarial cost of changing the increment schedule in accordance with this arrangement is 0.12 per cent of pensionable remuneration.**

C. 2002 recommendations

114. In establishing the Working Group, the Board mandated in its terms of reference that the balance of the 2002 recommendations, already approved in principle by the General Assembly, should continue to be considered as priority issues. In its preliminary consideration of the matter, as reflected in section IX of this report, the Group noted it would focus on: (i) the cost-of-living adjustments applicable for deferred retirement benefits as from age 50, and (ii) the elimination of the 0.5 per cent reduction in the first adjustment due after retirement. The Working Group recalled the discussions that the previous Working Group on plan design had had on these two issues and agreed that the points made in 2002 would still be valid today.

Cost-of-living adjustments for deferred retirement benefits as from age 50

115. The recommendation to provide for cost-of living adjustments for deferred retirement benefits as from an earlier age was initially discussed during the Board's session in 2000. At that time, it was recalled that the Committee of Actuaries had previously reviewed the possibility of providing for cost-of-living adjustments for deferred pensions as from the date of separation, as had been the case prior to the 1983 economy measure. The Committee agreed at that time that this measure might be given favourable consideration. In addition, the Working Group, which had been established by the Board in 2000 to consider possible reversion of a number of the 1980s economy measures, concurred with the Board that this measure (along with the other measures considered at that time) would help redress those economy measures that had made the United Nations pension system less attractive.

116. As part of its reply to the 2000 Working Group on the matter, the Consulting Actuary had recalled that commencing in 1983, the cost-of-living adjustments for deferred benefits was changed to begin at age 50; a change was also made at that time to semi-annual adjustments of pensions rather than quarterly, with a 5 per cent trigger. These two measures led to estimated savings of 0.97 per cent of pensionable remuneration. Starting in 1990, the cost-of-living adjustment for deferred benefits was changed to begin as from age 55, yielding further estimated savings of 0.91 per cent of pensionable remuneration.

117. The Consulting Actuary had been requested to also prepare estimates of the actuarial costs of reversing the above limitations on cost-of-living adjustments to future deferred benefits and to benefits which were already in the deferral period. Those estimates took into account a change in the actuarial model to reflect the estimated proportions of participants, by age, electing deferred pensions as against withdrawal settlements. The actuarial model, as revised, was applied to the data used in the actuarial valuation as of 31 December 1997 to produce an estimated cost of 0.65 per cent of pension-

able remuneration to change the effective age of cost-of-living adjustment from age 55 to age at separation. To take into account the effect of removing the partial commutation option for deferred benefits and the change in tabular rates of withdrawal for General Service Staff, adopted for purposes of the actuarial valuation as of 31 December 1999, the Consulting Actuary updated the estimated actuarial cost. The actuarial model, revised as described above, was applied to the data and assumptions used for the actuarial valuation as of 31 December 1999. Based on the methodologies applied and the assumptions made at that time, the estimated cost of changing the commencement date for cost-of-living adjustments of deferred pensions from age 55 to age at separation was 0.74 per cent of pensionable remuneration. Also at that time, the estimated cost of changing the commencement date to age 45 had been calculated to be 0.48 per cent of pensionable remuneration.

118. It had been recognized that the group of participants impacted by the 1983 economy measure, to delay cost-of-living adjustments for deferred benefits, had been particularly and adversely affected. In fact, the 2000 Working Group noted that reversal of the measure "would make the UN pension system more attractive for the shorter-term, task oriented type of personnel" which it had cited in its report as being an important population group. The favourable surplus that had been revealed in the 1999 valuation (i.e. 4.25 per cent of pensionable remuneration), however, had declined to 2.92 per cent of pensionable remuneration as of the 2001 valuation. Moreover, at the time of the 2002 meeting of the Board, serious concerns were being raised as to the declining value in the assets of the Fund.

119. Given the circumstances, the Board decided to recommend that the General Assembly approve cost-of-living adjustments, which would be applied to deferred retirement benefits as from age 50, instead of as from age 45, as had been recommended by the 2000 Working Group. In its 2002 report (A/57/9), the Board noted that this measure, along with its other recommendations that year, "further promoted the human resources framework adopted by ICSC and the Assembly. In particular, the measures would serve to enhance the mobility of staff and the portability of pensions". This measure was subsequently approved, in principle, by the General Assembly in its 2002 resolution (A/57/286), "with implementation to begin at such time as the actuarial valuation of the Fund shows a clear upward pattern of surpluses".

120. Based on its review of the earlier findings in respect to this measure and on its further consideration of the issue, and taking into account the Board's request that it be considered as a priority issue, **the Group decided it would reiterate, as a priority, the recommendation that had already been approved in principle by the General Assembly, that cost-of-living adjustments be applied to deferred retirement benefits as from age 50. Although the cost estimate may need to be reviewed again by the Consulting Actuary, the estimated**

actuarial cost of this modification was calculated in 2002 to be 0.36 per cent of pensionable remuneration.

Elimination of the 0.5 per cent reduction in first adjustment due after retirement

121. The proposal to eliminate the reduction in the first cost-of-living adjustment due after retirement was discussed, during the 2002 session of the Board, on the basis of the report of the 2000 Working Group. That previous Working Group had also considered the specific economy measures and related provisions, which had impacted solely on the retirees and other beneficiaries. It noted that the decision to reduce the threshold for effecting cost-of-living adjustments from 3 per cent to 2 per cent had not gone far enough to address the fact that the beneficiaries had assumed a significant share of the past economy measures. Key among the measures affecting this group were the reduction in the first cost-of-living adjustment by 1.5 per cent, a mechanism which had a compounding effect. Other changes that had also been considered in this regard were the payment in arrears of new periodic benefits; and the change from quarterly, to semi-annual and then to annual adjustments of pensions in award.

122. With effect from 1 January 1985 the Pension Adjustment System was modified to provide for a 1.5 per cent initial reduction in the first cost-of-living adjustment that became due for all beneficiaries. This measure had a direct and adverse impact on the pension benefit in relation to the last years of salary. The 2000 Working Group had agreed that upon retirement, beneficiaries should be able to count on a pension that, in line with the concept of income replacement, provides a standard of living compatible with that enjoyed in the last years of service. It recognized that the reversal of this measure would involve two population groups for costing purposes. It was agreed that to be equitable, the elimination of the 1.5 per cent reduction due in the first CPI should apply to existing, as well as future, beneficiaries.

123. The estimated cost of prospectively eliminating the 1.5 per cent initial reduction in adjustment for pensions in award was estimated by the Consulting Actuary in 2002 to be 0.35 per cent of pensionable remuneration. Calculations had also been made to estimate the actuarial cost of increasing the pensions of beneficiaries who had been already affected by this earlier economy measure. In other words, there would be a pension increase for such existing beneficiaries that would equal 1.5 per cent. The Consulting Actuary estimated the cost at that time of the 1.5 per cent increase in respect to existing beneficiaries at 0.11 per cent of pensionable remuneration. The total estimated actuarial cost of this recommendation, applicable to both existing and prospective beneficiaries, would therefore be set at 0.46 per cent of pensionable remuneration.

124. In 2002, the Board recommended, and the General Assembly approved in principle, a number of measures that would serve to enhance the mobility of staff and the portability of pensions. In addition, the Board also recommended the elimination of the 1.5 percentage point reduction in the first adjustment based on the consumer price index due to existing and future beneficiaries, with the understanding that the implementation of this modification would be subject to a surplus being revealed in the next actuarial valuation, to be performed as at 31 December 2003.

125. The Board considered the results of the actuarial valuation performed as at 31 December 2003, during its session in 2004. That valuation revealed a surplus of 1.14 per cent of pensionable remuneration, which although it was the Fund's fourth consecutive surplus, it was notably lower than the 2.92 per cent surplus revealed in the previous valuation. The Board noted in 2004 that the Committee of Actuaries had cautioned a "prudent approach" in any use of the 1.14 per cent surplus. At its session in 2004, the Board reconsidered its 2002 recommendations in light of the reduced surplus. It was on this basis that the Board decided to recommend a phased approach to the elimination of the 1.5 per cent reduction in the first consumer price index (CPI) adjustments due after retirement. As a first step, it recommended to the General Assembly that the reduction rate be reduced from 1.5 per cent to 1 per cent, with effect as from 1 April 2005. The Board noted in its report that this modification would have an estimated actuarial cost of 0.15 per cent of pensionable remuneration.

126. In its 2004 resolution (A/59/269) the General Assembly approved, with effect from 1 April 2005, the phased approach in the elimination of the 1.5 per cent reduction in the first CPI adjustment due after retirement. **Also reflected in that same resolution, the Assembly decided not to consider any further proposals to enhance or improve pension benefits until action was taken on the issues contained in its 2002 resolution (A/57/286).**

127. In 2006, the Board again considered its 2002 recommendations in light of the actuarial valuation performed as at 31 December 2005. That valuation revealed a surplus of 1.29 per cent of pensionable remuneration. This surplus was slightly higher than the previous result and it represented the Fund's fifth consecutive surplus. The Board recalled its decision in 2004 when it agreed to address, in 2006, the possible total elimination of the balance of the 1.5 per cent reduction.

128. Based on the results of the latest actuarial valuation, and the fact that the Fund was experiencing its fifth consecutive surplus, the Board decided to recommend, and the Assembly approved (A/61/240) that the reduction in the first consumer price index adjustments due under the pension adjustment system be lowered from 1.0 per cent to 0.5 per cent. This measure (at an estimated actuarial cost of 0.15 per cent of pensionable remuneration), together with the Assembly's formal approval of the 2002 recommendation to eliminate the limitation on the right to restoration based on length of prior service (at an

estimated actuarial cost of 0.17 per cent of pensionable remuneration) would have a total combined cost of 0.32 per cent of pensionable remuneration. It was noted that given the surplus as at 31 December 2005 was 1.29 per cent, the approval of these two measures would retain an estimated surplus of 0.97 per cent of pensionable remuneration. The Board agreed that this would be an acceptable level.

129. Based on its review of the earlier findings in respect to the reduction in the first adjustment due after retirement and on its further consideration of the issue, and taking into account the Board's request that it be considered as a priority issue, the Group decided it would recommend implementation of the final phase in the elimination of the balance of the 1.5 per cent reduction. As concluded in the earlier review, the Working Group agreed that upon retirement, beneficiaries should be able to count on a pension that, in line with the concept of income replacement, provides a standard of living compatible with that enjoyed in the last years of service. **The Group therefore agreed to propose, as a priority, that the Board should recommend the removal of the remaining 0.5 per cent reduction in the first consumer price index adjustment due after retirement. Although the cost estimate may need to be reviewed again by the Consulting Actuary, the Working Group recalled that the total elimination of the 1.5 per cent reduction was initially estimated in 2002 at an actuarial cost of 0.46 per cent of pensionable remuneration. With respect to each of the first two phases, the Board assumed an actuarial cost of 0.15 per cent of pensionable remuneration. As in the case of the cost estimate for the adjustment of deferred retirement benefits as from age 50, it was recognized that this estimate may need to be reconfirmed as well.**

D. Increase in the Normal Retirement Age

130. In the context of its assessment of the major developments that need to be taken into account in defining the future needs of the Fund, the Working Group recognized the improved longevity in life expectancy of individuals covered by the Fund and the consequent and adverse impact this had on the results of the actuarial valuation carried out as of 31 December 2007. In fact, the adoption of the 2007 mortality tables and the strengthening of the forecast longevity improvements increased the required contribution rate as a percent of pensionable remuneration by 1.82 percentage points. In addition, after accounting for the revised lump sum commutation factors that were to take effect as from 1 January 2009 in order to incorporate the improved mortality rates, there would be an additional estimated increase in the required contribution rate of 0.25 per cent of pensionable remuneration. **In other words, when the improved mortality rates being experienced by the Fund participants and beneficiaries were fully reflected there would**

be an estimated net increase in the required contribution rate of over 2.00 per cent of pensionable remuneration.

131. It was with this in mind that the Working Group discussed the issue of increasing the normal retirement age at its second meeting in May 2009. Given the significant impact that the revised mortality tables and the increased longevity rates had on the results of the actuarial valuation carried out as at 31 December 2007, the Group agreed to further consider the normal retirement age (NRA) as one means of mitigating the financial pressure on the Fund. It carried out its review of this subject on the basis of a note prepared by the representatives of FAFICS and on additional information provided by the Consulting Actuary. The Group recalled that this issue could only be addressed in concert with other bodies, such as ICSC and the CEB/High Level Committee on Management (HLCM)/HR Network. In other words, a formal increase in the normal retirement age could only be approved once the member organizations had also agreed to increase their "mandatory age of separation". Failing that agreement, the participants in the Fund would be forced to retire before qualifying for unreduced retirement benefits.

132. In order to give due consideration to this important issue, the Working Group had requested the Consulting Actuary to provide an update to the 2003 note that it had prepared on the subject. **An extract of the updated note, which is provided in annex IX, reflects an estimated "illustrative" rate of potential actuarial savings of 0.57 per cent of pensionable remuneration, if the Fund were to increase the NRA to 64 for future participants only, while maintaining the early retirement option as from age 55; it also provides an estimated "illustrative" rate of actuarial savings of 0.91 per cent of pensionable remuneration if the Fund were to increase the NRA to 65, again for future participants only, while maintaining the early retirement option as from age 55.** The savings estimates would be slightly different if the Fund were to revise the early retirement age to 57 and 58, respectively.

133. Further information concerning a possible option to serve until age 65 for existing participants only was also provided by the Consulting Actuary and is included in the section on Actuarial Considerations (section X). In this connection, the Working Group noted that the additional estimated actuarial savings, assuming 25/50/75 per cent utilization rates, would be 0.10/0.15/0.20 per cent of pensionable remuneration, respectively. **In other words, the estimated illustrative rate of potential savings would be 0.91 per cent of pensionable remuneration if the normal retirement age were to be increased to age 65 for future participants only (again maintaining the early retirement option at age 55). The estimated illustrative rate of potential savings would be 1.01 per cent of pensionable remuneration, if the normal retirement age were to be increased to age 65 for future participants and**

if there is a 25 per cent utilization rate by existing participants to remain optionally to age 65. Under the same circumstances, the estimated savings rate would increase to 1.06 per cent of pensionable remuneration, if there is a 50 per cent utilization rate and 1.11 per cent of pensionable remuneration, if there is a 75 per cent utilization rate. In sum, the Working Group noted that if the normal retirement age were to be increased to age 65, then the estimated decrease in the required contribution rate would be in the range of 1.00 per cent of pensionable remuneration. The Group also noted that increasing the mandatory age of separation without changing the normal retirement age would also result in savings.

134. The Working Group recalled that in 2008, when considering the report of the United Nations Secretary-General on the employment of retirees and extension of staff beyond the mandatory age of separation (A/63/310/Add.2), ACABQ had stated that "the Secretary-General and the International Civil Service Commission (ICSC) may wish to explore the possibility of changing the mandatory age of separation, taking into account such issues as the rejuvenation of the Secretariat, vacancy rates and the actuarial implications of that course of action for the Pension Fund" (A/63/526, paragraph 78). In its resolution (A/63/250), the General Assembly endorsed the recommendations contained in the report of ACABQ.

135. As requested by the Pension Board, the Working Group consulted with ICSC on this subject during its initial consideration of the issue. It also met with representatives from the HLCM during its meeting in Geneva in November 2009. The representatives of the HLCM updated the Working Group as to the current status of the discussions within the Human Resources Network. It was noted that following a protracted discussion, the Network agreed that more work needed to be done to make the business case for the change of retirement age. The Network was of the view that there was not a sufficient, compelling reason to increase the mandatory age of retirement to 65 at this time, but that it could approach the change in a phased manner. Finally, the Network agreed to propose that:

(a) The age of separation for all current staff members would be set at 62 by 1 January 2012; and

(b) Staff currently eligible to retire at age 60 would retain that right, with full retirement benefits or remain in service until the age of 62.

136. The Human Resources Network noted that a few organizations had expressed concern about the proposal owing to current operational requirements. It agreed, however, to review the possibility of increasing the mandatory age of separation to 65 for all staff members once the Pension Fund had completed its actuarial study in 2010.

137. The Working Group noted that the ICSC had considered the Human Resources Network paper "Review of the Mandatory Age of Retirement" (ICSC/69/R.2) during its 69th session in July 2009. During the discussion in the Commission, the Federation of International Civil Servants' Associations (FICSA), the Coordinating Committee for International Staff Unions and Associations of the United Nations System (CCISUA) and the United Nations International Civil Servants' Federation (UNISERV) supported the proposal to extend the mandatory age of separation to 62 for all staff without prejudice to the acquired right of eligible staff to retire at 60. The three federations believed that the decision to retire, or to continue service, should not be left to the discretionary authority of the executive head but should rest solely with the staff member concerned. They also supported a possible further review to increase the mandatory age of separation to 65 for all staff following the completion of the actuarial study by the Pension Fund in 2010 and a decision by the Pension Board related to the retirement age.

138. The Commission recalled that the General Assembly (A/63/250) had endorsed the recommendation of the Advisory Committee on Administrative and Budgetary Questions that the Secretary-General and ICSC should explore the possibility of changing the mandatory age of separation, taking into account such issues as the rejuvenation of the secretariat, vacancy rates and the actuarial implications of that course of action for the Pension Fund. It noted that the Pension Board was presently undertaking a review of the pension system, including its plan design, the statutory age of retirement and actuarial matters. It was important that the proposed study be conducted in tandem with that review, which was scheduled to be completed in 2010. Several members of the Commission supported an increase in the mandatory age of separation in view of the social and demographic changes which had occurred since the subject was last reviewed in the late 1980s and spoke in favour of harmonizing the mandatory age of separation for all staff. They also considered that the extension of service of eligible staff should be dependent on the choice of the staff member, not on the discretion of the executive head.

139. The Commission requested its secretariat (A/64/30), in cooperation with the organizations and the Pension Fund, to prepare a comprehensive report on the possibility of changing the mandatory age of separation, taking account of the various implications in the human resources and pension areas, namely (i) geographical distribution; (ii) gender balance; (iii) rejuvenation of the workforce; (iv) career development and succession planning; (v) the actuarial situation of the Fund; and (vi) the financial situation of the organizations. The Commission also decided to revert to the issue at its seventy-second session in 2011.

140. **In its resolution (A/64/231) on the United Nations common system: report of the International Civil Service Commission for 2009, and concerning the mandatory age of separation, the General Assembly "requested ICSC to report to the General**

Assembly, at its sixty-sixth session [in 2011], on the results of the comprehensive analysis of the possibility of changing the mandatory age of separation, including the implications in the areas of human resources policies and pensions, and further requested that the Commission report to the Assembly at its sixty-sixth session with advice and recommendations on succession planning within the common system".

Working Group considerations

141. The Working Group noted that based on the discussions in the Human Resources Network it appeared that not all organizations were in favour of raising the mandatory age of retirement to age 65. Likewise, it appeared that not all of the ICSC members would support an increase in the retirement age. The Group noted that one reason for the reluctance is the concern expressed by organizations and the ICSC that raising the mandatory age of separation would have a negative impact on the rejuvenation of the UN workforce. This concern is apparent in the relevant section of the ICSC report on its 69th session where the Commission discussed the results of the global staff survey (emphasis added):

142. *"While lack of career advancement appeared to be a serious impediment to staff satisfaction, the data shows that staff do tend to stay with the organizations, and this is a pattern, which is replicated in other public services and not unique to the United Nations. It was also noted that if the mandatory age of separation were at some point in the future to be raised to above the current 60 or 62 years of age, then the longer service combined with the already limited promotion opportunities would only further limit the prospect of promotion." (ICSC/69/R.13, para.37*)

143. Given the importance of the matter, the Working Group decided to request the Consulting Actuary to provide additional actuarial cost/savings estimates on various scenarios. The Group had extensive discussions on the basis of the information provided by the Consulting Actuary. The information provided included savings estimates if (i) the Fund were to increase the normal retirement age to 65 for new participants only and (ii) should the Fund also make it optional for all existing participants (assuming of course that the organizations agreed to increase the mandatory age of separation to 65 as well). Based on the information provided, if the normal retirement age were to be increased to 65 for all new participants and if early retirement age were to be modified to age 58, while maintaining the early retirement reduction factors in line with the existing provisions, the savings would range between 0.78 per cent and 1.31 per cent of pensionable remuneration. If the increased normal retirement age were to also be offered on an optional basis to existing participants and 25 per cent of such participants were to decide to opt for retirement at age 65, then there would be an additional 0.43 per cent of estimated savings; if 50 per cent of such existing participants were to opt for

retirement at age 65, then the additional estimated savings would be 0.58 per cent; and if 75 per cent of existing staff were to opt to serve until age 65, the additional estimated savings would be 0.80 per cent of pensionable remuneration. The Group recognized, however, that although making retirement age 65 optional for existing participants would provide additional savings, such an approach would have an undesirable impact on the rejuvenation of the workforce and on the other personnel policies of the member organizations.

144. The Working Group recalled that various proposals and comments offered in the Fifth Committee on the subject of increasing the retirement age from 60 to 62 were studied by the Board. As reflected in the Board's report to the General Assembly in 1982:

145. *"One of the proposals (A/36/773, paras. 7 and 8) requested the Board, in co-operation with the International Civil Service Commission, to consider action which might be taken to increase beyond age 60, the statutory age of separation in member organizations of the Fund, without however reducing the entitlements linked to age as at present established under the Regulations of the Fund.*

146. *The Board noted the arguments advanced during the discussion in the Fifth Committee in favour of such a change. They were based not only on the resulting actuarial savings as noted by the Advisory Committee on Administrative and Budgetary Questions in its report (A/36/624, para. 24) but were drawn also from the practices of the comparator civil service system used for the Professional category of staff to establish the United Nations common system of salaries, allowances and other conditions of service as well as from biological, medical, social and economic advances made since the time when age 60 had been adopted in some organizations as the age of mandatory separation. The Board took note also of the views on retirement age expressed during the World Assembly on Aging and of the recommendations it adopted on the subject.*

147. *The Board also had before it the outcome of the consideration of this issue by ICSC. It noted with regret that the Commission had not been able to pronounce itself on the personnel policy aspects of such a change – the only aspect on which the views of the Commission were relevant – but instead proposed to study in the future the entire question of the rationale of any mandatory age of separation or of retirement, including presumably the need or otherwise for uniform practices in this matter in all organizations adhering to the United Nations common system of salaries, allowances and other conditions of service in the "broader context of an overall retirement policy".*

148. *The Board believed that whatever merit and importance there might be in the broad study envisaged by the Commission, at the present time it was the responsibility of the Board to come to a clear-cut conclusion on what it considered a vital element in any measures designed to improve the Fund's actuarial balance, namely the raising of the present mandatory age of separa-*

tion and making it uniform in all member organizations of the Fund. The Board noted that the reason cited by the Commission for its inability to make concrete recommendations was that at the time it considered the question the Pension Board had not yet taken a position on it. The Board is convinced that once its own recommendations reach the General Assembly the fact that the Commission intends to examine a different and wider issue in the future would not serve as a bar to action being taken at its thirty-seventh session as envisaged in Assembly resolution 36/118.

149. *On this basis and without wishing to affect whatever conclusions might be reached in the undetermined future on establishing a personnel policy for the common system on retirement age, the Board proposes the raising of the mandatory age of separation to 62, this being the age already set for such separation in one of the member organizations of the Fund, the Food and Agriculture Organization of the United Nations. Entitlements to rights currently existing under the Fund's Regulations on separation from service before that age would continue to be maintained in their present forms. Pending the adoption, by legislative action or otherwise, of age 62 as the mandatory age of separation laid down in the statutory provisions of the organizations, the Board urges that the executive head of each organization be granted discretionary authority to extend service beyond the present statutory age of separation in their organization, at least up to age 62, such discretion to be exercised with the utmost flexibility and liberality." (A/37/9; paragraphs 17- 21).*

150. The Working Group recalled that the Board had reaffirmed its 1982 recommendation on several occasions, but it took seven years before the increase of the mandatory age of separation to 62 was approved by the General Assembly. Taking into account the fact that the ICSC will not take up the issue before its spring session in 2011 and considering the Commission's lengthy decision making process, it may again take several years before an increase of the mandatory age of retirement is approved.

151. Recent studies on national and public service pension schemes show that because of demographic developments, expenditure for pensions are expected to increase considerably. The main reason is increasing life expectancy coupled with low average retirement ages and financial difficulties being faced by national pension schemes. Consequently, different pension plans reacted in various ways, including by raising the normal retirement age, tightening benefits and increasing contributions. The selection or the combination of those measures was in large part determined by the pursuit of political and effective management objectives. For the Working Group (and the Pension Board), the issue of raising the normal retirement age to 65 should be considered in light of the financial situation of the Fund and its actuarial balance and the impact on it of such factors as the increase in the life expectancy of the participants and the fluctuations in the market value of the assets of the Fund. It should also be taken into account that increasing the normal retirement age to 65 would represent significant changes in the conditions of service for new staff.

152. **The Working Group concluded that increasing the normal retirement age to 65 would be beneficial to the Fund by yielding actuarial savings in the order of 1.00 per cent of pensionable remuneration (as described in paragraph 128). The Group also noted that increasing the mandatory age of separation without changing the normal retirement age could generate savings in the range of between 0.11 to 0.33 per cent of pensionable remuneration, if the option would apply to all participants and assuming utilization rates of between 25 - 75 per cent.**

E. Increase in the early retirement age and reduction factors

153. The Working Group noted that the early retirement provisions were closely linked to the normal retirement age. It also recognized that although a change in the normal retirement age may not be agreed upon and implemented in the near future, since it could not be decided upon in isolation by the Board, it would nevertheless be possible for the Board to approve changes in the early retirement provisions without waiting for such a decision on the mandatory age of separation/normal retirement age.

154. The Working Group recalled that in 1984, the Board had recommended (and the General Assembly approved) that the reduction factor for participants who retire between the ages of 55 and 60, with 25 years or more but less than 30 years of contributory service, be increased from 2 per cent for every year below age 60 to 3 per cent for service performed as from 1 January 1985. The Board had recommended this economy measure, as it would contribute to the alleviation of the serious actuarial imbalance the Fund was experiencing in the 1980s. At that time, the Consulting Actuary had estimated the resultant savings at 0.07 per cent of pensionable remuneration.

155. Given the impact that the improved mortality rates are having on the actuarial situation of the Fund (i.e. an estimated increase in the required contribution rate of 2.00 per cent of pensionable remuneration), and the observation that the ICSC may not take a decision in respect to the mandatory age of separation for several years, the Working Group agreed to explore more closely the possibility of increasing the early retirement reduction factors as a possible means to address future actuarial deficits should the need arise. The Working Group further agreed that, although it would prefer an increase in the normal retirement age first, if required, the Board could recommend an increase in the early retirement reduction factors prior to any decision on the mandatory age of separation/normal retirement age. Under the circumstances, the Working Group requested the Consulting Actuary to provide savings estimates if the Fund were to increase the early retirement reduction factors from 3 per cent to 4 per cent for those participants who retire between the ages of 55 and 60/62 and who have from 25 to 30 years of contributory service and to increase the reduction factors from 1 per cent to 2 per cent, for those participants having 30 or more years of contributory service. **The**

Consulting Actuary estimates the resultant savings of this potential increase in the early retirement reduction factors at 0.14 per cent of pensionable remuneration. The Working Group decided to propose these changes be considered in light of the future needs of the Fund as a possible means of providing savings.

156. As explained in annex XVII, the early retirement provisions for participants with at least 25 years of contributory service were introduced as a "service both to the individual and to the organizations". However, since the "true" actuarial reduction factor should be 6 per cent for each year below 60 or 62, the reduction factor currently applied to retiring participants, with between 25 and 30 years of contributory service (2 per cent per year with respect to service performed before 1 January 1985, and 3 per cent per year with respect to service performed thereafter and 1 per cent for participants with 30 years or longer), constitute an actuarial loss to the Fund. While there may be good reasons for maintaining the current early retirement provisions, the Working Group nonetheless considered changes in the early retirement provisions with a view to reduce the actuarial cost of this benefit.

157. The Working Group decided it would not propose any change in the reduction factors for those with less than 25 years of contributory service. In addition, it was recalled that the Committee of Actuaries had indicated when it last considered this item that the simplified rounded factor (i.e. 6.0 per cent) was an approximation of the precise actuarial equivalent, and thus did not involve any change in the cost of the plan. The 6 per cent reduction factor was embodied in the Regulations of the Fund with effect from 1 January 1977 and continues to be reflected in article 29(b) of the Regulations currently in force.

158. The Working Group further agreed that any increase in the reduction factors would have to apply only to service after 31 December of the year the decision is approved (or possibly after 31 March of the following year for administrative purposes), so as not to violate the acquired rights of participants. This was the same principled approach taken in 1984 when the early retirement reduction factors were last increased.

159. The Working Group would stress however that as in the case of the last decision concerning an increase in the normal retirement age, the 1984 decision to increase the early retirement reduction factors was taken in the context of a trend in actuarial deficits. At the time the 2008 Working Group discussed this possible savings measure, the latest actuarial valuation (i.e. as at 31 December 2007) had revealed the Fund's sixth consecutive surplus.

160. The Working Group considered the issue of the cost of the early retirement provisions in the context of a possible increase in the normal retirement age. The Group was cognizant of significant human resource management and social reasons for maintaining the attractive provision of the Plan for participants with over 25 years of service. The Group also noted that the early retirement provision for those with less than 25 years of participation should

be cost neutral to the Fund. Any increase in the normal retirement age may not necessarily require an accompanying change in the early retirement age provided there is not added cost to the Fund.

161. The Working Group recommends that the Board request the Consulting Actuary to review the current reduction factor of 6%, for participants who have less than 25 years contributory service, and for those with more than 25 years but who separate more than 5 years before their normal retirement age, to determine if the 6.0 per cent reduction rate may still be considered as cost neutral to the Fund. This recommendation is made without prejudice to the need to preserve the provisions which apply under Article 29 (b) (i) and (ii).

F. Reduction in eligibility period required for participation: article 21

162. As noted during its preliminary discussion concerning a possible reduction in the 6 month rule for participation, the Working Group agreed that the issue should ultimately be considered as one of providing social security. Social security is a fundamental human right recognized in numerous international declarations and conventions, in particular the Universal Declaration of Human Rights (1948) adopted by the General Assembly of the United Nations.

163. The Group recalled that when the six-month rule for eligibility for Fund participation was introduced with effect from 1 January 1983, it replaced the previous 12-month rule as part of the economy measures taken to improve the actuarial situation at that time. While further reducing the period would increase the inflow of money into the Fund, the Working Group stressed however that this should not be the underlying reason for reducing the eligibility period. In addition, the Group also noted that although the participants could currently validate the initial six month period, provided they served six months without an interruption of more than thirty days, the death and disability coverage would likely be of greater value than the added contributory service. The group further noted that in some cases, succession of contracts of less than 6 months with interruptions may lead to situation where some staff members would be left without any pension coverage from the Fund for periods of up to several years without any legal possibility to get any other pension coverage in national pension schemes. The Group was fully cognizant that such a change would involve additional costs to the organizations and increases in the administrative workloads of the organizations, as well as the Fund, but the Group concluded that the importance of providing earlier coverage might outweigh the increased financial and administrative requirements.

164. **Having noted this, the Group decided to recommend that the six month rule for eligibility be reduced to 60 calendar days.**

G. Elimination of comparative provision of the two-track feature

165. During its discussions in respect to the two-track feature, the Working Group decided to request the Consulting Actuary to provide an estimate of the

potential savings that could be achieved if the comparative provision of the two-track feature were to be eliminated. As indicated in paragraph 96, after applying the actual two-track data, the estimated savings, if the cap were to be reduced to 100 per cent would range from 0.15 to 0.20 per cent of pensionable remuneration (which does not reflect any reduction in the utilization rate). Board document JSPB/57/R.35 demonstrates the benefit of the comparative provision, especially for those who separate during periods when the income replacement (I/R) ratio is close and/or at times below the targeted I/R ratio. Given that the comparative provision provided for certain periods when the US dollar track entitlements would yield some off setting payments in excess of the local currency track entitlements (especially when the local currency track is below the target rate), the Working Group was not inclined to support the elimination of the comparative provision. Moreover, FAFICS submitted a summary which reviewed this matter over the years and which basically came to the same conclusion. That note is provided in annex XVIII.

H. Benefit enhancements with minimal actuarial costs

166. The Working Group also considered various enhancements in the benefit provisions that could be adopted with minimal actuarial costs. During its discussions concerning some of these measures with the Consulting Actuary, it was cautioned that although such measures when taken alone would have minimal or negligible costs, when taken together with other measures considered to have minimal actuarial costs, they could begin to have an impact on the actuarial valuation results. The Group noted that the measures with minimal costs identified in its current review would fall under survivor benefits. It should be noted that the related measures reflected under this section and under the following section on the pension adjustment system were considered on the basis of proposals submitted by the FAFICS representatives on the Working Group.

Divorced surviving spouse's benefits under article 35 (bis)

167. The possibility and the advisability of awarding a survivor's benefit to (former) divorced spouses have been under consideration by the UNJSPB since 1978. It was only in 1998, following years of studies and efforts, that Article 35bis, introducing divorced spouse's benefit, subject to a considerable number of restrictive eligibility conditions, was added to the Fund Regulations by the Board at its 48th session. It was done on the basis of a proposal made on behalf of representatives of the Executive Heads submitted at the last moment, with little discussion during which the members of the Board could point out its shortcomings or suggest amendments.

168. The Group felt that several restrictions applicable to the eligibility to a survivor's spouse benefit are unreasonably restrictive leading to inequitable treatment of older surviving spouses and possible unacceptable hardship. Mindful that in most instances, changes to article 35 (bis) would involve a

redistribution of survivor benefits in payment, the Group was aware that the proposed changes could have a cost. Such costs have been qualified by the actuaries in the past as "actually immaterial", as the number of such cases would likely be quite low.

169. Art. 35 (bis) para (b)(i) requires a former spouse to have been married to a participant at least 10 years during which contributions were paid to the Fund. **The Group agreed with a proposal from FAFICS to reduce this period to 5 years to align this period with the 5 years of employment required to become entitled to a pension. The Group recalled that this proposal from FAFICS to reduce the period to 5 years had been approved by the Board in 2008.**

170. Art. 35 (bis) para (b)(ii) permits the payment of a survivor spouse benefit only if the participant's death occurred within 15 years of the date when the divorce became final. **The WG could not understand the rationale or fairness of this restriction and agreed with the FAFICS proposal to delete this provision from the Regulations.**

171. Art. 35 (bis) para (b)(iii) stipulates that payment of a survivor spouse benefit may be made only if the former spouse has reached the age of 40; if not payment will be withheld until the former spouse reaches 40. **The Group agreed with the FAFICS proposal that a benefit could be paid to a surviving divorced spouse before the age of 40 if the spouse had custody of one or more dependent children resulting from the marriage.**

172. Art. 35 (bis) (e) provides for the payment of twice the minimum surviving spouse's benefit under Art. 34 (a) under specific conditions. **The Working Group agreed with FAFICS that this amount remains very low and agreed with the proposal to increase such benefit to three times the minimum surviving spouse's benefit and four times if the marriage lasted 25 years or more, all the required conditions having been met.**

173. **The Working Group felt that taken together, the adoption of the proposed measures might simplify administration, thus offsetting in part the small but real cost associated with their implementation.**

Spouses married after separation under article 35 (ter)

174. Another issue which was raised by FAFICS was in respect to article 35 ter. Under these provisions, the election to provide a periodic benefit to a spouse married after the former participant's separation from service must be made within one year following the date of marriage. Cases have been known of former participants who were not aware of this time limit and even of the possibility of making such an election. The Working Group recalled that the

time limit had just recently been extended from 6 months to one year to put it more in line with other deadlines in the provisions of the Fund. The Working Group agreed that extending the deadline would not address the issue, which was more related to communications. In addition, to increase the time limit under article 35 ter would result in an inconsistency with other provisions under the Regulations of the Fund. Given the circumstances, the Group was unable to support an extension in the deadline beyond one year. **Instead, the Working Group suggests that indication of this provision, and the relevant deadline should be clearly communicated on a regular basis through the annual letter of the CEO. In addition, the Working Group also proposes that clear indication of this provision be included in the future versions of UNJSPF booklets on benefits.**

Survivor entitlements and extended child benefits to age 25 under article 36

175. The Working Group also considered the possibility of increasing the age at which child benefits would cease, from 21 to 25, for those children of individuals in receipt of survivor benefits. Although the Group recalled that the Board had recently eliminated the non-marriage condition for eligibility to a child benefit for mostly practical reasons, it was of the view that the right to child benefits up to age 25 could be subject to the condition that the child is continuing his or her education. The Group recognized, however, that if this benefit were to be subject to the condition clause, it would likely involve additional resource requirements, since verification would need to be done on an annual basis to determine whether the child was in fact still continuing his or her education. It therefore also considered the possibility of proposing this entitlement without any condition. Although the Group did not request estimated actuarial costs for this change, it noted that the total annual child benefit amount payable to survivors, based on the December 2009 payroll, would be about USD 5,800,000. As of December 2009 there were 2,304 such benefits being paid. This would compare to about USD 21,700,000 payable in respect to all child benefits. The total number of all child benefits being paid at the end of 2009 was 8,208. The Working Group decided not to pursue this proposal at this time.

I. Pension Adjustment System

176. The Working Group also discussed various provisions of the pension adjustment system mostly on the basis of previous reviews summarized in notes submitted by the FAFICS representatives to the Working Group. Although the Group did not raise these provisions during its discussions with the Consulting Actuary, it agreed that given the importance of the issues, each should remain under consideration. It also agreed, however, that given there would be some actuarial costs involved, these measures should be addressed by the Board in the context of all the proposals that have a possible cost.

Pension Adjustment System: threshold for adjustments

177. When the Fund was established in 1949, no provision was made for the compensation of losses in the purchasing power of pensions and their adjustment to take account of those losses. The contribution rates and actuarial bases were fixed by 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 pension scheme during the remaining lifetime of the beneficiaries.

178. When the first comprehensive review of the pension scheme was carried out in 1960, the Pension Review Group recognized that the scheme was essentially a civil service scheme, with special features reflecting the international (and largely expatriate) character of the service. Indeed, 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 what was termed a "universal" basis: a basis on which each retiree was to receive the same percentage cost-of-living increment to his/her pension regardless of: (i) whether he/she had been a member of the Professional or General Service category; and (ii) where he/she took up residence upon retirement. The Group recognized that this basis would produce "uneven" results because of the varying rates of cost-of-living increases in different parts of the world. However, it also felt that any form of attempted "country-by-country" adjustment would have been so difficult at the time as to be impracticable. Because 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.

179. Between 1 January 1962 and 31 December 1974, benefits paid to all beneficiaries continued to be expressed solely in US dollars and were adjusted uniformly: by a token amount, of one per cent annually in 1962, 1963 and 1964. In the years thereafter, it was adjusted according to various measures of average post adjustment movements and, over the period 1971 - 1974, by additional ad hoc supplemental adjustments.

180. Between 1 January 1975 and 31 December 1978 participants could avail themselves of one of two options: their pension could be denominated in US dollars and adjusted by the WAPA index, or it could be denominated in the currency of their country of residence and adjusted by the local consumer price index (CPI).

181. Between 1975 and 1978, considerable experience was gained under the dual WAPA/CPI system. Given the extensive criticism of the system – particularly of the choice that pensioners were required to make and the inevitable difficulties that arose in the event of a "wrong" choice made – and taking into account the widespread perception that the irrevocability of choice

was unfair, the Board continued its efforts to devise alternative arrangements, in the light of the comments of ACABQ and of the mandate it had been given by the General Assembly.

182. In 1978, the Board proposed, and the General Assembly approved (RES/33/120), a unified pension adjustment system – the "two-track" pension adjustment system - which entered into effect on 1 January 1979.

183. The two-track pension adjustment system has been reviewed regularly since its introduction on 1 January 1979 and over the years a number of modifications have been approved by the General Assembly. In determining the degree of protection to be provided, the current and future financial resources of the Fund had to be taken into account on the occasion of each review, since the General Assembly stipulated consistently that changes in the two-track system should not give rise to increases in the present and future financial liabilities of Member States. A detailed description of the history of the Pension Adjustment System and the two-track feature was published in Annex 1 of document JSPB/55/R.39.

184. The pension adjustment system is not part of the Regulations of the Pension Fund. It is governed by resolutions of the General Assembly. The United Nations Administrative Tribunal (UNAT) has, however, stated in several judgements that participants have a right to a meaningful pension adjustment system.

185. In Judgement 378 (1986), the UNAT stated "the pension adjustment system is a benefit to which the participants in the Fund are entitled and of which they may not be deprived." and "There is indeed an obligation on the part of the Fund to maintain a pension adjustment system which takes account of changes in the cost of living." The Tribunal concluded that "the revisions in the pension adjustment system are applicable without retroactivity to all beneficiaries of retirement pensions. These modifications must not be arbitrary. They must be reasonable and must be adapted to the aim of the system: adjustment of pensions to cost-of-living changes in the various countries of residence of the retired staff members. They may not be used for purposes other than the protection of the purchasing power of retired staff members – nor with greater reason can they be allowed to result in forfeiture or deprivation."

The threshold for cost-of-living adjustments of pensions in award

186. The cost-of-living adjustment of pensions in award is governed by the provisions in paragraphs 18 and 19 of the pension adjustment system:

"No adjustment is made in either the dollar amount or the local currency amount if the applicable CPI has moved by less than 2 per cent since the date of the last adjustment. The ratio of the CPI one time to the CPI at another time is rounded to three decimal places.

If the applicable CPI has moved by 10 per cent or more since the date of the last adjustment, the adjustment of the dollar amount or the local currency amount, as the case may be, is made on a semi-annual basis on 1 April as stated in paragraph 17 above and also on 1 October."

187. Since the introduction of the two-track system the threshold for adjusting pensions in award has changed several times.

1979 The trigger point for cost-of-living adjustments was established at 3 per cent.

1983 The trigger point was raised from 3 to 5 per cent.

1985 The trigger point was reduced to from 5 to 3 per cent.

2001 The trigger point was reduced from 3 to 2 per cent.

188. The last change in the threshold for cost-of-living adjustments of pension in award was initiated by FAFICS in 1996 and discussed once more by the Board in 1998. The relevant part of the Board's report (A/53/9) reads as follows:

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

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

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

During the present period of relatively low inflation in many countries, FAFICS has received numerous representations regarding the hardship caused to beneficiaries when they have had to wait two years before their benefits were adjusted for cost-of-living movements, because the 3 per cent trigger for such adjustments had not been reached after the first year. This had occurred three times during the past six years with respect to adjustments in the Unites States dollar track. It was quite possible that the 3 per cent trigger for the United States dollar track would not be reached by December 1998, resulting in a three year waiting period for an adjustment that would only be due effective 1 April 2000.

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

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

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

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

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

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

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

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

In the absence of a consensus on this issue and in accordance with the applicable procedure, the Chairman proceeded with a roll-call vote. By a vote of 18 in favour, 12 against and 1 abstention, the Board decided to recommend to the General Assembly that the threshold for effecting cost-of-living adjustments of pensions in award be reduced from 3 to 2 per cent, with effect from the adjustment due on 1 April 2001, subject to a favourable actuarial valuation as at 31 December 1999."

189. The General Assembly, in resolution A/RES/53/210,

"Takes note of the decision of the Board to recommend to the General Assembly that the threshold for implementing cost-of-living adjustments of pensions in award be reduced from 3 to 2 per cent, with effect from the adjustment due on 1 April 2001, subject to a favourable actuarial valuation as at 31 December 1999, to be confirmed by the Board at its session in 2000."

190. At its session in July 2000, the Board concluded that

"In view of the favourable result of the actuarial valuation of the Fund as at 31 December 1999 and as indicated in paragraph 56 above, the Board decided to recommend to the General Assembly that the threshold for cost-of-living adjustments for pensions in award should be reduced from 3 to 2 per cent, effective from the adjustments due on 1 April 2001."

191. This recommendation was approved by the General Assembly in resolution 55/224.

192. It should be noted that the changes in the threshold for cost-of-living adjustments was never based on a technical rationale, it was always an arbitrary decision that took into account the financial situation of the Fund.

193. To establish a threshold for annual cost-of-living adjustments runs counter to the basic aim of the pension adjustment system, i.e. protecting the purchasing power of pension benefits in award from subsequent erosion by inflation. Even if inflation is below 2 per cent, any delay in the adjustment of pensions by one year or more, means a loss of purchasing power for the retiree.

194. In light of the foregoing and considering that in 1996 the Committee of Actuaries, "as a matter of general principle" had favoured annual pension adjustments without any trigger, the Working Group may wish to review the current provisions for the cost-of-living adjustment of pensions in award.

195. The following options could be considered by the Working Group:

(a) Abolition of the threshold;

(b) Reduction of the threshold from 2 per cent to 1 per cent;

(c) Maintaining the threshold of 2 per cent. But in the event that the reference CPI does not move by the required 2 per cent within a period of 24 month, an adjustments should nevertheless be made on the basis of the movement of the CPI in the 24-month period.

196. If implemented, any of the above options would improve the two-track system. It would also be in line with the conclusions of the Administrative Tribunal to the effect that "there is indeed an obligation on the part of the Fund to maintain a pension adjustment system which takes account of changes in the cost of living."

197. **After giving further consideration to this issue based on a detailed review on the history of the matter, the Working Group agreed that this proposal could be considered in the future, at which time updated actuarial costs would need to be provided.**

Pension Adjustment System: elimination of negative adjustments

198. The Working Group considered the provision in the Pension Adjustment System, whereby any movement of 2 per cent or more in the CPI data would result in an adjustment in the pension entitlement amount, regardless as to whether the movement was upwards or downwards. During its discussion the Group felt that in principle, the mechanisms designed to adjust pensions as a result of cost of living should be consistent with similar mechanisms aimed at adjusting salaries, thus generally adhering to the policy of income replacement. **The Working Group agreed that this provision should be revised so that in the event of downward movements in the CPI, the amount of the benefit entitlement would be frozen until subsequent movements of the reference CPI overtakes the negative CPI movement. The Group recognized that approval of this measure would involve a cost that was assumed to be minimal, but agreed that it should be implemented as soon as feasible.**

J. Emergency Fund

199. The Working Group also considered the criteria for making payments from the Emergency Fund. The Group recalled that while an amount not to exceed USD 200,000 is approved in each of the Fund's biennium budget proposals, that amount has never been expended in full and, in fact, the amount actually paid out normally falls substantially below this sum. **The Working Group proposes that the Board request the secretariat to carry out a study with the view of enhancing the scope and flexibility in the administrative requirements of the Emergency Fund. That study should be presented to the Board in 2011.**

XIII. Preferred options to meet long-term needs of the Fund: the roadmap[17]

200. After further assessing the major developments and taking into account the information provided by the Consulting Actuary, the views expressed during the 56th session of the Board (2009) and at the 49th session of the Committee of Actuaries (2010), the Working Group decided to submit its proposals to the Board in five groups as outlined in paragraph 202 below. While the results of the next actuarial valuation to be carried out as at 31 December 2009 were not know at the time the Group formulated its conclusions, the Group recalled that it has long been recognized that the results of one valu-

[17] This is the third of the 3 main points included in the terms of reference of the Working Group.

ation would not indicate a trend. The Group decided to propose certain preferred measures, which could be used by the Board as a "flexible roadmap" over the next several years, in light of the next and future actuarial valuations.

201. Therefore, following its closer and more extensive review of specific measures that have been under consideration by the Board since 2000, as well as other possible measures that had not yet been considered, the Working Group decided to propose measures that should be considered by the Board over the next several years as means to address the long-term needs of the Fund. The consideration, analyses, and reasoning for selecting each of these proposals are summarized in section XII. Account was taken of current trends in social security. As a result of the impact that the revised mortality rates had on the Fund's actuarial valuation results and the recent market volatility with their consequent effect on the results of future actuarial valuations, the Group decided to submit its proposals on the basis of whether they would involve additional actuarial costs or if they would result in savings. The Group also identified measures that would have minimal actuarial costs, some of which it proposes be approved soon, and others which it noted could be considered in the future.

202. **In sum, the Group decided to submit to the Board the following proposals as measures which the Board should consider in light of the needs of the Fund over the next several years; these measures include the two benefits already approved by the Board and also approved in principle by the General Assembly to be given priority consideration. The latter two benefits were deemed by the Group to belong to a special group of measures when compared to the issues it examined in details. These two benefits appear in the last block of proposals. Actuarial costs/savings appear in parenthesis.**

(a) Measures involving a cost which should be implemented as soon as feasible:

– Amended withdrawal settlements for short-term staff (estimated actuarial cost of 0.12 % of pensionable remuneration) [paras. 108-113]
– Pension Adjustment System: elimination of negative cost of living adjustments (measure not costed but assumed to be minimal) [para. 198]
– 4 amendments to article 35 (bis) to be minimal) (costs assumed [paras. 166-173]

b) Measure with a cost which remains desirable:

– Accumulation rate (partial and progressive return to pre-1983 rates would carry a lower cost than full reversion (full reversion at an estimated actuarial cost of 2.16% of PR)) [paras. 102-107]

c) Measures which would produce gains:

- Reduction in the eligibility period for participation from 6 months to 60 days (gains not determined, should be implemented as soon s feasible) [paras. 162-164]
- Increase in the normal retirement age to 65 (estimated actuarial savings of approximately 1.00% of PR) [paras. 130-152]
- Increase in the early retirement reduction factors (estimated actuarial savings of 0.14% of PR) [paras. 153-161]

(d) Studies to be carried out immediately:

- Study on enhancing the scope and flexibility in administering the Emergency Fund [para. 199]
- Study by Consulting Actuary on early retirement provisions [paras. 153-161]

(e) Measures already approved by the Board and approved in principle by the General Assembly, for priority consideration by the Board:

- COLA for deferred retirement benefits commencing as of age 50 (estimated actuarial costs of 0.15% of PR) [paras. 114-120]
- Elimination of the o.5% reduction of the first adjustment due after retirement (estimated actuarial costs of o.15% of PR) [par. 121 à 129]

203. The above proposals are submitted without conditional linkages between them and carry their own timeframe for implementation. For example, while the study on enhancing the scope and flexibility of the administrative requirements of the Emergency Fund could be completed and considered as early as July 2011, it may take some time before an increase in the normal retirement age is implemented and impacts positively on the economic situation of the Fund. Other measures, known to be "actuarially insignificant", such as the proposed amendments to article 35 (bis) could be endorsed by the Board at its 2010 session.

204. Before concluding, it should be stressed that the Working Group had extensive discussions and exchanges of views in respect to changes in the accumulation rate, some of which would result in added costs, others would result in savings and others would be cost neutral but could be intended to provide better accumulation rates for those having shorter careers. The Group agreed that the 1982 decision to reduce the accumulation rate has resulted in inter-generational inequity that the Group would like to have addressed. However, it recognized that a full reversion to the pre-1983 rates would be of significant cost. It considered increasing the rate partially and progressively, but also recognized that this approach could result in the addition of new tiers of benefit entitlements for different cohorts that the Group was trying to avoid, or at best, it would maintain the current situation, whereby there already are different tiers of accumulation benefits, depending on years of service and/or year of entry into participation. Indeed, this would be in contradiction to the inter and intra generational equity principle that the Board had asked the

Working Group to keep in mind. Moreover, some members felt that unless the changes were to be applied also to those already in receipt of a periodic benefit, then the inequity would be perpetuated. Those members recalled that it has been a practice of the Fund to apply prospectively (i.e. without retroactive payment) enhancements to existing pensioners, as explained in a note included as annex XIX. If this were to be done, the Group noted the estimated actuarial costs would be in excess of 2.16 per cent of pensionable remuneration. Some members felt that after 27 years, there was no longer justification to address this economy measure, which is now part of the existing plan design of the Fund. Following its extensive consideration of the accumulation rates, the Working Group agreed that this issue must be one area in the plan design of the Fund where the Board should continue to focus its attention, with a view towards finding a more equitable arrangement. In order to assist the Board in its future consideration of this issue, the Working Group identified a wide range of actuarially costed scenarios, which are provided in section XII.

205. The Working Group recalled the 2002 recommendations, as the General Assembly had already approved these measures in principle, as reflected in paragraph 202 box (e). In this connection, the Group remained mindful of the 1998 resolution (A/53/210), in which the Assembly requested the Board that "should there be a positive trend towards actuarial surpluses in future valuations, to consider favourably a reduction in the present contribution rate". Under the circumstances, the Group noted that any other recommendations for modifications to the benefits might need to be carefully weighed in connection with the possibility of a reduction in the contribution rate. In addition, the Group was also cognizant of the 2004 General Assembly resolution, when the Assembly had decided "not to consider any further proposals to enhance or improve pension benefits until action is taken on the issues contained in section I, paragraph 4, and section II, paragraphs 2 and 3, of its resolution 57/286". In other words, the Assembly maintained that any future changes in the pension benefit entitlements would be conditional on the implementation of the 2002 recommendations, which it had already approved in principle.

XIV. Committee of Actuaries' comments on the Working Group's report and its final recommendations

206. The Committee of Actuaries took note of the comprehensive report of the Working Group on plan design and welcomed the useful presentation provided by the Chairman and the FAFICS representative to the Working Group. It commended the Group for the scope and depth of the report, which was intended as a flexible road map to the Board over the next several years. The Committee also recognized the merit of the report, which examined cost estimates provided by the Consulting Actuary for possible changes to the Regulations of the Fund that were considered by the Working Group. The Committee also noted with satisfaction that the Working Group carried out its work mindful of the principles it had suggested to the Board relating to: income replace-

ment, long-term solvency, intra and inter-generational equity, cost control and stability, simplicity of administration and reduction of risks.

207. The Committee noted, in particular, the importance of increasing the normal retirement age provision. Given the serious impact that increased longevity has had on the results of the actuarial valuations, the Committee agreed that increasing the normal retirement age should be a top priority for the consideration of the Board. The Committee stresses as a fundamental requirement the need to consider this issue in the context of ensuring the solvency and long-term sustainability of the Fund.

208. The Committee wishes to highlight important elements of the overall context of the pension fund, currently and for future years, as well as considerations related to the guiding principles identified above.

- The UNJSPF is a long-term arrangement, which requires sound governance in order to meet benefit promises decades into the future. Therefore, it should be characterized by the stability of its provisions, and benefit improvements or reductions should not be introduced simply because there is a surplus or deficit emerging at given points in time.
- The UNJSPF has reached a high level of maturity and cannot be considered anymore as a savings or an accumulation vehicle capitalizing on dynamic financial markets and high investment returns. It should rather be seen as a collective mechanism providing income replacement and security in the context of a highly volatile financial and economic environment. That situation should imply reinforced risk management in order to avoid either one of the three options that would have to be considered in the context of significant deficits: reduction of benefits for future accruals, limitation of indexation of benefits in payment, or increase of the contribution rates.
- The UNJSPF is directly impacted by the structural demographic changes associated with an increased healthy life expectancy and a reduced level of investment return; at the same time, it should be aware of policy responses taken by member states to cope with this reality, especially through increases in the normal retirement age and reductions in incentives for early retirement.
- There are currently significant levels of intra- and inter-generational transfers in the pension fund. If some aspects of those transfers are highly desirable to provide income security, for instance to people living longer, other aspects have to be kept in mind when looking at potential amendments to the scheme. In particular it should be stressed that:
    - Future participants are implicitly subsidizing present participants and the Fund would be facing a substantial actuarial deficit if new entrants were not assumed to join the scheme, and if current participants had to finance their own pension.

- With regards to intra-generational transfers, and having in mind the policy options envisaged by the working group, it should be remembered that people joining the UN for a limited number of years are on the one hand more at risk for their retirement and on the other hand subsidizing long-standing employees.

209. The Committee recognized that the results of the regular actuarial valuation as at 31 December 2009, which revealed a long-term contribution deficiency of 0.38 per cent of pensionable remuneration and a lower funding ratio, were not available to the Working Group during the formulation of its conclusions. The Committee noted comments by the Consulting Actuary concerning the market value of the assets of the Fund, which were below expectations, and agreed that given the continued volatility in the markets since the previous actuarial valuation, it would be advisable to await the results of the 31 December 2011 valuation before considering any significant changes in the plan design of the Fund.

210. The Committee recalled its long held view that, although recognizing the merits of several of the proposals submitted by the Working Group, the Fund should maintain an appropriate safety margin of about 1.00 to 2.00 per cent of pensionable remuneration before using funds to reverse previous economy measures and/or to introduce other amendments that would result in improved benefits. In comments concerning possible benefit enhancements with minimal costs, the Consulting Actuary cautioned that although such measures when taken alone would have minimal or negligible costs, if taken together they could have a notable impact on the actuarial valuation results. The Committee further recalled that several measures with negligible costs had been approved by the Board over its last few sessions.

211. Concerning deficits, the Committee agreed with the Working Group that one deficit should not be considered a trend and that cost savings measures should therefore not be considered necessary on the basis of one actuarial deficit. The Committee further suggests a deficit threshold in the range of about 1.00 to 2.00 per cent before implementing economy measures.

212. Concerning the specific measures contained in paragraph 202 of the Working Group's report, the Committee would note the following:

(a) Measures involving a cost that the Working Group suggests be implemented as soon as feasible:

Given the actuarial deficit revealed in the valuation as at 31 December 2009 and the continued volatility in the markets, the Committee would suggest that the Board consider deferring any measure that would incur additional costs. The Committee noted that the Consulting Actuary had provided specific comments and cost estimates in text submitted to the Working Group in respect to the withdrawal settlement provisions, but did not submit such information on the possible elimination of negative cost-of-living adjustments or on the four proposed amendments to article 35 (bis). The Committee would be unable to support the elimination of the provision for negative cost-of-living adjustments, in particular, without a careful analysis as to the potential costs and especially in the light of the current uncertainty in the worldwide economic environment. In addition, the Committee would not consider a negative cost-of-living adjustment as a penalty on pensions, given that such action would be reflective of decreases in overall prices as measured in the respective consumer price indices.

(b) Measure with a cost, which the Working Group noted remained desirable:

The Committee recognized the importance the Working Group gave to the possible partial and progressive return to the pre-1983 accumulation rates. The Committee also recalled the substantial actuarial costs that would be involved should a decision be made for a full reversion of this benefit to existing and future participants, which was initially estimated at 2.16 per cent of pensionable remuneration some years ago and which would surely be higher today.

(c) Measures which would produce gains:

With respect to measures identified by the Working Group to produce "gains", the Committee would note that should the early retirement reduction factors be increased, the savings would come from reduced benefits. On the other hand, should the Fund reduce the eligibility period for participation in the Fund, the savings would come in the form of additional contributions from the member organizations.

Concerning the possible increase in the normal retirement age, the Committee recalled its comments reflected in the report on its forty-eighth session (JSPB/CA/48/R.10). In that report, the Committee concluded that it is both technically sound and consistent with the plan design principles it endorsed during its 2008 meeting to reflect the natural link between longevity and retirement age. The Committee would again strongly recommend that the Pension Board consider recommending an increase in the normal retirement age together with an appropriate transitional schedule that could give effect to the change for existing staff as well, but as from a certain age. The Committee recognizes that the organizations would first need to agree on an increase in the mandatory age of separation. The Committee nevertheless agreed that from the point of view of the Fund, this recommendation should be applied on a technical and financial basis with due consideration given to the solvency and long term sustainability of the Fund. The Committee recalled the significant financial impact that increased longevity has had on the Fund. The 2007 update in the mortality tables, which are now reflected in the Fund's last two actuarial valuations, has had an estimated increase in the required contribution rate of 2.07 per cent of pensionable remuneration. The Committee further noted that should there be no change in the normal retirement age the Fund might eventually need to consider either a reduction in benefits or a further increase in the contribution rate or possibly some combination of both.

(d) Studies to be carried out immediately:

The Committee noted the Working Group's proposal for two studies that would be carried out in respect to the Emergency Fund and on the early retirement provisions. The Committee would suggest that an additional study should be carried out with respect to the two track feature of the Pension Adjustment System, with a view towards finding an equitable, viable and less complex system that is more in line with the guiding principles of the Committee.

(e) Measures already approved by the Board and approved in principle by the General Assembly, for priority consideration by the Board:

The Committee noted that, as reflected in the report of the Working Group, the two measures in respect to cost-of-living adjustments for deferred retirement benefits as from age 50 (at an estimated actuarial cost of 0.36 per cent of pensionable remuneration) and the elimination of the remaining 0.5 per cent reduction in the first adjustment due after retirement (at an estimated actuarial cost of 0.15 per cent of pensionable remuneration) belonged to a special group of measures that had already been approved by the Board and, in principle, by the General Assembly. The Committee would suggest that, as the cost estimates in respect to these two measures were provided before the mortality tables were updated, both estimates should be updated by the Consulting Actuary.

213. In concluding, the Committee reiterates the importance of a long-term view on the sustainability of the Fund, which requires observance of the guiding principles relating to: income replacement, long-term solvency, intra and inter-generational equity, cost control and stability, simplicity of administration and risk control. The Committee was also pleased to conclude that in recognizing these principles in its work, the Working Group provided a report that will serve as a useful tool and important reference to the Board for years to come.

XV. Conclusion

214. Upon reaching the end of its task, after having examined several key elements of the Pension Fund fundamental design, the Working Group concluded that the Fund is basically sound and continues to be efficiently managed.

215. Although internal pressures on the Fund, such as the increasing life expectancy of participants and retirees, an unprecedented growth during the last 10 years of over 50% in the number of its clients (participants, retirees and other beneficiaries), as well as the growing complexity of its global

operations, continue to impose demands on human and financial resources, the UNJSPF is able effectively to respond to these challenges through rapid and responsible actions. As confirmed by the last Asset-Liability Management study, current actuarial surveillance policies and procedures allow transparent oversight of possible vulnerabilities of the Fund.

216. Similarly, the Fund is subjected to the vagaries of its global external environment, notably market fluctuations, rapid currency exchange movements and dissimilar cost-of-living changes worldwide. As evidenced by an assessment of the last decade, during which it has successfully met the challenges of two serious global market crises, the Pension Fund is healthy, resilient and effectively managed. The strengthening of audit and governance mechanisms has enhanced the Fund's capacity to rapidly identify vulnerabilities and implement appropriate solutions.

217. Eventual actions taken by the Board in the areas identified by the Working Group will no doubt strengthen the Fund and improve its capacity to dispense future pension benefits to its clients in a sustainable and effective manner. In the context of the Fund's robust and sound plan design, the interventions suggested by the Group should be viewed as important and timely fine tuning.

218. The Working Group acknowledges and thanks the Consulting Actuary, the management and staff of the UNJSPF in both the New York and Geneva offices, the representatives of ICSC and the HLCM for their contributions and support. In particular, the Working Group wishes to express its gratitude to Frank DeTurris for his dedicated and untiring efforts as Secretary of the Group. The efforts he deployed during and between meetings were most impressive.

219. In closing, during its deliberations, the Working Group learned with great sadness that one of its members, Mr. Satoru Tabusa of ILO, colleague, friend and a long-serving member of the Board, had passed away on 20 December 2009. Satoru left a permanent imprint in the minds and hearts of all those who knew him. The present report is also part of his legacy.

Annex I

Economy Measures Taken in 1980s

Implementation year	*Mesure*	*Estimated reduction (% of PR)*
	A. Measures that increased money inflow into Fund	
1983	Discontinue refunds to organizations	0.52
1983	Introduce 6-month rule for Fund participation	not quantified
1983	Require concurrent contributions for LWOP	not quantified
1984-1990	Increases in contribution rates (in stages)	2.70
1985	Organizations contributions due by second working day	0.05
	Sub-total	**3.22**
	B. Measures that decreased money outflow from Fund	
1983	Reduced rates of accumulation for new entrants	1.84
1983	Raised interest rate for lump-sum commutations from 4.0 to 4.5 per cent	0.12
1983	COL adjustment for deferred benefits to begin only at age 50; semi-annual adjustment of pensions, with a 5 per cent trigger	0.97
1983	Limitations on right of restoration	not quantified
1985	Raised interest rate for lump-sum commutations from 4.5 to 6.5 per cent, with application of 1984 Unisex Mortality Table	0.22
1985	Changes in Pension Adjustment System	
	Annual adjustment of pensions, with a 3 per cent trigger	0.33
	Reduction of first COL adjustment by 1.5 percentage points	0.38
	iii) Introduction of 120 per cent cap	0.20
	Raised reduction factor to 3 per cent for early retirement with at least 25 years (but less than 30 years) of contributory service	0.07
	Payment in arrears of new periodic pensions	0.08
1990	Increase normal retirement age to 62 for new Fund participants	1.27
	Reduction factor of 6 per cent between ages 55 and 57 in all cases for those with normal retirement age of 62	0.16
1990	COL adjustment for deferred benefits to begin only at age 55	0.91
1990	Introduction of 110 per cent cap	0.20
	Sub-total	**6.75**
	Total	**9.67**

Annex II

List of Benefit Provisions Considered Since 2000 1/

Table sorted by: status and year

Option #	*2002 WG ref.*	*Options 2002 – 2008*	*Status*	*Year*	*Source*	*1980 Economy measure Y/N*	*Estimated actuarial cost 1/*
1	A.	COLA threshold from 3 to 2 %.	GA approved	2000	A/RES/55/224	Y	0.15 %
2	B.	Lump-sum interest rate from 6.5% to 6% (Article 28g).	Board approved	2000	A/55/9	N	0.13 %
3	C.	Divorced spouses benefits extended for separations before April 1999. 2/	GA approved	2000	A/RES/55/224	N	0.01 %
4	D.	Removal of remarriage penalty for surviving spouse benefits for separations before April 1999.	GA approved	2000	A/RES/55/224	N	0.00 %
5	E.	Removal of partial commutation option for deferred benefits under article 34b. (Range: 0.04% -0.08% of PR). 3/	GA approved	2000	A/RES/55/224	N	0.06 %
6		Increase the ceilings in the commutation of minimum benefit (replace 300 with 1000 under articles 28g, 30c and 34f).	GA approved	2002	A/RES/57/286	N	
7		Extend limit of leave without pay without paying contributions (new para c under article 21).	GA approved	2002	A/RES/57/286	N	
8		Protect two-track benefits with an adjustable minimum guarantee at 80 % of the USD track amount (para 23 of PAS); Introduced to mitigate effect of 110/120 CAP provision. 4/	GA approved	2004	A/RES/59/269	N	0.00
9	L.	Elimination of limitation on restoration (existing). 5/	GA approved	2006	A/RES/61/240	Y	0.10%
10	M.	Elimination of limitation on restoration (prospective). 5/	GA approved	2006	A/RES/61/240	Y	0.07%
11	N.	Elimination of 1.5% reduction for first adj. due after separation (0.5% remaining). 6/	GA approved	2006	A/RES/61/240	Y	0.35%
12	O.	Increase of 1.5% for existing beneficiaries (0.5% remaining). 6/	GA approved	2006	A/RES/61/240	Y	0.11%
13		Ecuador dollarization (ad hoc measure to address adverse effect of dollarization).	GA approved	2007	A/RES/62/241	N	
14		Return to active contributory service after a period of disability: (disability period to count as contributory service w/out participant paying contributions). (amend article 24b).	GA approved	2008	A/63/9	N	

Annex II (continued)

Option #	*2002 WG ref.*	*Options 2002 – 2008*	*Status*	*Year*	*Source*	*1980 Economy measure Y/N*	*Estimated actuarial cost 1/*
15		Surviving divorced spouse: Eliminate marriage "penalty" for surviving divorced spouses who will become eligible to article 35 bis benefit on or after 1 January 2009.	GA approved	2008	A/63/9	N	
16		Surviving divorced spouse: Introduce an effective date for the minimum benefit payable to the surviving divorced spouse of former participant with separation before 1 April 1999 (amnd article 35 bis (e).	GA approved	2008	A/63/9	N	
17		Spouse married after separation: Extend election period from 180 days to one year to provide survivor annuity for life to a spouse married to participant after separation (Amnd article 35 ter).	GA approved	2008	A/63/9		
18		Child benefit: eliminate the marriage "penalty" i.e. child benefit applicable to all who remain under the age of 21 (amnd article 36).	GA approved	2008	A/63/9	N	
19		Changes in commutation, transfer value and others factors per 2007 mortality tables effective 1 Jan 2009, to reflect improved mortality rates.[7]	Board approved	2008	A/63/9	N	0.25%
20	K.	COLA for deferred as from date of separation; recommendation to GA from age 45.[8]	GA approved in principal	2002	A/RES/57/286	Y	0.48%
21	U.	COLDF for deferred from separation.[9]	GA approved in principal	2002	JSPB/51/R.30 A/RES/55/224 A/RES/57/286 JSPB/55/R.35	N	0.01%
22		Purchase of contributory years by part-time staff: benefits from part-time employment reduced in the ratio to full employment, unless participants accrued contributory service and made additional contributions in respect of the difference between part-time and a notional full-time employment during the part-time employment (new para under article 21).	Recommendation not approved	2008	A/63/9 ACABQ/ A/63/556	N	
23	J.	Increase interest rate for wdl settlements from 3.25% to 5.00 %.	Considered	2000	JSPB/51/R.30	N	0.11%
24	R.	COLA – removal of 2 % threshold. (Range: 0.10% - 0.15% of PR).	Considered	2001	JSPB/51/R.30	N	0.13%
25	S.	Accumulation rate back to 2 % (prospective + retroactive) .	Considered	2001	JSPB/51/R.30	Y	2.16%

Annex II (continued)

Option #	*2002 WG ref.*	*Options 2002 – 2008*	*Status*	*Year*	*Source*	*1980 Economy measure Y/N*	*Estimated actuarial cost 1/*
26		Purchase of additional years of contributory service – limited to maximum period purchased and age at purchase. (actuarial cost to be borne by participant). 10/	Considered	2002		N	0.00%
27		Age plus years of service formula.	Considered	2002	JSPB/51/R.30	N	
28		Establish parameters for threshold to trigger Board consideration for enhancements or economy measures.	Considered	2002	JSPB/51/R.30	N	
29		Maintain vesting after 5 years but return 50 % of organization contribution for separation before vesting (0.70% of PR).	Considered	2002	JSPB/51/R.30	N	0.70%
30		Partial retirement at specific ages.	Considered	2002	JSPB/51/R.30 JSPB/51/R.13	N	
31		Currency fluctuation (GS staff): protect FAR from age 55 w fixed ex-rate to gross salary in local currency to maintain fixed PR level.	Considered	2002	JSPB/51/R.30	N	
32		Currency fluctuation: FAR methodology – PR months from last 36 to 48 or 60 months. Or a longer period from 5 to 10 years; or combination of the two. (to be applicable only in situations of steep currency devaluation).	Considered	2002	JSPB/51/R.30	N	
33		Benefits for children born or adopted after separation.	Considered	2002	JSPB/51/R.30	N	
34		Partial retirement. 11/	Considered	2002	JSPB/51/R.30	N	
35		Partial disability. 12/	Considered	2002	JSPB/51/R.30	N	
36		Wdl settlement w\additional 10% increments (without interest) for full withdrawal settlements to a max 250% of participants' own contributions after 15 years. 13/ 14/	Considered	2002 2008	JSPB/51/R.30 A/63/9	N	0.06%
37		Wdl settlement w\additional 10% increments (without interest) for full withdrawal settlements to a max 250% of participants' own contributions after 15 years. 13/ 14/	Considered	2002 2008	JSPB/51/R.30 A/63/9	N	0.38%

Annex II (continued)

Option #	2002 WG ref.	Options 2002 – 2008	Status	Year	Source	1980 Economy measure Y/N	Estimated actuarial cost 1/
38		Wdl settlement w\additional increments for full withdrawal settlements to a max 200% of participants' own contributions after 5 years. 13 / 14/	Considered	2002 2008	JSPB/51/R.30 A/63/9	N	0.44%
39		Wdl settlement w\additional increments for full withdrawal settlements to a max 200% of participants' own contributions after 10 years. 13/ 14/	Considered	2002 2008	JSPB/51/R.30 A/63/9	N	0.26%
40	F.	Recommended Reserve (target range at Board: 1.00% - 2.00% of PR). 15/	Considered	2002	JSPB/51/R.30	N	0.00
41	I.	Reduction of 0.75% in contribution rate. 16/	Considered	2002	JSPB/51/R.30	Y	0.75%
42	T	Vested right to periodic benefit after 2 years. (Range: 0.03% - 0.07% of PR).	Considered	2002	JSPB/51/R.30	N	0.05%
43	T	Vested right to periodic benefit after 3 years. (Range: 0.04% - 0.08% of PR). 13/ 14/	Considered	2002 2008	JSPB/51/R.30 A/63/9	N	0.06%
44		Elimination of one year deadline for opting for validation, restoration and LWOP.	Considered	2003	JSPB/SC/186/R.32	N	
45		FAR methodology (early retirement protection measure for GS): for future retirees, initial pensions not to fall lower than what participant would have received if separated at early retirement age. (Range: 0.02% - 0.07% of PR). First considered in 2005; concluded in 2006.	Considered	2006	A/61/9	N	0.05%
46		Expanding scope of article 38 on residual settlement.	Considered	2006	A/61/9	N	
47		Family benefits + FAFICS proposal for Board session after 2004. Also ILO's min survivor benefits.	Considered	2006	A/61/9	N	
48		COLA October threshold from 10% to 6 % (FAFICS).	Considered	2006	A/61/9	N	
48		Periodicity of measuring and effecting regular pension adjustments from 12 to 6 months (FAFICS).	Considered	2006	A/61/9	Y	
50		Special adjustment for small pensions- PAS section E to be applicable to early and deferred benefits. Also 15 years eligibility to be reconsidered and tables under section E to be updated (FAFICS).	Considered	2006	A/61/9	N	

Annex II (continued)

Option #	2002 WG ref.	Options 2002 – 2008	Status	Year	Source	1980 Economy measure Y/N	Estimated actuarial cost 1/
51		Currency fluctuation: 120-month average. (Range: 1.98%-3.25% of PR). 17/	Considered	2008	A/63/9	N	0.67%
52		Currency fluctuation: best 36 months in the last 60. (Range: 2.40%-3.45% of PR). 17/	Considered	2008	A/63/9	N	0.96%
53		Currency fluctuation (professional staff): 36-month average but not less than 60-month average as at a fixed floor rate (Dec 2007). (Range: 4.81%-6.20% of PR). 17/	Considered	2008	A/63/9	N	3.54%
54		CAP 120% (effective 1 Jan 1985).	Reviewed	2002	JSPB/51/R.30	Y	0.20%
55		Benefit payments in arrears of new periodic benefits (effective 1 Jan 1985).	Reviewed	2002	JSPB/51/R.30	Y	0.08%
56		CAP 110% (effective 1 Jul 1995).	Reviewed	2002	JSPB/51/R.30	Y	0.20%
57	G	Normal retirement age (NRA). (Range: - 0.79% to – 2.05% of PR).	Considered	2002 2003	JSPB/51/R.30 JSPB/SC/186/R.32	N	range of estimated savings 0.79% - 2.05%

Footnotes

[1] Estimated actuarial costs (savings) are reflected as per cent of pensionable remuneration; figures cited were, in many cases, costed on the basis of provisions and/or conditions which may no longer be applicable and are, in this context, only intended to provide an order of magnitude.

[2] Cost for divorced spouses for separations before April 1999 is the estimated amount if 100 applicable cases

[3] Cost of removal of partial commutation option was given as a range of 0.04 to 0.08

[4] Cost of 0.005% of PR subsumed in existing estimated cost of the two-track feature.

[5] Cost of elimination of limitation on restoration for existing cases was given as 0.10 if all cases identified were to elect restoration, however since 1982 only 21% of part. With < 5 yrs elected to do so; cost for prospective was based on 100 cases per year whereas actual experience was about 70 cases per year.

[6] A/RES/59/269 (2004) approved a phased approach in the elimination of the 1.5% reduction in the first CPI adjustment. Effective 1 April 2005, the reduction in the first CPI adjustments was lowered from 1.5 to 1.0%; Benefits to which the 1.5% reduction was applied before 1 April 2005, had a 0.5% increase in the first adjustments due on or after 1 April

2005; A/RES/61/240 (2006) approved a further lowering of the reduction in the first CPI adjustments from 1.0 to 0.5%. An additional 0.5% increase was applied to existing retirees and beneficiaries who had 1.0% reduction applied to their benefits. Removal of the remaining 0.5% reduction in the first CPI was considered by 2008 Board.

[7] This will be reflected in data as from 1 Jan 2009 and a cost of 0.25% of PR should be taken into account in 0.49% surplus as at 31 Dec 2007. Therefore, the effective working surplus would be 0.24%.

[8] If COLAs for deferred were to commence as from date of separation, the estimated cost would be 0.74% of PR; at age 45, the estimated cost would be 0.48 % of PR; at age 50, the estimated cost would be 0.36% of PR.

[9] Explanation to maintain GA decision (A/RES/55/224) provided in JSPB/55/R.35.

[10] Participant was in active contributory service in a pension plan, based on employment, for a period at least equivalent to that being purchased; participant completed at least 5 years of contributory service in UNJSPF and was at least 40 years of age at the time of the election; the maximum period open to purchase at the then actuarial cost to the Fund is four years when the conditions under (a) + (b) are satisfied; further maximum period of three years, again at the then actuarial cost to the Fund, may be purchased when the participant has reached age 50 and completed 15 years of UNJSPF contributory service. Three restrictions were suggested by CoR as outlined in Board report to GA A/59/9 of 2004 para 154. CoA also discussed giving current participant a "one time option" to purchase additional years of service (to avoid anti selection issues).

[11] Option of early retirement on a part-time basis and drawing a benefit calculated according to the reduction in working time. S/M remain active participant on a part-time basis and draw the balance of pension upon final separation from service.

[12] "Corresponds to the percentage disability certified by the medical adviser. The benefit is calculated by first determining the full disability benefit and then applying the relevant percentage. S/M remain active participant for the balance of the working time and draw the balance of retirement benefit upon final separation from service.
(to reduce costs where a participant is forced to accept full disability)."

[13] Considered similar proposals by IAEA in 2007 as initially considered in 2002 (JSPB/51/R.30).

[14] 2008 Board decided to refer this issue to the WG established to review the overall plan design of the Fund.

[15] Initially it was proposed that the margin be 2.00% but the Board subsequently decided that a range of between 1.00% - 2.00 % would be appropriate.

[16] 0.75% reduction in contribution rate is for illustrative purposes only; General Assembly resolution 53/210 recalled but appropriate level not yet determined.

[17] Current methodology for establishing the local currency track amount: 36-month average (actuarial cost range: 1.65%-2.28% = Avg 1.96%); costs provided relate to additional costs versus current design.

Annex III

Evolution of Active Participants Data

Table 1. Number of Active Participants, 1980-2007

Year	**Total**	*of which male*	*of which female*	*Professional Total*	*of which male*	*of which female*	*General Service Total*	*of which male*	*of which female*
1980	***49,097***	30,557	18,540	19,180	16,556	2,624	29,917	14,001	15,916
1982	***50,966***	31,124	19,842	19,185	16,196	2,989	31,781	14,928	16,853
1984	***53,204***	31,744	21,460	19,014	15,788	3,226	34,190	15,956	18,234
1986	***54,289***	31,888	22,401	18,746	15,366	3,380	35,543	16,522	19,021
1988	***54,006***	31,316	22,690	18,153	14,644	3,509	35,853	16,672	19,181
1990	***58,263***	33,597	24,666	19,146	15,085	4,061	39,117	18,512	20,605
1993	***63,329***	35,285	28,044	20,628	15,402	5,226	42,701	19,883	22,818
1995	***68,708***	38,027	30,681	20,972	15,092	5,880	47,736	22,935	24,801
1997	***67,740***	37,092	30,648	20,584	14,405	6,179	47,156	22,687	24,469
1999	***68,935***	37,376	31,559	22,820	15,541	7,279	46,115	21,835	24,280
2001	***80,082***	44,498	35,584	27,292	18,142	9,150	52,790	26,356	26,434
2003	***85,245***	47,745	37,500	30,005	19,406	10,599	55,240	28,339	26,901
2005	***93,683***	52,948	40,735	34,628	21,916	12,712	59,055	31,032	28,023
2007	***106,566***	61,445	45,121	38,036	23,642	14,394	68,530	37,803	30,727

Source: Sixteenth through twenty-ninth actuarial valuations of the UNJSPF.

Table 2. United Nations Joint Staff Pension Fund: Number of Participants by Member Organization as at 31 December 1995-2008

	Number of participants													
Organization	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*
United Nations	44 059	43 869	43 864	43 751	44 958	50 126	54 953	56 287	57 541	59 542	64 092	68 853	74 575	79 933
International Labour Organization	2 823	2 632	2 599	2 620	2 612	2 650	2 747	2 863	3 044	3 221	3 330	3 261	3 366	3 572
Food and Agriculture Organization of the United Nations	5 735	5 540	5 435	5 387	5 340	5 315	5 344	5 447	5 648	5 822	5 918	5 774	5 735	5 722
United Nations Educational, Scientific and Cultural Organization	2 561	2 667	2 588	2 650	2 629	2 452	2 414	2 437	2 517	2 528	2 508	2 469	2 526	2 553
World Health Organization	6 125	5 965	5 935	6 180	6 409	6 817	7 375	8 181	8 966	9 498	9 932	10 072	10 157	10 435
International Civil Aviation Organization	820	826	852	852	841	867	873	883	863	863	826	806	795	775
World Meteorological Organization	333	316	312	314	327	329	322	310	303	287	302	334	332	319
General Agreement on Tariffs and Trade	476	538	529	542	7	4	3	1	–	–	–	–	–	–
International Atomic Energy Agency	2 146	2 057	2 053	2 075	2 068	2 076	2 125	2 168	2 207	2 217	2 261	2 278	2 273	2 229
International Maritime Organization	315	324	323	310	315	325	330	340	344	351	343	338	337	320
International Telecommunication Union	908	885	905	921	965	953	967	1 006	971	875	871	854	843	823
World Intellectual Property Organization	611	672	712	807	955	1 033	1 106	1 189	1 240	1 206	1 166	1 130	1 134	1 139
International Fund for Agricultural Development	302	295	298	332	338	344	383	435	462	488	506	502	519	526
International Centre for the Study of the Preservation and Restoration of Cultural Property	29	31	29	32	35	37	33	36	34	39	39	40	38	37
European and Mediterranean Plant Protection Organization	10	11	11	12	12	12	12	11	11	11	11	12	12	13
United Nations Industrial Development Organization	1 455	1 163	1 064	921	851	810	813	821	786	791	783	753	759	779
International Centre for Genetic Engineering and Biotechnology	–	136	138	141	142	145	145	150	152	162	171	173	177	191
World Tourism Organization	–	70	72	74	78	79	79	83	88	95	90	99	100	95
International Tribunal for the Law of the Sea	–	–	18	20	25	27	30	33	34	34	36	36	36	38
International Seabed Authority	–	–	3	30	28	31	28	34	34	28	30	29	29	32
International Criminal Court	–	–	–	–	–	–	–	–	–	298	431	578	719	809
Inter-Parliamentary Union	–	–	–	–	–	–	–	–	–	–	37	40	45	45
International Organization for Migration	–	–	–	–	–	–	–	–	–	–	–	–	2 059	2 419
Total number of participants	**68 708**	**67 997**	**67 740**	**67 971**	**68 935**	**74 432**	**80 082**	**82 715**	**85 245**	**88 356**	**93 683**	**98 431**	**106 566**	**112 804**
Total number of member organizations	**16**	**18**	**20**	**20**	**19**	**19**	**19**	**19**	**19**	**20**	**21**	**21**	**22**	**22**

Table 3. Average Age at Entry into the Fund

Year	*Total*	*Professional*	*General Service*
1980	35.9	41.6	31.5
1982	35.9	40.7	32.4
1984	36.0	40.6	32.6
1986	35.9	41.0	32.3
1988	36.4	44.3	32.9
1990	36.7	41.5	33.7
1993	36.4	40.7	34.4
1995	36.1	41.0	34.5
1997	36.3	40.8	34.6
1999	37.2	40.6	35.0
2001	37.7	40.5	35.5
2003	37.3	40.6	35.8
2005	37.8	40.8	36.1
2007	37.5	41.2	36.0

Source: Sixteenth through twenty-ninth actuarial valuations of the UNJSPF.

Table 4 Number of Periodic Benefits in Award, by Benefit Type

Year	*Total*	*of which Retirement*	*of which Early/Deferred*	*of which in Retraite en Deferral*	*of which Children*	*of which Spouses*	*of which Disability*	*of which Secondary Dependant*
1980	15,734	5,386	2,638	2,550	2,921	1,852	356	31
1982	18,925	6,458	3,497	2,901	3,403	2,213	417	36
1984	22,170	7,571	4,637	2,877	3,991	2,578	477	39
1986	25,311	8,619	5,857	2,797	4,459	3,016	520	43
1988	28,120	9,528	6,926	2,894	4,668	3,489	570	45
1990	30,673	10,395	7,879	2,806	4,928	4,029	585	51
1993	35,253	11,688	9,513	2,650	5,714	4,963	669	56
1995	38,709	12,790	10,773	2,553	6,278	5,547	718	50
1997	43,149	13,803	12,659	2,266	7,391	6,214	768	48
1999	46,199	14,599	13,797	2,203	7,795	6,958	803	44
2001	49,416	15,558	15,105	2,130	8,049	7,687	845	42
2003	52,496	16,713	16,703	1,602	8,221	8,294	921	42
2005	55,140	17,992	17,612	1,436	8,120	8,923	1,015	42
2007	58,084	19,482	18,461	1,395	8,001	9,597	1,106	42

Source: Sixteenth through twenty-ninth actuarial valuations of the UNJSPF.

Table 5. Average Age at Retirement from the Fund (regular and early)

Year	Total	of which Professional	of which General Service	of which Male	of which Female
1979/1980	59.80	...	...	60.00	59.40
1981/1982	59.90	...	...	60.10	59.40
1983/1984	60.10	...	...	60.20	59.60
1985/1986	60.10	...	...	60.20	59.70
1987/1988	60.00	60.10	59.80	60.00	59.90
1988/1990	60.00	60.20	59.80	60.00	59.80
1991/1993	60.06	60.42	59.66	60.14	59.84
1994/1995	59.92	60.39	59.43	60.07	59.60
1996/1997	59.89	60.56	59.35	60.18	59.37
1998/1999	60.04	60.76	59.39	60.15	59.93
2000/2001	59.75	60.58	59.09	60.18	59.16
2002/2003	60.11	60.87	59.43	60.50	59.56
2004/2005	60.61	61.13	60.08	60.90	60.20
2006/2007	60.63	61.17	60.14	60.95	60.22

Source: Sixteenth through twenty-ninth actuarial valuations of the UNJSPF.

Table 6. Active Participants: Total Years of Service

	0-5	6-10	11-15	16-20	21-25	26-30	>30	**Total**
1980	22,472	10,862	8,374	4,007	1,850	1,135	397	**49,097**
1982	23,004	10,904	8,602	4,812	2,209	915	520	**50,966**
1984	23,612	11,522	8,122	5,900	2,665	990	393	**53,204**
1986	22,046	12,626	8,382	6,825	3,055	1,044	311	**54,289**
1988	19,810	13,539	8,537	6,460	3,979	1,351	330	**54,006**
1990	22,438	13,078	9,142	6,547	5,028	1,666	364	**58,263**
1993	26,632	11,264	10,441	6,852	4,953	2,593	594	**63,329**
1995	30,045	12,549	10,036	7,214	5,011	3,209	644	**68,708**
1997	30,368	12,770	8,874	7,392	4,788	2,984	564	**67,740**
1999	30,308	14,412	8,044	7,610	4,879	2,793	889	**68,935**
2001	40,104	14,631	9,129	7,296	5,113	2,828	981	**80,082**
2003	42,727	14,802	10,994	6,234	6,028	3,114	1,346	**85,245**
2005	51,405	15,471	10,631	6,682	5,410	2,915	1,169	**93,683**
2007	55,235	22,768	10,882	7,844	4,992	3,483	1,362	**106,566**

Source : Source: Sixteenth through twenty-ninth actuarial valuations of the UNJSPF.

Table 7. Active Participants: Professional Years of Service

	0-5	6-10	11-15	16-20	21-25	26-30	>30	**Total**
1980	9,281	3,847	2,897	1,540	772	573	270	**19,180**
1982	9,176	3,743	2,860	1,764	909	417	316	**19,185**
1984	8,951	3,769	2,679	1,951	1,003	427	234	**19,014**
1986	8,383	3,870	2,723	2,146	1,043	432	149	**18,746**
1988	7,623	3,947	2,699	2,012	1,246	494	132	**18,153**
1990	8,250	3,965	2,675	2,044	1,515	542	155	**19,146**
1993	9,096	3,643	3,035	2,226	1,574	813	241	**20,628**
1995	9,086	3,889	2,976	2,152	1,658	972	239	**20,972**
1997	9,176	3,869	2,690	2,181	1,546	927	195	**20,584**
1999	10,766	4,464	2,579	2,229	1,605	897	280	**22,820**
2001	14,143	4,977	3,012	2,327	1,585	946	302	**27,292**
2003	14,997	5,748	3,851	2,055	1,869	1,092	393	**30,005**
2005	18,708	6,544	4,022	2,345	1,748	921	340	**34,628**
2007	18,348	9,040	4,567	2,861	1,695	1,114	411	**38,036**

Source : Sixteenth through twenty-ninth actuarial valuations of the UNJSPF.

Table 8. Active Participants: General Service Years of Service

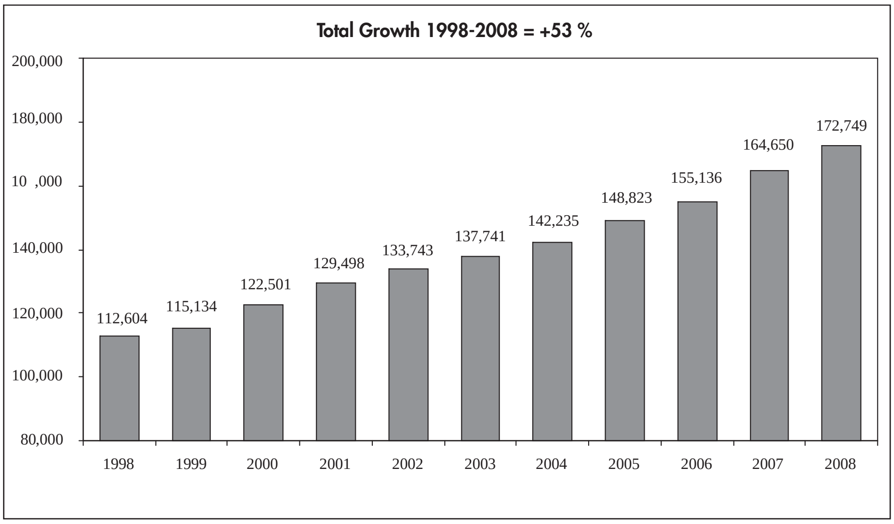
	0-5	6-10	11-15	16-20	21-25	26-30	>30	**Total**
1980	13,191	7,015	5,477	2,467	1,078	562	127	**29,917**
1982	13,828	7,161	5,742	3,048	1,300	498	204	**31,781**
1984	14,661	7,753	5,443	3,949	1,662	563	159	**34,190**
1986	13,663	8,756	5,659	4,679	2,012	612	162	**35,543**
1988	12,187	9,592	5,838	4,448	2,733	857	198	**35,853**
1990	14,188	9,113	6,467	4,503	3,513	1,124	209	**39,117**
1993	17,536	7,621	7,406	4,626	3,379	1,780	353	**42,701**
1995	20,959	8,660	7,060	5,062	3,353	2,237	405	**47,736**
1997	21,192	8,901	6,184	5,211	3,242	2,057	369	**47,156**
1999	19,542	9,948	5,465	5,381	3,274	1,896	609	**46,115**
2001	25,961	9,654	6,117	4,969	3,528	1,882	679	**52,790**
2003	27,730	9,054	7,143	4,179	4,159	2,022	953	**55,240**
2005	32,697	8,927	6,609	4,337	3,662	1,994	829	**59,055**
2007	36,887	13,728	6,315	4,983	3,297	2,369	951	**68,530**

Source : Sixteenth through twenty-ninth actuarial valuations of the UNJSPF.

Annex IV

Graph Illustrating Unprecedented Growth:

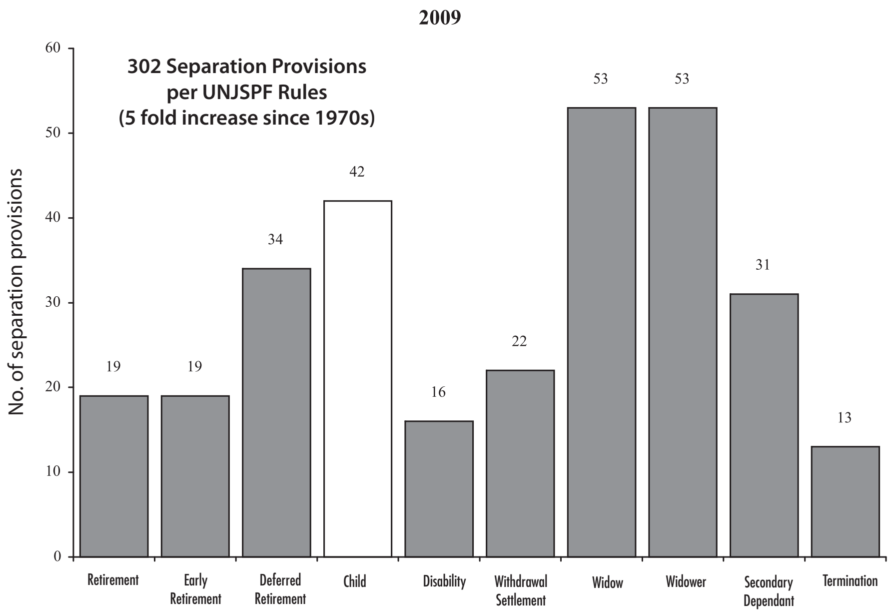
Total Active Participants and Benefits in Payment 1998-2008



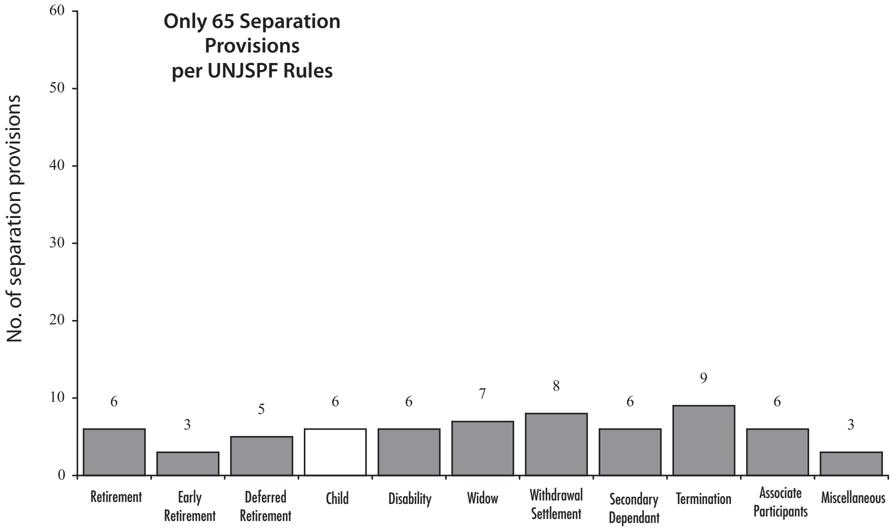
Annex V

Graphs Illustrating Increased Complexity in the Provisions of the UNJSPF

(a) Increasing Complexity of Separation Provisions under Regulations



1971

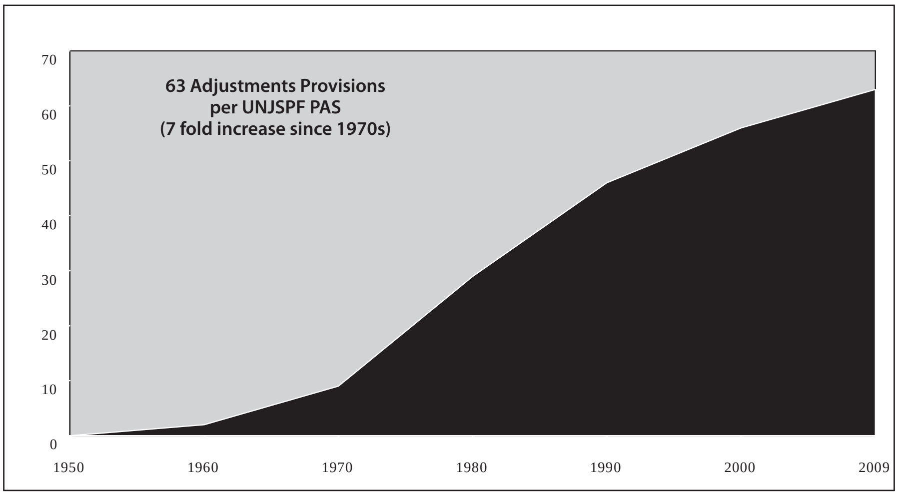


Example: Separation Provisions for Child Benefits

2009 (42 provisions)			
1	DISABLE (NIP) 36(c)	22	ORPHAN REG. PARA(e)+(d) 36(d)/(e)
2	$1800-MAXIMUM (NIP) 36(c)	23	ORPHAN - MINIMUM 36(d)/(e)
3	$300 MINIMUM (NIP) 36(c)	24	DISABLE ORPHAN (e) 36(b)/(d)/(e)
4	$600 MAXIMUM (NIP) 36(c)	25	DISABLE ORPHAN (d) 36(b)/(d)/(e)
5	ORPHAN FAR - MAXIMUM (NIP) 36(c)	26	DISABLE ORPHAN (d)+(e) 36(b)/(d)/(e)
6	ORPHAN $1800 MAX (D) 36(d)/(e)/(f)	27	DISABLE ORPHAN - MINIMUM
7	CHILD IN PAY - RE-EMPLOYED	28	ORPHAN FAR - MAXIMUM 36(f)
8	CHILD NOT-IN-PAY - RE-EMPLOYED	29	$1800-MAXIMUM 36(f)/(d)
9	PENDING-AWAITING PI	30	REGULAR 1/3 OF 1/50 FAR (NIP) 36(c)
10	REGULAR 1/3 OF 1/50 FAR 36(d)	31	FAR-MAXIMUM (NIP) 36(c)
11	REGULAR 1/3 OF 1/30 FAR 36(d)	32	FAR ORPHAN 36(d)/(e)/(f)
12	REGULAR 1/3 OF $180 36(d)	33	ORPHAN $1800 MAX (D) 36(d)/(e)/(f)
13	$300 MINIMUM 36(d)	34	PENDING-AWAITING PI
14	$600 MAXIMUM 36(d)	35	ORPHAN-REG PARA (e) 36(d)/(e)
15	DISABLE 1/3 OF 1/50 FAR 36(d)	36	ORPHAN REGULAR 36(d) 36(d)/(e)
16	DISABLE 1/3 OF 1/30 FAR 36(d)	37	ORPHAN REG. PARA(e)+(d) 36(d)/(e)
17	DISABLE 1/3 OF $180 36(d)	38	ORPHAN - MINIMUM 36(d)/(e)
18	DISABLE $300 MINIMUM 36(d)	39	DISABLE ORPHAN (e) 36(b)/(d)/(e)
19	DISABLE $600 MAXIMUM 36(d)	40	DISABLE ORPHAN (d) 36(b)/(d)/(e)
20	ORPHAN-REG PARA (e) 36(d)/(e)	41	DISABLE ORPHAN (d)+(e) 36(b)/(d)/(e)
21	ORPHAN REGULAR 36(d) 36(d)/(e)	42	DISABLE ORPHAN - MINIMUM

1971 (6 provisions)	
1	REGULAR 37(d)
2	MINIMUM or MAXIMUM 37(d)
3	ORPHAN 37(e)
4	FROM EARLY RETIREMENT BENEFIT 37(c)
5	REINSTATED AFTER DISCONTIN. BENEFIT 37
6	DISABLED 37(b)

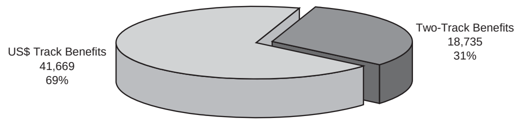
(b) Increasing Complexity of Provisions of the Pension Adjustment System



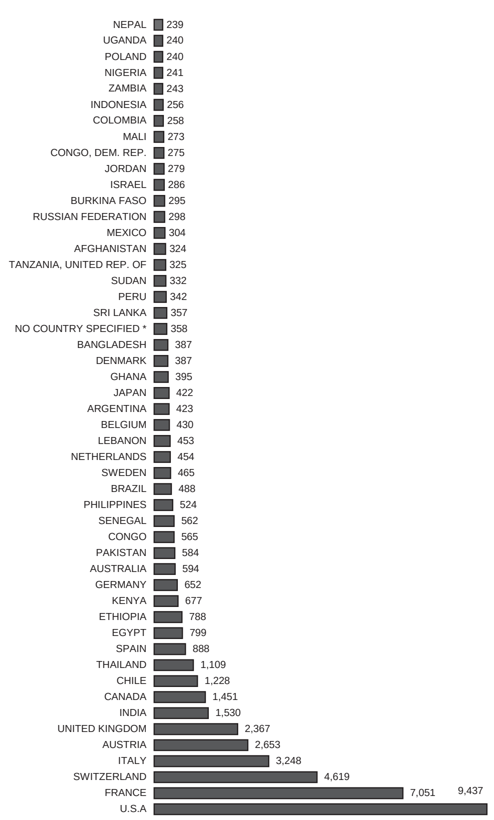
Annex VI

Graphs Reflecting Benefits Paid by Mailing Address and Country of Residence

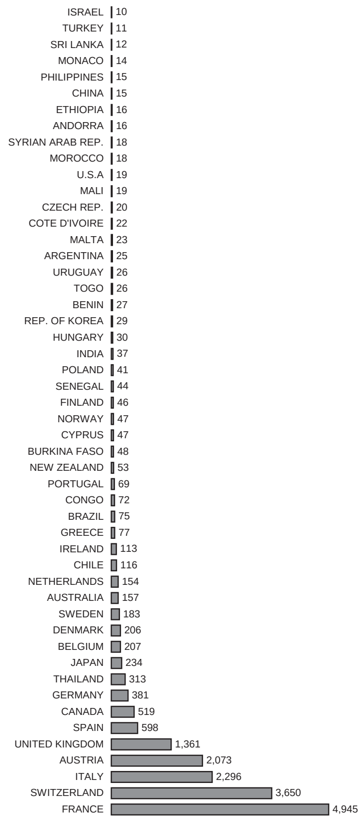
May 2009 Periodic Payroll - Total Benefit Count = 60,404



Top 50 Country of Mailing Address
Benefit Count = 51,395 (85% of Total Payroll)



Top 50 Two-Track Countries
Benefit Count = 18,573 (99% of Two-Track Benefits)



* This refers to some deferred and child benefits not in pay status.

Annex VII
Comparison of UNJSPF to Pension Schemes of Other International Organizations

	UNJSPF	*WORLD BANK*	*OECD*	*EUROPEAN UNION*	*ASIAN DEVELOPMENT BANK*	*OAS*	*WTO*	*CERN*
Type of plan	Contributory defined benefit plan	Combination of non-contributory defined benefit plan and cash balance plan	Contributory defined benefit plan		Contributory defined benefit plan, with a voluntary discretionary benefits scheme for participants to save for additional pension; no matching ADB contribution, but ADB guarantees interest rate earned on voluntary contributions.	Defined Benefit Plan with some Defined Contribution Characteristics. Each participant has own account, where participant together with the employer contributes. At the end, participant may select a pension using a DB formula or the purchase of an annuity. The Fund is pre/funded.	Contributory defined benefit	Contributory defined benefit
NRA	Hired before 1990, age 60 with 5 years of service; hired after 1989, age 62 with 5 years of service	Gross Plan: Age 62: Net Plan: Age 62 with 10 years of service; or completed 5 years of service and whose age + service equals or exceeds 60 years.	Coordinated Pension Scheme: Age 60 and 10 years of service New Pension Scheme: Age is 65 and 10 years of service	Age 63: eligible for pension with 10 years service or if in service at 63 (transitional measure for staff members in service before 01/05/2004: age between 60 and 63)	Age 60: eligible for pension with 3 years service or age 55 (pension deferred if under 55)	Either age 65 and min 15 years participation or when participant complies with the 85 rule (the addition of the age and the years of participation must be equal or superior to 85) with at least 15 years of participation.	Hired before 1990, age 60 with 5 years of service; hired after 1989, age 62 with 5 years of service	Age 65 and 35 years of membership.

	UNJSPF	WORLD BANK	OECD	EUROPEAN UNION	ASIAN DEVELOPMENT BANK	OAS	WTO	CERN
Accumulation Rate	Entry prior to 1 January 1983, 2% a year for 30 years, 1% between 30 and 35 years. Years of service in excess of 35 and performed as from 1 July 1995 1% a year but maximum rate of 70%. Entry on or after 1 January 1983, 1.5% for first 5 years, 1.75% for next 5 years, 2% next 25 years, years in excess of 35 same as above, with a maximum of 70%	Gross Plan: entry on/ after 1 May 1990, 2.2% of highest average gross salary x days of service up to 25 years divided by 365; plus 1.8% of highest average gross salary x days of service in excess of 25 years divided by 365. Normal pension for service prior 1 May 1990 is computed per schedule B. Net Plan: 1% of highest average net salary x days of service divided by 365.	Both Coordinated Pension Scheme and New Pension Scheme: 2%	1.9% a year (transitional measure for staff members in service before 01/05/2004: 2%)	2.95% of highest average remuneration multiplied by years of eligible service	For defined benefit formula: 2% of participant average pensionable remuneration until 30 years. Then 1.667% (1 and 2/3) for the next 10 years. If participant opts to purchase an annuity, the rate depends on actuarial tables that consider his/ her age and (in the case of survivorship coverage) that of his/her spouse.	2% a year for 30 years 1% a year for next 10 years	2% per year up to a maximum of 35 years.
Employee & Employer Contribution rate	Employer= 15.8% of Pensionable Remuneration (PR). Employee = 7.9% Total rate = 23.7% of PR. Ratio = 2:1	Gross Plan: employee=7% of gross salary. Employer contributes part of the cost of funding the liabilities of the plan (based on actuarial valuations). Net Plan employee= 5% of net salary. Employer credits this amount to participant's "Cash Balance Account" as of last day of calendar month	Coordinated Pension Scheme: Employee= 8.9 % of basic salary (1/3 of the long term cost of the scheme) New Pension Scheme (OECD / CoE): Employee= 9.2 % of basic salary (40 % of the long term cost of the scheme).	21.8% charged to EU budget Employee: 10.9% of basic salary Total rate = 32.7% of PR. Ratio = 2:1	9.33% of remuneration by participant: Bank contribution determined by actuarial valuation as amount necessary to fund liabilities	Employer:14% Employee: 7% of pensionable remuneration Total rate: 21.0% of PR. Ratio 2:1	Employer: 15.0% Employee: 7.5% Total rate: 22.5% of PR Ratio 2:1	Employer: 20.59% Employee:10.29% of reference salary (pensionable salary). Total rate: 30.88 of PR Ratio 2:1

Annex VIII

Survey of Normal Retirement Age in Other International Organizations As of July 2009

	Organisation	*Acronym*	*Normal Retirement Age*	*Remarks*
1	European Organisation for Nuclear Research (CERN)	CERN	65	
2	European Patent Office	EPO	65	60 without any reduction
3	ECB	ECB	65	Proposed new scheme
4	Organisation for Economic Co-operation and Development	OECD*	65	Since 1-1-2003 old staff grandfathered age 60
5	European Investment Bank	EIB*	65	65 for new staff after 1-1-09
6	European Commission	EC*	63	Transition measure: 60-63
7	Council of Europe	CoE*	63	Since 1-1-2003 old staff grandfathered age 60
8	World Organisation for Animal Health	OIE	63	
9	European Union Satellite Centre	EUSC*	63	63 for staff recruited after 1-7-2005
10	Inter-American Development Bank	IDB	62	
11	World bank	WB	62	
12	International Monetary Fund	IMF	62	Or earlier if age + service is 85 or more (minimum age 50).
13	Comprehensive Nuclear Test Ban Treaty Organisation (in prep)	CTBTO	62	
14	World Trade Organisation	WTO*	62	60 for staff joined before 01.01.90 Plans to increase to 65
15	Caribbean Development Bank	CDB	62	
16	United Nation Joint Staff Pension Fund	UNJSPF*	62	Since 1.1.1990. prior age 60, old staff grandfathered
17	Bank of International Settlements	BIS	60	Zone 60-65
18	Western European Union	WEU	60	
19	European Molecular Biology Laboratory	EMBL	60	Mandatory age of retirement at age 65
20	European Centre for Medium-range Weather Forecasts	ECMWF	60	
21	Hague Conference on Private International Law	HCCH	60	

22	Black Sea Trade and Development Bank	BSTDB	60	Mandatory age of retirement at age 65
23	African Development Bank	AfDB	60	Or earlier in case age + service is 75 or more
24	Interpol	Interpol	60	
25	European Space Agency	ESA	60	
26	Council of Europe Development Bank	CEB	60	Mandatory age of retirement at age 65
27	North Atlantic Treaty Organization	NATO *	Any time	DC provident fund (only cash lump sum)
			60-65	DB Co-ordinated fund
			50-65	DC scheme (pension benefit after 5 yrs)

* Normal Retirement age increased in the last years (8 out of 27).

Annex IX

Consulting Actuary Note on Normal Retirement Age (Extract)

estimated effect on the required contribution rate

(b) Calculations were made to estimate the actuarial savings of increasing the normal retirement age for future participants. The estimates were based on the data and model used for the actuarial valuation as of 31 December 2007, except for the changes in early retirement assumptions for future participants described earlier.

(c) The long-term effect of increasing the normal retirement age is indicated by the decrease in the required contribution for future participants. Increasing the normal retirement age would have no immediate effect on the closed group contribution rate (current participants only). Under the open group funding method, which takes into account all participants (current and future), the overall contribution required to balance the projected liabilities and assets of the Fund would be reduced.

(d) The estimated decrease in the required contribution rate arising from increasing the normal retirement age to 64 or 65 (without any phase-in) for new participants entering the Fund, and from also increasing the age early retirement entitlements begin is shown below:

RETIREMENT ASSUMPTIONS	***ESTIMATED DECREASE IN CONTRIBUTION RATE AS PER CENT OF PENSIONABLE REMUNERATION***			
	Normal Retirement Age 64 Early Retirement Entitlements Begin From Age 55		***Normal Retirement Age 65 Early Retirement Entitlements Begin From Age 55***	
	Future Participants	***All Participants***	*Future Participants*	***All Participants***
Current	1.26	0.92	2.08	1.52
40% of Current	0.47	0.33	1.08	0.78
Illustrative	0.79	0.57	1.26	0.91

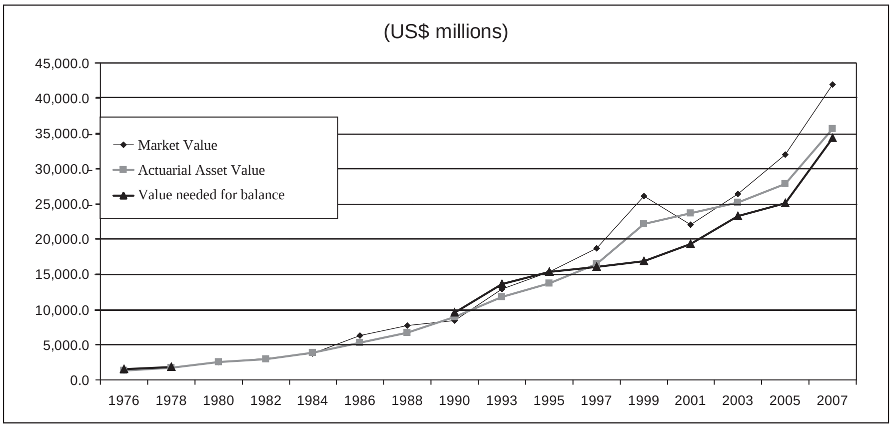
RETIREMENT ASSUMPTIONS	***ESTIMATED DECREASE IN CONTRIBUTION RATE AS PER CENT OF PENSIONABLE REMUNERATION***			
	Normal Retirement Age 64 Early Retirement Entitlements Begin From Age 57		***Normal Retirement Age 65 Early Retirement Entitlements Begin From Age 58***	
	Future Participants	***All Participants***	Future Participants	***All Participants***
Modified Current	1.06	0.78	1.79	1.31
40% of Modified Current	0.56	0.40	1.08	0.78
Modified Illustrative	0.76	0.56	1.29	0.94

Consulting Actuary Note on Normal Retirement Age (Extract)

(e) The estimated decrease in contribution rate shown in the "current" assumptions row above is essentially the effect of increasing the normal retirement age under an environment of no changes in rates of retirement, withdrawal, etc. As indicated earlier, it is expected that the rates of retirement would change in the future if the normal retirement age is increased for future participants. In practice it is not possible to predict with any precision the extent to which behavior will be changed. Therefore, a range of the possible decreases in the contribution rate has been calculated. The actual effect on the Fund of increasing the normal retirement age will depend on the actual change in retirement elections by future participants.

Annex X

Market Values, Actuarial Asset Values and Actuarial Asset Values needed for Fund Balance 1976 – 2007



Annex XI

Evolution of Actuarial Valuation Results: with Actual and Required Contribution Rates

			Actual rate of contribution			Deficit (surplus)		
Valuation date	*Regular valuation economic assumptions*[a]	*Required rate of contribution*	*Total*	*Organization share*	*Participant share*	*As a percentage of pensionable remuneration*	*In dollar terms (millions)*	*As percentage of projected liabilities*
31-Dec-1976	3.5/7.5/3	19.95	21.00	14.00	7.00	(1.05)	(225.0)	3.00
31-Dec 1978	3.5/7.5/3	21.37	21.00	14.00	7.00	0.37	121.7	1.40
31-Dec 1980	6.5/9.6	27.82	21.00	14.00	7.00	6.82	5 315.7	22.01
31-Dec-1982	6.5/9.6							
(a) Before changes on 1 Jan 1983		29.41	21.00	14.00	7.00	8.41	7 057.6	25.60
(b) After changes on 1 Jan 1983		25.79	21.00	14.00	7.00	4.79	4 018.4	16.40
31-Dec-1984	6.5/9.6							
(a) After changes on 1 Jan 1984 and 1 Jan 1985		25.94	21.00	14.00	7.00	4.94	4 490.6	16.50
(b) After changes on 1 Jan 1984 and 1 Jan 1985		24.76	21.75	14.50	7.25	3.01	2 734.3	10.40
31-Dec-1986	6.5/9/6	26.15	21.75	14.50	7.25	4.40	3 187.2	13.20
31-Dec-1988	6.5/9/6	26.21	22.50	15.00	7.50	3.71	3 133.4	10.90
31-Dec-1990	6.5/9/6	24.27	23.70	15.80	7.90	0.57	641.0	1.80
31-Dec-1993	6.5/9/6	25.19	23.70	15.80	7.90	1.49	1 857.1	4.30
31-Dec-1995	5.5/8.5/5, with 1.9 per cent cost of two-track	25.16	23.70	15.80	7.90	1.46	1 688.7	4.00
31-Dec-1997	(same as 1995)	23.34	23.70	15.80	7.90	(0.36)	(417.3)	1.00
31-Dec-1999	(same as 1995)	19.45	23.70	15.80	7.90	(4.25)	(5 278.6)	11.50
31-Dec-2001	(same as 1995)	20.78	23.70	15.80	7.90	(2.92)	(4 284.4)	8.00

			Actual rate of contribution			Deficit (surplus)		
Valuation date	*Regular valuation economic assumptions*[a]	*Required rate of contribution*	*Total*	*Organization share*	*Participant share*	*As a percentage of pensionable remuneration*	*In dollar terms (millions)*	*As percentage of projected liabilities*
31-Dec-2003	4.5/7.5/4, with 1.9 per cent cost of two-track	22.56	23.70	15.80	7.90	(1.14)	(1 949.6)	3.10
31-Dec-2005	(same as 2003)	22.41	23.70	15.80	7.90	(1.29)	(2 760.1)	3.70
31-Dec-2007	(same as 2003)	23.21	23.70	15.80	7.90	(0.49)	(1 322.9)	1.40

[a] Since 1978, valuations have been carried out on a fully dynamic basis, that is to say, inflation is assumed to continue indefinitely in the future

Annex XII

Synopsis of meetings

A summary of the first meeting is included in the main body of the report in order to provide the reader with relevant context. The Group agreed it would be useful to include a brief synopsis of all subsequent meetings as an annex to its report.

Second meeting[18] (4-8 May 2009)

The Group had decided at its first meeting that given its terms of reference, the intricate subject matter and the number of briefings that it would require from representatives from outside the Group, it would need to meet for five days during its second meeting.

During its second meeting, which was held in New York from 4-8 May 2009, the Working Group received briefings from the CEO of the Fund, from the Director of the Fund's Investment Management Service; from a representative of the ICSC secretariat; and from the Consulting Actuary of the Fund. The Group was unable to schedule a meeting with a representative of the HLCM/HR-Network at this time, but agreed it would be necessary to do so during its next meeting. It should also be noted that due to unexpected scheduling conflicts, the Executive Heads were unable to attend the full meeting of the Working Group. The views of one member of the Executive Heads was submitted in writing and considered on an item by item basis by the Group. Two representatives from the Executive Heads, however, did meet with the Working Group via a video-conference during the morning meeting of the Group on 7 May. They were briefed by the Chairman and had an opportunity to express their views. It should therefore be noted however that given the circumstances the progress report presented to the Board in July 2009 should be read with this in mind.

The CEO of the Fund provided the Group with an extensive briefing as to the current status of the Fund. A summary of the CEO presentation to the Group was made available to the members and alternate members of the Working Group through the website portal that was set up by the Fund. The CEO reported on the unprecedented growth experienced by the Fund over the last ten years. It was noted that the total number of participants and benefits

18 The members/alternate members of the Working Group who attended the second meeting were (i) for the Governing Bodies: Ms. V. Gonzalez Posse (UN); Mr. A. Kovalenko (UN); (ii) for the Executive Heads: for reasons of force majeure the Executive Head representatives were unable to attend the meeting. However, Ms. C. Hennetier (WHO) and Mr. S. Tabusa (ILO) participated in the morning meeting on 7 May via teleconference; (iii) for the Participants: Ms. S. Hansen-Vargas (WMO); Mr. F. Léger (ILO); Mr. M. Pace (FAO); and (iv) for FAFICS: Mr. A. Castellanos del Corral; Mr. G. Schramek; Mr. W. Zyss. Mr. DeTurris attended as Secretary and focal point to the Group.

Briefings were provided to the Group by Mr. B. Cochemé, CEO of the Fund who was accompanied by the Deputy CEO, Mr. S. Arvizu; Ms. S. Bishopric, Director of the Investment Management Service of the Fund, who was accompanied by Mr. T. Shindo and Mr. A. Singh; Ms. E. Phillip, representative of the ICSC secretariat; and Mr. J. McGrath, Consulting Actuary to the Fund.

in payment had increased by about 53 percent during this time. This growth, as indicated in the Fund's third Management Charter, was one of the main challenges facing the Fund. The CEO also recalled that the Fund was gearing up to move to a new Integrated Pension Administration System (IPAS). It was recognized that this could be expected to impact on the operations of the Fund over the next few years.

Having said this, the CEO stressed however that the major development that would need to be taken into account by the Working Group would be related to investments and the significant decline in the market value of the assets of the Fund and the anticipated impact that this would have on the results of the next actuarial valuation to be carried out as at 31 December 2009. He noted that as the Fund was maturing, there would be an increasingly important reliance on investment returns and that the Fund would therefore need to focus on the related risk management needs. The CEO also recalled the significant impact that the improved mortality rates already had on the actuarial valuation carried out as at 31 December 2007 and which would be further reflected in future valuations.

After highlighting the major developments, the CEO stressed that the Working Group should keep in mind that the Fund was initially established and still intended to be a retirement scheme and not a savings plan. As indicated in its terms of reference, the Working Group should therefore remain mindful of the income-replacement principle that had been cited by the Committee of Actuaries as one of the Fund's main principles. Turning more specifically to the benefit provisions and the plan design of the Fund, the CEO noted the success the previous Working Group had in setting up a "road map" that served the Board well over the last several years. He noted that the new Working Group could provide the same assistance, by sorting through and prioritizing the many and various proposals for changes in the plan design that have been advanced since the previous Working Group concluded its work. The CEO noted that the Board had already requested that the balance of its 2002 recommendations be considered as priority issues. He also noted that the provisions in the Regulations should be more responsive to the needs of the Fund's shorter-term participants. While noting that the 2002 recommendation to provide for earlier cost-of-living adjustments for deferred retirement benefits aimed to address such needs, he further noted that the Group might wish to also explore the possibility of increasing the amounts payable for the full withdrawal settlement provision under article 31 of the Regulations. The CEO noted that this would be more effective than lowering the vesting period since, although a 2-3 year vesting period might provide the participants with an entitlement to a periodic benefit, it would most likely not be utilized often. In other words, under such circumstances the large majority of participants would find that a benefit at 3.0 to 4.5 per cent of their final average remuneration, without any provision for cost of living adjustments until age 55, would not be in their interest.

In addition, the CEO recalled the need to carefully assess the recent developments before making any proposals to enhance the benefit provisions. He reiterated the important impact that the revised mortality tables reflecting increased longevity rates had on the actuarial situation of the Fund and the effect that the significant decline in the market value of the assets would have on the next valuation to be carried out as at 31 December 2009. With this in mind, the CEO noted that it would probably be prudent and technically logical for the Group to consider the normal retirement age as well, notwithstanding that the mandatory age of separation would need to be addressed first by the member organizations.

The Working Group was also provided with a briefing from the Director of the Investment Management Service (IMS) of the Fund. A summary of this presentation was provided to the Group and also made available through the website portal set up by the Fund secretariat. The Director of IMS noted the significant decline in the market value of the assets, which had declined from a peak of about 42 billion dollars, where it stood at the end of 2007 to about 31 billion dollars at the time of the Working Group's second meeting. She noted that the Fund had outperformed its benchmark during the recent downturn in the markets, but pointed out that given the Fund's relatively conservative approach it was not unusual that it would have better results than its benchmark. The Director stressed however that notwithstanding this, IMS was carrying out its work during one of the most financially volatile periods in history. With this in mind, she also pointed out that it appeared that the worst might be over, since the value of the assets seemed to have leveled off at its current value. While it would be difficult to ascertain when the return on the assets would revert to their long-term historic rates, she noted that during the recent Joint Session between the Investments Committee and the Committee of Actuaries there was general agreement that the real rate of return assumption of 3.5 per cent, as incorporated in the actuarial valuations, continued to be realistic.

The Working Group also met with a representative of the International Civil Service Commission (ICSC) secretariat. The Group requested an update as to the current work of the Commission and more detailed information concerning its views in respect to the mandatory age of separation from the organizations. The representative of the ICSC secretariat provided a detailed evolution of the Commission's previous consideration of the mandatory age of separation. She described the circumstances and evolution of the deliberations on the subject as from the early 1980s until 1990 when the organizations and the Fund last increased the mandatory age of separation and the normal retirement age, respectively. She noted that while the Commission had not taken a position in the current matter, the CEB had prepared a paper on the subject, which for the most part considered the possibility of offering those participants who were subject to a mandatory age of separation at age 60 an option to serve until age 62. While the issue was ongoing, she informed the Group that the item would be discussed further at the upcoming meeting of the Commission in July 2009 to be held in Montreal.

The Working Group also thought it would be useful to request an update as to when the next comprehensive review on pensionable remuneration would begin. The representative of the ICSC secretariat noted first that the Commission had decided to review the common scale of staff assessment every five years rather than every two years as had been done in the past. As the scale was last reviewed in 2006, it was scheduled to be reviewed again in 2011. With respect to the next comprehensive review of pensionable remuneration, she informed the Group that preparatory meetings would begin in 2010, so that it could be included on the Commission's agenda for early 2011. With this in mind, the Working Group noted that the Pension Board had decided in 2004 to set up a Contact Group of the Board that would collaborate with the ICSC on the review of pensionable remuneration. The Working Group further noted that the Contact Group was to be comprised of the Officers of the Pension Board however it also recalled that this was decided at a time when the officers of the Board served two years; at that time the Board only met in the even-number years. Given that the Board had reverted to annual sessions, the composition of the Contact Group might need to be revisited so as to provide for better continuity of its participation in respect to the next review on pensionable remuneration.

The Working Group also had a meeting with the Consulting Actuary of the Fund. The Consulting Actuary provided the Group with detailed comments concerning the recent and significant decline in the market value of the assets of the Fund. He recalled the methodology for determining the actuarial asset value used in the valuations and noted that while the recent developments would certainly have an impact on the 31 December 2009 valuation results, in order to make a more meaningful assessment of such developments, he noted it would be advisable to await the results of the next two actuarial valuations.

The Consulting Actuary also provided a brief update as to the recent Joint Session between the Investments Committee and the Committee of Actuaries, which had been held one week earlier. He was pleased to note that the positive outcome of that meeting was the agreement between the two Committees that the long-term real rate of return assumption of 3.5 per cent continued to be reasonable. He pointed out that for all periods reviewed of 15 years or longer, the annualized real rate of return on the assets exceeded the real rate of return assumption of 3.5 per cent. The Consulting Actuary noted the importance of this information, especially in light of the fact that actuarial valuations are of a very long-term nature.

The Working Group had previously requested the Consulting Actuary to prepare a note on the actuarial implications of increasing the normal retirement age (NRA) to 64 and to 65. The Consulting Actuary introduced that note, which reflected an estimated range of potential actuarial savings of 0.40 to

0.78 per cent of pensionable remuneration if the Fund were to increase the NRA to 64; it also provided an estimated range of actuarial savings of 0.78 to 1.31 per cent of pensionable remuneration if the Fund were to increase the NRA to 65. Both of these estimates assume that early retirement would begin as from ages 57 and 58, respectively. The savings estimates would be slightly different if the Fund were to maintain the right to early retirement as from age 55, as currently provided for in the Regulations. The Consulting Actuary noted that the Committee of Actuaries had a preliminary and informal exchange of views concerning a possible increase in the normal retirement age and that it intended to provide its views on the matter in the report on its next session, to be held in Geneva from 8-10 June 2009.

The Working Group also had an extensive discussion with the Consulting Actuary concerning other possible changes in the plan design that were under consideration. Based on a preliminary exchange of views on the possibility of offering new participants an "option" to choose to be covered under a defined contribution type plan, the Group decided to request the Consulting Actuary to submit his views in a short note on the subject, including any actuarial implications. The Working Group also agreed to request the Consulting Actuary to provide actuarial cost estimates for a number of other measures that it decided might need to be considered to address the long-term needs of the Fund. A summary of those cost estimates and the Group's findings thereon will be provided to the Board in the Working Group's final report to be presented to the Board in 2010.

In sum, on the basis of the briefings received and on its assessment of the recent developments, including the revised mortality tables reflecting increased longevity rates, the significant decline in the market value of the assets and the emerging trends, the Working Group decided during its second meeting to focus on the following general topics:

i. normal retirement age;
ii. possible "option" of a defined contribution type plan;
iii. 2002 recommendations already approved in principle by the Assembly;
iv. enhanced full withdrawal settlements for participants with less than five years;
v. accumulation rates, progressive and regressive;
vi. earlier cost-of-living adjustments for deferred retirement benefits; and
vii. FAFICS prioritized list of options to be submitted at the next meeting.

The Working Group agreed that these items were not to be considered exclusive nor in any order of priority. In addition, it should also be noted that the Group requested further information from the Consulting Actuary concerning a possible increase in the time-limit for electing to validate and concerning trends in respect to partial disability and child benefits for children born or adopted after the participants' retirement from service. The Group agreed it would therefore further assess these issues at its subsequent meetings. It also recalled that it would need to take into account the views that were yet to be expressed by the Board during its 56th session to be held in July 2009 and the views of the Committee of Actuaries, which were expected to be made during the Committee's 2010 meeting.

So far the Working Group was able to carry out only preliminary work to define the main lines of its programme and the main issues to be considered. The substantive work of the Group will have to start following the 2009 session of the Board, taking into account the observations of the Board on the progress report submitted to it. The Group plans to hold one or two short meetings during the 56th session of the Board in order to take note of these observations and to plan its work for the period between the conclusion of the 56th session of the Board and the 57th session to be held in 2010.

Third meeting[19] (17 July 2009)

The Group met briefly in Vienna after the conclusion of the 56th session of the Board. Following notification from Mr. Pace that he would be unable to continue serving on the Working Group, it was agreed that Dr. J. Larivière would replace him as Chairman. In order to avoid having two officers from the same constituent group, the Working Group also decided that Mr. F. Léger of the Participants would replace Ms. V.M. Gonzalez Posse as Vice-Chairman, also as from 17 July 2009.

The Group considered the comments made at the Board during its discussion of the Working Group's progress report, which are reflected in the Boards sessional report (JSPB/56/R.33).

The Working Group also reconsidered a list of inquiries it had intended to make to the Consulting Actuary and decided to narrow its requests for actuarial cost estimates in respect to certain changes in the provisions of the plan that were under consideration. The Group agreed that it would meet again in Geneva from 27-30 October 2009.[20]

Fourth meeting[21] (3-6 November 2009)

The Group met in Geneva for its fourth meeting from 3-6 November 2009. It met via video-conference with the Consulting Actuary on 4 November. It also met with Mr. Llobera (ILO) and Ms. Martin (IFAD) both members of the HLCM on 5 November. The Group decided not to include a full summary of

[19] The members and alternates who attended the third meeting were Ms. V.M. Gonzalez Posse (UN), Mr. A. Kovalenko (UN), Dr. J. Larivière (WHO), Mr. D. Northey (IAEA), Mr. S. Tabusa (ILO), Ms. Susan Hansen-Vargas (WMO), Mr. F. Léger (ILO), Mr. A. Castellanos del Corral, Mr. R. Eggleston, Mr. W. Zyss and Mr. G. Schramek.

[20] The Group subsequently decided to meet from 3-6 November 2009 instead of 27-30 October 2009.

[21] The members and alternates who attended the fourth meeting were Mr. A. Kovalenko (UN), Dr. J. Larivière (WHO), Mr. D. Northey (IAEA), Ms. C. Hennetier (WHO), Mr. A. Lakhanpal (UN), Ms. Susan Hansen-Vargas (WMO), Mr. F. Léger (ILO), Mr. A. Castellanos del Corral, Mr. R. Eggleston, Mr. W. Zyss and Mr. G. Schramek.

its fourth and subsequent meetings as part of its report, since all discussions, henceforth, would be fully reflected in the working draft.

Fifth meeting[22] (17-19 February 2010)

The Group met in Geneva for its fifth meeting. It held a video-conference with the Consulting Actuary on 18 February 2010, at which time it sought clarification in respect to certain actuarial cost/savings estimates and further information that would help guide the Group in formulating its final recommendations.

Sixth meeting[23] (5-7 and 10-11 May 2010)

The Group met in Geneva for its sixth meeting, at which time it formulated its final conclusions and proposals, which would be presented to the Committee of Actuaries during its session from 9-11 June 2010. The comments of the Committee would then be included, in full, in the report to be presented to the Board during its 57th session in July 2010.

[22] The members and alternates who attended the fifth meeting were Ms. V.M. Gonzalez Posse (UN), Mr. A. Kovalenko (UN), Dr. J. Larivière (WHO), Mr. D. Northey (IAEA), Ms. R. Pawlik (UN), Ms. C. Hennetier (WHO), Mr. A. Lakhanpal (UN), Ms. Susan Hansen-Vargas (WMO), Mr. F. Léger (ILO), Mr. A. Castellanos del Corral, Mr. R. Eggleston, Mr. W. Zyss and Mr. G. Schramek.

[23] The members and alternates who attended the sixth meeting were Ms. V.M. Gonzalez Posse (UN), Mr. A. Kovalenko (UN), Dr. J. Larivière (WHO), Mr. D. Northey (IAEA), Ms. C. Hennetier (WHO), Mr. A. Lakhanpal (UN), Ms. Susan Hansen-Vargas (WMO), Mr. F. Léger (ILO), Mr. A. Castellanos del Corral, Mr. R. Eggleston, Mr. W. Zyss and Mr. G. Schramek.

Annex XIII

ANNUAL RATES OF RETIREMENT AND EARLY RETIREMENT

Table 1: Rates Currently Assumed For Present Participants With Age 60 Normal Retirement Age And Sample Assumed Rates If Normal Retirement Age Increases To 65

Professional Staff

AGE	LESS THAN 25 YEARS OF SERVICE		25 – 30 YEARS OF SERVICE		30 OR MORE YEARS OF SERVICE	
	Normal Retirement Age					
	Men					
	60 Current	65 Sample	60 Current	65 Sample	60 Current	65 Sample
55	0.09	0.07	0.12	0.10	0.27	0.21
56	0.06	0.05	0.10	0.08	0.20	0.16
57	0.06	0.05	0.10	0.08	0.20	0.16
58	0.07	0.05	0.13	0.10	0.20	0.16
59	0.10	0.08	0.15	0.12	0.22	0.18
60	0.65	0.40	0.65	0.40	0.65	0.40
61	0.45	0.30	0.45	0.30	0.45	0.30
62	0.55	0.30	0.55	0.30	0.55	0.30
63	0.50	0.30	0.50	0.30	0.50	0.30
64	0.50	0.30	0.50	0.30	0.50	0.30
65	0.50	0.95	0.50	0.95	0.50	0.95
66	0.50	0.50	0.50	0.50	0.50	0.50
67-69	0.50	0.50	0.50	0.50	0.50	0.50
70	1.00	1.00	1.00	1.00	1.00	1.00
	Women					
	60 Current	65 Sample	60 Current	65 Sample	60 Current	65 Sample
55	0.07	0.05	0.12	0.09	0.30	0.24
56	0.05	0.04	0.09	0.07	0.20	0.16
57	0.04	0.03	0.10	0.07	0.18	0.14
58	0.05	0.04	0.10	0.07	0.18	0.14
59	0.07	0.05	0.16	0.11	0.20	0.15
60	0.80	0.50	0.80	0.50	0.80	0.50
61	0.55	0.35	0.55	0.35	0.55	0.35
62	0.75	0.40	0.75	0.40	0.75	0.40
63	0.65	0.40	0.65	0.40	0.65	0.40
64	0.75	0.40	0.75	0.40	0.75	0.40
65	1.00	1.00	1.00	1.00	1.00	1.00

Annex XIII (continued)

ANNUAL RATES OF RETIREMENT AND EARLY RETIREMENT

Table 2: Rates Currently Assumed For Present Participants With Age 60 Normal Retirement Age And Sample Assumed Rates If Normal Retirement Age Increases To 65

General Service Staff

AGE	LESS THAN 25 YEARS OF SERVICE		25 – 30 YEARS OF SERVICE		30 OR MORE YEARS OF SERVICE	
	Normal Retirement Age					
	Men					
	60 Current	65 Sample	60 Current	65 Sample	60 Current	65 Sample
55	0.07	0.05	0.20	0.16	0.40	0.32
56	0.06	0.04	0.17	0.14	0.30	0.24
57	0.06	0.04	0.18	0.14	0.30	0.24
58	0.06	0.04	0.18	0.14	0.28	0.22
59	0.10	0.07	0.25	0.18	0.27	0.22
60	0.65	0.40	0.65	0.40	0.65	0.40
61	0.45	0.30	0.45	0.30	0.45	0.30
62	0.55	0.30	0.55	0.30	0.55	0.30
63	0.50	0.30	0.50	0.30	0.50	0.30
64	0.50	0.30	0.50	0.30	0.50	0.30
65	0.50	0.95	0.50	0.95	0.50	0.95
66	0.50	0.50	0.50	0.50	0.50	0.50
67-69	0.50	0.50	0.50	0.50	0.50	0.50
70	1.00	1.00	1.00	1.00	1.00	1.00
	Women					
	60 Current	65 Sample	60 Current	65 Sample	60 Current	65 Sample
55	0.07	0.05	0.23	0.18	0.45	0.36
56	0.06	0.05	0.17	0.14	0.30	0.24
57	0.07	0.05	0.17	0.14	0.30	0.24
58	0.08	0.06	0.18	0.14	0.30	0.24
59	0.10	0.07	0.25	0.18	0.33	0.25
60	0.80	0.50	0.80	0.50	0.80	0.50
61	0.55	0.35	0.55	0.35	0.55	0.35
62	0.75	0.40	0.75	0.40	0.75	0.40
63	0.65	0.40	0.65	0.40	0.65	0.40
64	0.75	0.40	0.75	0.40	0.75	0.40
65	1.00	1.00	1.00	1.00	1.00	1.00

Annex XIII (continued)

ANNUAL RATES OF RETIREMENT AND EARLY RETIREMENT

Table 3: Rates Currently Assumed For Present Participants With Age 62 Normal Retirement Age And Sample Assumed Rates If Normal Retirement Age Increases To Age 65

Professional Staff

AGE	LESS THAN 25 YEARS OF SERVICE		25 – 30 YEARS OF SERVICE		30 OR MORE YEARS OF SERVICE	
	Normal Retirement Age					
	Men					
	62 Current	65 Sample	62 Current	65 Sample	62 Current	65 Sample
55	0.09	0.07	0.12	0.10	0.27	0.21
56	0.06	0.05	0.10	0.08	0.20	0.16
57	0.06	0.05	0.10	0.08	0.20	0.16
58	0.07	0.05	0.13	0.10	0.20	0.16
59	0.10	0.08	0.15	0.10	0.22	0.16
60	0.13	0.09	0.15	0.10	0.22	0.16
61	0.17	0.10	0.20	0.14	0.25	0.17
62	0.65	0.35	0.65	0.35	0.65	0.40
63	0.50	0.30	0.50	0.30	0.50	0.35
64	0.50	0.30	0.50	0.35	0.50	0.35
65	0.50	0.90	0.50	0.90	0.50	0.90
66	0.50	0.50	0.50	0.50	0.50	0.50
67-69	0.50	0.50	0.50	0.50	0.50	0.50
70	1.00	1.00	1.00	1.00	1.00	1.00
Women						
	62 Current	65 Sample	62 Current	65 Sample	62 Current	65 Sample
55	0.07	0.05	0.12	0.09	0.30	0.24
56	0.05	0.04	0.09	0.07	0.20	0.16
57	0.04	0.03	0.10	0.07	0.18	0.14
58	0.05	0.04	0.10	0.07	0.18	0.14
59	0.07	0.05	0.16	0.11	0.20	0.15
60	0.09	0.06	0.16	0.11	0.20	0.15
61	0.15	0.10	0.20	0.15	0.25	0.18
62	0.80	0.50	0.80	0.55	0.80	0.60
63	0.55	0.35	0.55	0.40	0.55	0.40
64	0.75	0.55	0.75	0.55	0.75	0.55
65	1.00	1.00	1.00	1.00	1.00	1.00

Annex XIII (continued)

ANNUAL RATES OF RETIREMENT AND EARLY RETIREMENT

Table 4: Rates Currently Assumed For Present Participants With Age 62 Normal Retirement Age And Sample Assumed Rates If Normal Retirement Age Increases To 65

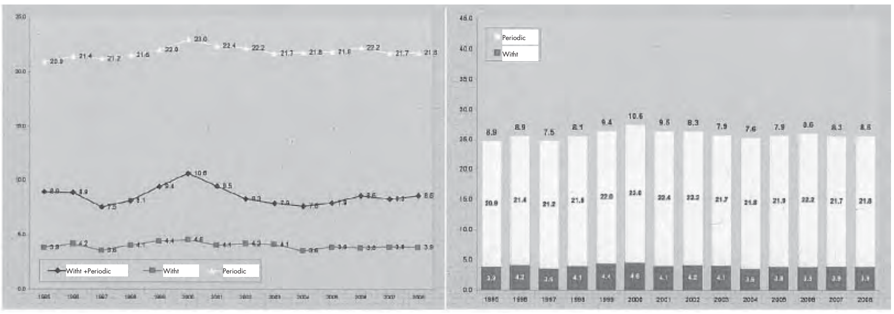
General Service Staff

AGE	LESS THAN 25 YEARS OF SERVICE		25 – 30 YEARS OF SERVICE		30 OR MORE YEARS OF SERVICE	
	Normal Retirement Age					
	Men					
	62 Current	65 Sample	62 Current	65 Sample	62 Current	65 Sample
55	0.07	0.05	0.20	0.16	0.40	0.32
56	0.06	0.04	0.17	0.14	0.30	0.24
57	0.06	0.04	0.18	0.14	0.30	0.24
58	0.06	0.04	0.18	0.14	0.28	0.22
59	0.10	0.07	0.25	0.18	0.27	0.22
60	0.10	0.07	0.20	0.15	0.25	0.20
61	0.10	0.07	0.20	0.15	0.30	0.22
62	0.65	0.35	0.65	0.35	0.65	0.40
63	0.50	0.28	0.50	0.30	0.50	0.35
64	0.50	0.28	0.50	0.35	0.50	0.35
65	0.50	0.90	0.50	0.90	0.50	0.90
66	0.50	0.50	0.50	0.50	0.50	0.50
67-69	0.50	0.50	0.50	0.50	0.50	0.50
70	1.00	1.00	1.00	1.00	1.00	1.00
	Women					
	62 Current	65 Sample	62 Current	65 Sample	62 Current	65 Sample
55	0.07	0.05	0.23	0.18	0.45	0.36
56	0.06	0.05	0.17	0.14	0.30	0.24
57	0.07	0.05	0.17	0.14	0.30	0.24
58	0.08	0.06	0.18	0.14	0.30	0.24
59	0.10	0.07	0.25	0.18	0.33	0.25
60	0.12	0.09	0.20	0.16	0.30	0.18
61	0.20	0.15	0.30	0.24	0.30	0.18
62	0.80	0.50	0.80	0.55	0.80	0.60
63	0.55	0.35	0.55	0.40	0.55	0.40
64	0.75	0.55	0.75	0.55	0.75	0.55
65	1.00	1.00	1.00	1.00	1.00	1.00

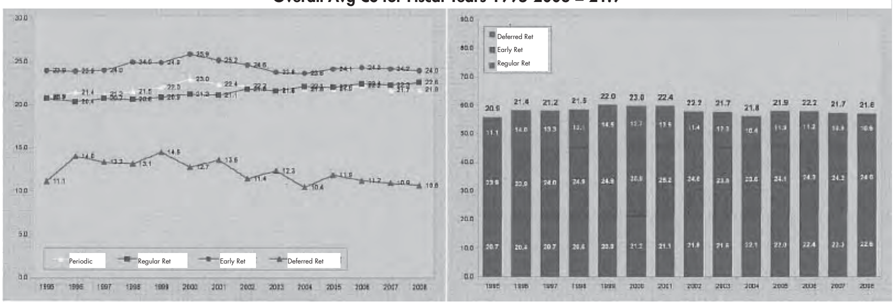
Annex XIV

Average contributory service in years by year of separation
Fiscal Year 1995-2008

Full Withdrawal Settlements and Periodic Benefits (Current and Terminated)
Overall Avg CS for Fiscal Years 1995-2008 = 8.5



Breakdown by type of Periodic Benefit
Regular, Early and Deferred Retirement Benefits (Current and Terminated)
Overall Avg CS for Fiscal Years 1995-2008 = 21.9



* Excluding former participants who had more than one benefit (i.e add on benefits) from the fund

Annex XIV (continued)

Average contributory service in years by year of separation

UNJSPF

Table 1. Full Withdrawal Settlements During Fiscal Year 1995-2008

Table shows the count and average contributory service in years of former participants by year of separation*

Fiscal Year	Individual Count							Average of Contributory Service Years							Total Individual Count	Average of all Contributory Service Years
	0-5	5-10	10-15	15-20	20-25	25-30	>30	0-5	5-10	10-15	15-20	20-25	25-30	>30		
1995	2,517	461	136	65	25	13	1	2.2	6.7	12.3	17.0	21.4	26.9	30.4	**3,218**	3.9
1996	3,473	653	287	180	67	10	1	2.0	6.8	12.3	16.8	21.8	27.3	30.0	**4,671**	4.2
1997	3,987	638	190	112	31	5		2.1	6.8	12.4	17.2	22.2	26.6		**4,963**	3.6
1998	3,538	734	209	119	49	9	2	2.2	6.8	12.2	17.0	22.2	25.7	34.0	**4,660**	4.1
1999	2,531	605	167	117	46	11	1	2.3	6.9	12.3	17.1	22.1	26.1	30.9	**3,478**	4.4
2000	2,311	801	197	94	33	12	5	2.3	6.6	11.9	17.4	22.1	26.7	35.9	**3,453**	4.6
2001	2,642	752	198	57	40	13	1	2.0	6.8	11.8	17.5	21.7	26.3	30.6	**3,703**	4.1
2002	4,103	923	296	142	84	32	3	2.0	7.0	12.1	17.4	22.0	26.9	31.9	**5,583**	4.2
2003	3,964	1,277	290	86	38	17	3	2.2	6.7	11.9	17.4	21.8	26.8	30.7	**5,675**	4.1
2004	4,388	689	235	65	34	11	1	2.2	6.9	11.9	17.3	22.4	27.3	32.8	**5,423**	3.6
2005	4,210	799	202	70	37	8	2	2.5	6.7	12.1	17.3	22.3	27.1	33.9	**5,328**	3.9
2006	4,051	895	230	78	31	11	2	2.3	6.4	12.2	17.0	22.4	26.9	33.5	**5,298**	3.8
2007	4,045	1,030	228	109	19	10	2	2.2	6.6	11.9	16.9	22.2	27.0	31.0	**5,443**	3.9
2008	4,178	1,179	211	103	27	11	2	2.1	6.8	12.0	16.7	22.1	27.6	32.3	**5,711**	3.9
Grand Total	**49,938**	**11,436**	**3,076**	**1,397**	**561**	**173**	**26**	**2.2**	**6.7**	**12.1**	**17.1**	**22.1**	**26.8**	**32.7**	**66,607**	**4.0**

* Table excludes former participants who had more than one benefit (i.e. add on benefits) from the fund.

Annex XIV (continued)

Average contributory service in years by year of separation

UNJSPF

Table 2. Periodic Benefits (Current and Terminated) During Fiscal Year 1995-2008

Table shows the count and average contributory service in years of former participants by year of separation*

Fiscal Year	Individual Count						Average of Contributory Service Years						Total Individual Count	Average of all Contributory Service Years
	5-10	10-15	15-20	20-25	25-30	>30	5-10	10-15	15-20	20-25	25-30	>30		
1995	203	199	192	196	338	238	6.9	12.7	17.3	22.3	27.2	32.6	1,366	20.9
1996	210	224	291	253	498	275	7.0	12.5	17.4	22.3	27.3	32.5	1,751	21.4
1997	176	188	251	213	389	226	7.0	12.6	17.3	22.2	27.3	32.3	1,443	21.2
1998	179	179	238	210	341	274	7.1	12.5	17.5	22.4	27.4	32.4	1,421	21.5
1999	156	154	224	216	343	282	7.1	12.4	17.6	22.3	27.4	32.3	1,375	22.0
2000	161	165	255	268	430	425	7.1	12.4	17.7	22.1	27.4	32.4	1,704	23.0
2001	180	159	218	236	366	385	6.7	12.3	17.5	22.1	27.1	32.4	1,544	22.4
2002	186	180	249	303	370	358	7.0	12.5	17.4	22.3	27.4	32.8	1,646	22.2
2003	208	181	207	276	364	315	6.8	12.2	17.7	22.3	27.3	32.7	1,551	21.7
2004	240	172	173	306	356	311	7.2	12.6	17.7	22.4	27.6	33.2	1,558	21.8
2005	213	166	217	277	341	329	7.1	12.3	17.4	22.4	27.2	33.1	1,543	21.9
2006	232	214	237	300	417	444	6.8	12.3	17.4	22.4	27.0	33.2	1,844	22.2
2007	275	183	251	288	399	392	6.8	12.2	17.4	22.5	27.2	33.2	1,788	21.7
2008	320	236	289	292	455	451	6.9	12.6	17.6	22.6	27.4	33.6	2,043	21.8
Grand Total	**2,939**	**2,600**	**3,292**	**3,634**	**5,407**	**4,705**	**7.0**	**12.4**	**17.5**	**22.3**	**27.3**	**32.8**	**22,577**	**21.9**

* Table excludes former participants who had more than one benefit (i.e. add on benefits) from the fund.

UNJSPF

Table 2. a) Regular Retirement (Current and Terminated) During Fiscal Year 1995-2008

Table shows the count and average contributory service in years of former participants by year of separation*

Fiscal Year	Individual Count						Average of Contributory Service Years						Total Individual Count	Average of all Contributory Service Years
	5-10	10-15	15-20	20-25	25-30	>30	5-10	10-15	15-20	20-25	25-30	>30		
1995	82	124	128	141	166	99	7.1	12.7	17.2	22.3	27.4	33.1	**740**	20.7
1996	88	130	142	132	182	85	7.4	12.4	17.4	22.4	27.3	32.9	**759**	20.4
1997	59	129	153	132	168	84	7.3	12.6	17.4	22.3	27.3	33.3	**725**	20.7
1998	64	122	158	139	127	94	7.7	12.6	17.5	22.5	27.6	33.1	**704**	20.6
1999	75	104	159	139	151	99	7.5	12.5	17.7	22.3	27.4	33.0	**727**	20.9
2000	65	127	174	165	164	125	7.5	12.3	17.7	22.2	27.5	32.8	**820**	21.2
2001	72	111	153	149	151	130	6.9	12.2	17.4	22.1	27.2	32.8	**766**	21.1
2002	65	111	166	207	169	135	7.5	12.7	17.5	22.4	27.5	33.6	**853**	21.8
2003	79	105	159	204	167	139	6.9	12.4	17.7	22.3	27.6	33.2	**853**	21.6
2004	98	117	120	235	199	164	7.7	12.8	17.7	22.5	27.5	33.7	**933**	22.1
2005	101	107	161	217	198	182	7.2	12.5	17.5	22.5	27.4	33.6	**966**	22.0
2006	98	128	168	235	242	232	6.9	12.3	17.2	22.4	27.1	33.6	**1,103**	22.4
2007	109	111	181	216	246	217	7.1	12.3	17.4	22.6	27.2	33.5	**1,080**	22.3
2008	116	130	205	219	289	230	7.4	12.8	17.8	22.7	27.5	34.0	**1,189**	22.6
Grand Total	**1,171**	**1,656**	**2,227**	**2,530**	**2,619**	**2,015**	**7.3**	**12.5**	**17.5**	**22.4**	**27.4**	**33.4**	**12,218**	**21.6**

* Table excludes former participants who had more than one benefit (i.e. add on benefits) from the fund.

Annex XIV (continued)

Average contributory service in years by year of separation

UNJSPF

Table 2. b) Early Retirement (Current and Terminated) During Fiscal Year 1995-2008
Table shows the count and average contributory service in years of former participants by year of separation*

Fiscal Year	Individual Count						Average of Contributory Service Years						Total Individual Count	Average of all Contributory Service Years
	5-10	10-15	15-20	20-25	25-30	>30	5-10	10-15	15-20	20-25	25-30	>30		
1995	40	52	52	40	168	138	6.7	12.7	17.4	22.4	27.1	32.2	**490**	23.9
1996	57	59	120	110	293	187	6.8	12.7	17.5	22.3	27.3	32.3	**826**	23.9
1997	46	32	75	66	206	138	6.7	12.9	17.2	22.2	27.4	31.8	**563**	24.0
1998	48	30	51	56	201	179	7.1	12.5	17.8	22.1	27.3	32.0	**565**	24.9
1999	43	32	55	62	177	181	7.1	12.1	17.6	22.4	27.4	32.0	**550**	24.9
2000	53	28	68	93	259	299	6.9	12.8	17.9	21.9	27.4	32.2	**800**	25.9
2001	57	35	56	80	197	253	6.6	12.3	17.9	21.9	27.1	32.2	**678**	25.2
2002	51	48	71	88	191	222	7.0	12.2	17.3	22.2	27.3	32.3	**671**	24.6
2003	72	46	39	63	185	174	6.7	12.1	18.1	22.3	27.1	32.2	**579**	23.8
2004	68	42	41	63	154	147	6.9	12.3	18.0	22.2	27.7	32.6	**515**	23.6
2005	50	32	43	45	137	147	6.7	12.4	17.2	22.1	27.0	32.6	**454**	24.1
2006	62	60	48	57	171	210	6.9	12.7	17.6	22.4	26.9	32.7	**608**	24.3
2007	56	45	48	62	144	172	6.6	12.2	17.5	22.5	27.2	33.0	**527**	24.2
2008	70	68	65	60	160	217	6.8	12.3	17.1	22.2	27.4	33.2	**640**	24.0
Grand Total	**773**	**609**	**832**	**945**	**2,643**	**2,664**	**6.8**	**12.4**	**17.5**	**22.2**	**27.3**	**32.4**	**8,466**	**24.4**

* Table excludes former participants who had more than one benefit (i.e. add on benefits) from the fund.

Annex XIV (continued)

Average contributory service in years by year of separation

UNJSPF

Table 2. c) Deferred Retirement (Current and Terminated) During Fiscal Year 1995-2008
Table shows the count and average contributory service in years of former participants by year of separation*

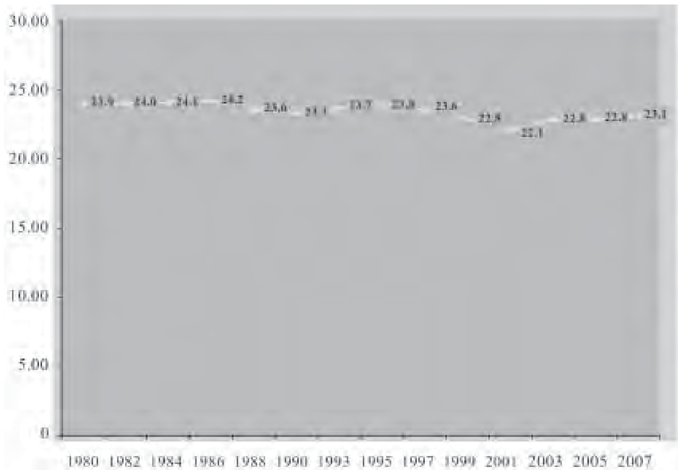
Fiscal Year	Individual Count						Average of Contributory Service Years						Total Individual Count	Average of all Contributory Service Years
	5-10	10-15	15-20	20-25	25-30	>30	5-10	10-15	15-20	20-25	25-30	>30		
1995	81	23	12	15	4	1	6.8	12.7	17.4	21.6	26.2	36.7	**136**	11.1
1996	65	35	29	11	23	3	6.7	12.2	17.5	21.3	27.0	32.6	**166**	14.0
1997	71	27	23	15	15	4	6.9	12.4	17.2	21.9	26.0	31.5	**155**	13.3
1998	67	27	29	15	13	1	6.7	12.4	17.0	22.4	27.1	30.1	**152**	13.1
1999	38	18	10	15	15	2	6.5	12.7	16.8	21.9	25.8	30.4	**98**	14.5
2000	43	10	13	10	7	1	6.7	12.1	17.3	22.0	26.5	33.3	**84**	12.7
2001	51	13	9	7	18	2	6.5	12.3	17.8	22.2	27.1	32.4	**100**	13.6
2002	70	21	12	8	10	1	6.7	12.0	17.1	21.8	26.6	30.3	**122**	11.4
2003	57	30	9	9	12	2	6.6	11.8	16.9	21.8	26.7	32.7	**119**	12.3
2004	74	13	12	8	3		7.0	12.5	17.2	22.4	27.5		**110**	10.4
2005	62	27	13	15	6		7.1	11.6	16.8	21.7	27.5		**123**	11.9
2006	72	26	21	8	4	2	6.7	11.3	17.9	21.8	26.3	31.0	**133**	11.2
2007	110	27	22	10	9	3	6.6	11.7	17.0	22.7	26.3	31.9	**181**	10.9
2008	134	38	19	13	6	4	6.7	12.5	17.5	22.4	25.6	32.0	**214**	10.6
Grand Total	**995**	**335**	**233**	**159**	**145**	**26**	**6.7**	**12.1**	**17.3**	**22.0**	**26.6**	**32.0**	**1,893**	**12.1**

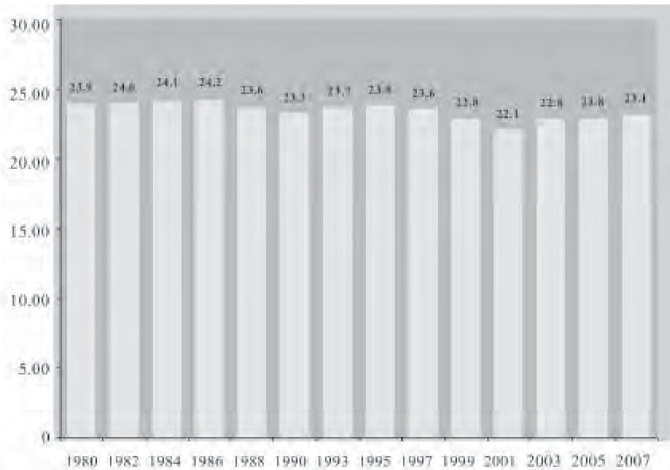
* Table excludes former participants who had more than one benefit (i.e. add on benefits) from the fund.

Annex XV

Average Contributory Service (CS) in Years Based on Actuarial Valuation Tables 1980 - 2007*

Periodic Benefits Regular and Early Retirement only





* Source: Actuarial Valuation tables on average age at entry of new participants and average age at retirement (regular and early retirements only).
The average contributory service years shown in graphs above were derived by subtracting the average age at retirement from the average age at Entry.

Annex XV (Cont.)

Average Contributory Service (CS) in Years Based on Actuarial Valuation Tables

Average Length of Service - Regular and Early Retirement

(years)

	Average age at entry into Fund	*Average age at retirement (regular & early)*	*Average length of service*
1980	35.90	59.80	23.90
1982	35.90	59.90	24.00
1984	36.00	60.10	24.10
1986	35.90	60.10	24.20
1988	36.40	60.00	23.60
1990	36.70	60.00	23.30
1993	36.40	60.06	23.66
1995	36.10	59.92	23.82
1997	36.30	59.89	23.59
1999	37.20	60.04	22.84
2001	37.70	59.75	22.05
2003	37.30	60.11	22.81
2005	37.80	60.61	22.81
2007	37.50	60.63	23.13

Source: Sixteenth through twenty-ninth actuarial evaluations of the UNJSPF.

Annex XVI

Enhanced withdrawal settlements for short-term staff
(Note by FAFICS representatives)

Background

1. At its 54th session in 2007, the Board considered a note presented by the IAEA Staff Pension Committee (JSPB/54/R.36) requesting the actuarial costs of reducing the minimum period of contributory service required to qualify for a periodic pension benefit and for increasing the amount payable in respect to withdrawal settlements. In its note the IAEA SPC pointed out that the current employment trends both worldwide and in the UN Common System are leading to a more mobile workforce. Employment periods of less than five years were much more common than they had been at the time the Pension Fund was initially set up.

2. The Board considered the information presented by the IAEA SPC and "Recalling its previous consideration of the Working Group's report during its session in 2002, the Board noted that it had agreed at that time to recommend certain measures that would serve to enhance the mobility of staff and the portability of pensions. The Board noted that the requests for actuarial

costs related to measures that would aim to improve upon the mobility of staff by enhancing benefits for those serving, or wishing to serve for shorter durations. The Board agreed to request the Consulting Actuary to provide updated actuarial cost estimates in respect to the measures considered above. The estimated costs would be presented to the Board at its next session." (JSPB/54/R.42, para. 241)

3. At its 2008 session, the Board considered a note of the Consulting Actuary (JSPB/55/R.10) which contained, inter alia, the requested cost estimates in respect to the measures proposed by the IAEA SPC:

> *"The Board also considered the Consulting Actuary's estimates of the actuarial costs of the following measures that would enhance the amount of the withdrawal settlement:*
>
> *(a) Accelerate the schedule for paying additional 10% increments (without interest) for full withdrawal settlements to a maximum of 250% of participants' own contributions after 15 years;*
>
> *(b) Accelerate the schedule for paying additional 10% increments (with interest at 5%) for full withdrawal settlements to a maximum of 250% of participants' own contributions after 15 years:*
>
> *(c) Accelerate the schedule for paying additional increments for full withdrawal settlements to a maximum of 200% of participants' own contributions after 5 years;*
>
> *(d) Accelerate the schedule for paying additional increments for full withdrawal settlements to a maximum of 200% of participants' own contributions after 10 years.*
>
> *The Board noted that the estimated costs for the above respective measures was 0.06% of pensionable remuneration (without crediting interest for full withdrawal settlements), 0.38% of pensionable remuneration (for current and future participants), 0.44% of pensionable remuneration (for current and future participants), and 0.26% of pensionable remuneration (for current and future participants).*
>
> *After considering the note on this item, the Board decided to refer the issue to the Working Group that was established to review the overall plan design of the Fund."* (JSPB/55/R.50, paras. 72 to 74)

4. The 2008 Working Group addressed the issue of enhancing the amount payable in respect of full withdrawal settlements in para. 63 of its Progress Report (JSPB/56/R.20):

> *"As requested in its terms of reference, the Group also focused on the possibility of enhancing the amounts payable for full withdrawal settlements for individuals serving for less than five years, as a possible means to improve the benefit package for the short term staff. In this connection, it is useful to make a distinction for the purposes of this discussion. In the*

context of this review, "short-term" shall mean participants who serve for less than five years as opposed to "shorter-term" staff which shall mean those who may still have a career with the organizations and who may serve considerably longer than five years but not as long as the "long-term" career staff for whom it has not been unusual to serve 25 or more years. …the Group agreed that the Fund would need to be more responsive to the "short-term" staff members who serve for less than five years notwithstanding the importance the Fund still gave to providing for career staff. The Group recognized that while newer staff may no longer be inclined to serve 25-30 plus years, as had more often been the case when the Fund was initially established, staff members were still serving the organizations for a substantial number of years …….the Group agreed that this should not underestimate the needs of the Fund's "short-term" staff., who serve for less than five years. It was against this background that the Group decided to focus on enhancing the withdrawal settlement benefits for those who have less than five years, which it noted would be a departure from the approach taken in earlier years where the focus was on enhancing withdrawal settlement payments for those who serve for more than five years but who separate well before age 55, when cost of living adjustments would become applicable."

5. At its 56th session in 2009, the Board discussed the Progress Report of the Working Group. While there was an extensive exchange of views on what should be included in the final report, the Board did not provide any guidance with respect to the issue of withdrawal settlements. The Board merely noted that there were a wide range of issues that should be considered by the Working Group. It was therefore agreed that there would be no reason to focus on one particular issue. It was also pointed out that the Working Group should take into account the emerging trends and changes in the personnel policies of the member organizations

6. This note has been prepared in order to facilitate the discussion of this issue in the Working Group. It should be borne in mind that the Board also pointed out "that the Group should put forth concrete proposals that would be based on technical analysis rather than on broad statements of opinion."

Is there a need to enhance the withdrawal settlement for short-term staff?

7. The request for enhancing the amount of the withdrawal settlement is based on the underlying assumption that greater mobility in the workforce as well as changes in human resources policy in respect to contract arrangements, i.e. more short-term appointments, have increased the number of staff with employment periods of less than five years - and hence the number of withdrawal settlements.

8. The following tables provide data on the number of withdrawal settlements and on the average length of service.

Table 1 Withdrawal Settlements

Year	*Participants*	*Withdrawal Settlements*			
		Under 5 years	*%*	*Over 5 years*	*%*
1996	67 997	4 415	6.5	1 192	1.8
1997	67 740	4 987	7.4	896	1.3
1998	67 971	4 633	6.8	1 017	1.5
1999	68 935	3 335	4.8	895	1.3
2000	74 432	3 274	4.4	860	1.2
2001	80 082	3 425	4.3	1 003	1.3
2002	82 715	5 159	6.2	1 259	1.5
2003	85 245	4 999	5.9	1 504	1.8
2004	88 356	5 400	6.1	885	1.0
2005	93 683	5 137	5.5	923	1.0
2006	98 431	4 993	5.1	1 054	1.1
2007	106 566	4 992	4.7	1 082	1.0
2008	112 804	5 073	4.5	1 252	1.1
Average	**5.5**		**1.3**		

The figures in Table 1 show that in relation to the total number of participants the number of withdrawal settlements was rather stable and no significant trend can be discerned.

9. Another indicator for an "emerging trend" would be data on the length of service. Table 2 shows the average length of service for the period 1988 – 2007.

Table 2 Average length of service

Year		*Average age on entry*	*Average age on retirement*	*Average length of service*
1988	P	44.30	60.10	15.80
	GS	32.90	59.80	26.90
	Total	36.40	60.00	23.60
1990	P	41.50	60.20	18.70
	GS	33.70	59.80	26.10
	Total	36.70	60.00	23.30
1993	P	40.70	60.20	19.72
	GS	34.40	59.66	25.26
	Total	36.40	60.06	23.66
1995	P	41.00	60.39	19.39
	GS	34.50	59.43	24.93
	Total	36.10	59.92	23.82

1997	P	40.80	60.59	19.79
	GS	34.60	59.35	24.75
	Total	36.30	59.89	23.59
1999	P	40.60	60.76	20.16
	GS	35.00	59.39	24.39
	Total	37.20	60.04	22.84
2001	P	40.50	60.58	20.08
	GS	35.50	59.09	23.59
	Total	37.70	59.75	22.05
2003	P	40.60	60.87	20.27
	GS	35.80	59.43	23.63
	Total	37.70	60.11	22.41
2005	P	40.80	61.13	20.33
	GS	36.10	60.08	23.98
	Total	37.80	60.61	22.81
	P	41.20	61.17	19.97
	GS	36.00	60.14	24.14
	Total	37.50	60.63	23.13

Table 2 shows that the average length of service is 20 years for Professionals and about 24 years for General Service staff. The average length of service of both categories is 23.12 years.

10. The data in tables 1 and 2 do not support the notion that changes in personnel polices or increased mobility of staff have had a significant impact on the average length of service or on the number of withdrawal settlements of both, staff with less than five years of service and staff with more than five years of service.

11. There is also recent information which would support the data in tables 1 and 2 above. In 2008 the ICSC secretariat conducted a global staff survey collecting information on retention and recruitment from 20 organizations of the UN common system. It also drew on information provided by some 15,000 staff members who had responded to the ICSC questionnaire.

12. In its report on the survey findings the ICSC secretariat stated:

> *"The 2008 studies indicated that in general, organizations were not experiencing problems in retaining or recruiting staff. 18 out of 20 organizations (90%) and 14 out of 16 organizations (87%) considered turnover (internal and external) to be low or about right at headquarters and in the field duty stations respectively. Only 15% of the organizations (3 of 20) said they were having difficulties retaining staff. When compared to the global average of 20% in the public and private sectors worldwide, the*

labour turnover rate of 7.5% at headquarters and 7.4% in the field, as calculated for the years 2002 – 2006, is low." (ICSC/69/R.5, II, para. 4)

Would increasing the amount of the withdrawal settlement enhance mobility and pension portability?

13. Pension portability is the ability of employees to carry their pension rights from one pension plan to another when they change employer. In general, there are three kinds of portability: portability of benefits, portability of assets, and portability of service.

14. The ability of an employee to maintain and transfer accumulated pensions benefits when changing jobs is generally less of a problem in defined contribution plans than in defined benefit plans.

15. The UNJSPF is a defined benefit plan. The transfer of pension rights to another pension plan is only possible if the Pension Fund has concluded a transfer agreement with the "receiving" plan. In document JSPB/55/R.7, the Consulting Actuary described the operation of the transfer of pension rights as follows: (emphasis added)

"11. The UNSPF has entered into transfer agreements with a number of international organizations, with the aim of securing the transfer and continuity of pension rights. In general, the transfer agreements fall into two categories:

(i) "Inner-Circle" Transfer Agreements

Inner-Circle agreements are entered into between Plans that have similar accumulation and benefit structures. ***In these Agreements, service with one organization is generally automatically credited on a one-for-one basis as service with the other,*** *upon transfer of employment and payment of the transfer value calculated pursuant to the terms of the applicable Agreement. The amount of the transfer value payable by the sending Plan in suchcases is computed under the terms and conditions specified in the Transfer Agreement. This may lead to actuarial gains or losses to the sending and/or the receiving Plan: the transfer value and the corresponding pension credit upon transfer are both functions of past-service with the sending Plan; they are not determined by references to actuarial equivalencies under either the sending Plan or the receiving Plan. The individual transfers, depending on the specific circumstances of each, may be actuarially neutral or to the actuarial benefit of either Plan. The annual number of Inner-Circle transfers is quite small.*

(ii) "Outer-Circle" Transfer Agreements

These represent the majority of the Fund's transfer agreements. Under Outer-Circle agreements, the sending Plan will determine a transfer payment based on its applicable actuarial assumptions. The receiving Plan *will then convert the transfer payment into a period of equivalent service under its actuarial equivalencies.* ***With Outer-Circle agreements, a transferring employee may receive less service credit than he or she had accrued with the sending Plan. (Usually, there are provisions, which specify that the service credit in the receiving Plan cannot exceed the pensionable service earned under the sending Plan.)*** *Outer-Circle agreements can be said to be actuarially equivalent for both the sending Plan and the receiving Plan.*

12. As described above, Outer-Circle agreements require the use of special actuarial transfer value factors. These factors are applied in calculating the transfer payment for transfers from the Fund and the years of contributory service granted for transfers into the Fund. In summary, the transfer of pension rights involves the following;

(i) The sending Plan will calculate the present value of the accrued pension entitlement of the transferring employee. Such calculation will be based on the actuarial assumptions adopted by the Plan for this purpose, including the applicable interest rate and the pertinent demographic data for the transferring employee.

(ii) The receiving Plan will generally calculate a period of service to be granted upon receipt of the transfer payment, based on its actuarial assumptions adopted for this purpose. In performing the calculation, account will be taken of the starting pensionable salary of the employee at the receiving organization and the benefit provisions of the receiving Plan. In a contributory pension system, additional calculations would be performed to determine an equivalent amount of accumulated contributions for use in subsequent calculations related to events such as retirement and termination.

(iii) The transferring employee is then granted a period of time to decide whether or not to proceed with the transfer of pension entitlements.

(iv) Assuming the employee elects to transfer their pension entitlements, the transfer payment would be forwarded to the receiving Plan (possibly with an interest adjustment) and the sending Plan would cancel any entitlement to benefits under its Plan provisions. The receiving Plan would credit the applicable past years of service and the employee's contribution amounts.

13. In case of transfers out of the Fund, the transfer payment is determined as the larger of (i) the withdrawal settlement under the Fund's Regulations or (ii) the commuted value of the pension entitlement."

16. From the above it can be summarized that those staff members who want to transfer their pension rights under an inner-circle transfer agreement should have their years of contributory service in the Pension Fund credited with the receiving pension plan on a one-for-one basis. Thus no portability loss should occur.

17. But staff transferring pension rights under the provisions of an outer-circle agreement may suffer a portability loss. Also, for staff whishing to have their years of contributory service in the Pension Fund credited with a national or occupational pension plan which has not concluded a transfer agreement with the Fund, the amount of the withdrawal settlement may be insufficient to cover the cash transfer sum required by the receiving pension plan. Consequently, the early leaver either has to pay the difference out of his/her own pocket or he/she stands to lose pensionable service in the recipient pension plan and thus forgo future pension benefits.

Measures to enhance pension portability

18. In light of the foregoing, the Working Group would have to focus on enhancing withdrawal settlement benefits with a view to preventing to the extent possible portability losses for short-term staff. To achieve this goal the following measures could be considered:

The lump sum withdrawal settlement would be calculated as the sum of

(a) The participants own contributions (with 3.25% interest) plus 10% increments for every year of contributory service as from the completion of one year of service; or

(b) The participants own contributions with an interest rate of 5 % plus 10% increment for every year of contributory service as from the completion of one year of service; or

(c) The participants own contributions and 50% of the contributions paid by the employing organization with an interest rate of 3.25%.

19. In order to limit the cost of the above measures, the increased amount of the withdrawal settlement should only be payable solely on the condition that the lump sum is used to purchase pensionable service in another pension plan. In practice this would mean that the cash transfer sum would be paid to the receiving pension plan and not to the staff member.

20. In all other cases the withdrawal settlement could remain at its present level. The rationale behind this proposal would be that the purpose of enhancing the withdrawal settlement is to prevent - or at least to reduce - portability losses for short-term staff who wish to transfer pension rights to the pension plan of their new employer. There is no compelling reason for the Fund, however, to pay a higher withdrawal settlement, if the amount could be used for some other purpose.

Concluding remarks

21. As stated at the outset, the purpose of this paper is to provide the Working Group with some preliminary considerations related to the short-term staff issue. The Group may require more statistical data and background informa-

tion before it can formulate a recommendation related to improving the benefit package for short-term staff.

Background

1. The early retirement provisions are closely linked to the normal retirement age. Considering that a change of the normal retirement age may not be implemented in the near future, changes in the early retirement provisions could be approved by the Board without waiting for decisions on the increase of the mandatory age of separation.

2. At the outset, it may be of interest to the Working Group to look at the manner in which the early retirement benefit provisions evolved.

3. Up to 1971 the relevant article read as follows:

Article 30

Early retirement benefit

(a) An early retirement benefit shall be payable to a participant whose age on separation is at least fifty-five but less than sixty and whose contributory service was five years or longer.

(b) The benefit shall be payable at a rate equal in actuarial value, at the age of the participant on separation, to a retirement benefit at age sixty payable at the standard annual rate.

(c) The benefit may be commuted by the participant into a lump sum to the extent specified in article 29 (c) for a retirement benefit.

4. In 1971 the Board recommended a number of amendments to the Regulations, one of which included a change in the early retirement benefit provisions:

"(i) The Board recommends a change in the formula for computing the early retirement benefit payable upon separation between ages 55 and 60) under which the existing strictly mathematical reduction in the pension of about 6 per cent for each year short of 60 – corresponding to longer period over which it will on the average be paid – would be diminished to 2 per cent per year where the retiring participant has at least 25 years of contributory service to his credit. The Board agrees with other bodies which have considered this question that it is a service both to the individual and to the organization that early retirement should to a limited degree be facilitated. The cost of the measure is estimated at $ 15.5 million.

(ii) The Board considered the possibility of recommending elimination of the reduction factor altogether, as well perhaps as reducing the qualifying service period to 20 years. It was conscious, however, that to do this would require financing beyond that at present available. It wishes to record its belief

none the less that more attractive voluntary early retirement provisions in this sense are highly desirable, and remain one of its objectives, if the financing problem can be solved. The Board believes that important progress could be made in this direction – as well as in that of raising the level of benefits in general – if serious thought were now given by the member organizations to the question of raising the statutory retirement age prescribed under their staff regulations." *(A/84/09, para. 34)*

5. In 1978 the Board recommended a further change to the early retirement provisions:

"While the provisions for early retirement and deferred retirement und the Fund's Regulations seem to be broadly adequate, the Board believes that changes should be made in two minor respects. The first concerns the early retirement benefit, which can be taken at age 55 and which, if the participant has 25 years of service then to his credit, is actuarially reduced from the value it would have at age 60 by 2 per cent for each year below that age, instead of by the "true" actuarial reduction theoretically required to equalize it, of about 6 per cent per year. What the Board proposes with respect to this benefit is that if the participant has 30 or more years to his credit at age 55 or later the actuarial reduction should then be 1 per cent per year." *(A/33/9, para. 51)*

6. In 1983, the Board responded to the recommendation of the Committee of Actuaries to consider increasing the reduction factors for early retirement as follows:

"30. As for the recommendation by the Committee of Actuaries that consideration be given to increasing the reduction factors for early retirement, the Board was informed that the correct actuarial reduction for a retirement benefit awarded prior to age 60 would be of the order of 6.5 per cent for each year below 60 (e.g. the early retirement at age 55 should be equal to approximately 67.5 per cent of the full benefit). Yet participants with 30 years of service may now retire with only 1 per cent per year reduction in their benefits, and those with 25 years of service with a reduction of 2 per cent per year. The current early retirement provisions are thus a drain on the Fund's resources. Recalling the advantages which the Fund's liberal early retirement provisions have for the member organizations and the participants alike, the Board decided not to endorse the recommendation of the Committee of Actuaries." (A/38/9)

7. The General Assembly, however, in its resolution A/RES/38/233, Chapter II "Measures to improve the actuarial balance of the Fund", requested a "re-examination of the early retirement provisions, taking into account, inter alia, the observations made by the Committee of Actuaries".

8. In 1984 the Board re-examined the early retirement provisions as follows:

31. In its report to the thirty-eighth session of the General Assembly, the Board stated that the Committee of Actuaries had recommended, inter alia, that consideration be given to increasing the reduction factor for early retirement. Having reviewed that recommendation, the Board decided not to endorse it because of the advantages which the Fund's early retirement provisions have for the member organizations and the participants alike.

32. In its re-examination of this question the Board noted that participants with 30 years of contributory service may now retire at age 55 or over with a reduction in their benefits equal to 1 per cent for every year below age 60. This provision has been in effect since 1 January 1980. The Board noted further that any increase in the reduction factor would have to apply only to service after 31 December 1984, so as not to violate the acquired rights of participants. In the circumstances, and bearing in mind that the current recruitment practices of the organizations made it unlikely that in future many participants – especially those in the Professional and higher categories – will in fact attain 30 years of contributory service, the Board concluded that the savings that would accrue from an increase in the present reduction factor would not be considerable. In the circumstances the Board decided not to recommend any change in the reduction factor of 1 per cent a year for participants with at least 30 years of contributory service.

33. The Board recommends, as a contribution to the alleviation of the actuarial imbalance of the Fund, that the reduction factor for participants who retire between the ages 55 and 60 with 25 years or more but less than 30 years of contributory service be increased from 2 per cent for every year below 60 to 3 per cent for service performed as from 1 January 1985. The Consulting Actuary estimates the resultant savings at 0.07 per cent of pensionable remuneration." (A/39/9)

9. In 1989 the Board examined the early retirement provision in the context of improving the actuarial situation of the Fund. The Board noted:

"When the early retirement provisions were introduced, the expectation was that their extra costs would be offset by a more liberal exercise by the executive heads of their discretionary authority to extend the service of participants beyond 60. However, that has not happened. In fact, the number and length of such extensions have decreased, while the number of early retirements has steadily increased .Since 1982, the Committee of Actuaries has expressed concern about the high incidence of early retirements.

10. The Board considered the following measures in this area:

(a) Increasing the reduction factor with respect to further service from 1 to 2 per cent per year for early retirement after at least 30 years of service (actuarial savings: 0.06 per cent of pensionable remuneration);

(b) Combining (a) above with an increase in the reduction factor from 3 to 4 per cent per year for early retirement after between 25 and

30 years of service (actuarial savings: 0.10 per cent of pensionable remuneration);

(c) If the normal retirement age were raised to 62, either making the early retirement provisions applicable from 57 to 62 rather than at present from 55 to 60, or using reduction factor of 6 per cent per year at ages 55 and 56, while retaining age 55 as the threshold for early retirement (actuarial savings: 0.16 per cent of pensionable remuneration);

(d) Applying a flat reduction factor of 6 per cent per year to deferred retirement benefits commencing before age 60, regardless of the length of contributory service (actuarial savings: 0.03 per cent of pensionable remuneration). (A/44/9), paras. 55 and 56)

11, The Board, after extensive negotiations decided by consensus to recommend to the General Assembly the following package of measures:

Annex XVII

Early Retirement provisions

(Note by FAFICS representatives)

Measures	*Actuarial savings (percentage of PR)*
(a) Increase in normal retirement age under the Fund's Regulations from age 60 to 62 for new participants	*1.27*
(b) Eliminate cost-of-living adjustments for future deferred retirement benefits until the separated participant reaches age 55 instead of age 50	*0.91*
(c) In cases of early retirement, increase the reduction factor to 6 per cent per year at ages 55 and 56 for new participants while retaining age 55 as the early retirement age	***0.16***
(d) Increase the rate of contribution from 22.5 per cent to 23.7 per cent of pensionable remuneration	*1.20*
Total	***3.54***

Considerations

12. From the foregoing it is obvious that the early retirement provisions for participants with at least 25 years of contributory service were introduced as a "service both to the individual and to the organizations". However, since the "true" actuarial reduction factor should be 6 per cent for each year below 60 or 62, the reduction factor currently applied to retiring participants with between 25 and 30 years of contributory service, (2 per cent per year with respect to service performed before 1 January 1985, and 3 per cent per year with respect to service performed thereafter), and 1 per cent for participants with 30 years or longer, constitute an actuarial loss to the Fund.

13. While there may be good reasons for maintaining the current early retirement provisions, the Working Group nonetheless considered changes in the early retirement provisions with a view to reduce the actuarial cost of this benefit.

Annex XVIII

Cap provision under the two-track pension adjustment system

(Note by FAFICS Representatives)

1. At the November 2009 meeting of the Working Group, some members of the Group raised the issue of the 110 per cent cap provision under the two-track adjustment system and suggested the reduction of the 110 per cent cap to 100 per cent. Since the Working Group agreed to continue its consideration of the two-track pension adjustment system at its next meeting in February 2010, information on the evolution of the cap provision is provided in this paper which may facilitate the discussion of the Working Group.

2. The application of the cap is governed by paragraph 23 of the Pension Adjustment System which reads:

> *"23. The dollar amount as initially determined under subparagraph 5 (a) above and then adjusted under section H above, is converted to the local currency equivalent by using the exchange rate in effect for the month preceding the calendar quarter of that payment. The resultant amount is compared to the local currency amount as initially determined under paragraph 5 (b) above and then adjusted under section H above. Except as provided in paragraph 25 below, the beneficiary is entitled, until the next quarter, to the greater of the local currency amount or the local currency equivalent of the dollar amount, subject to a maximum of (a) 120 per cent of the local currency amount with respect to benefits payable on account of separations or deaths in service before 1 July 1995 and other benefits derived therefrom; (b) 110 per cent of the local currency amount with respect to benefits payable on account of separations or deaths in service on or after 1 July 1995 and other benefits derived therefrom. The limitations described in (a) and (b) above shall not result in a benefit being smaller than the United States dollar base amount determined in accordance with the Regulations of the Fund or 80 per cent of the adjusted United States dollar-track amount."*

The history of the cap provision

3. At its 1984 session, at the request of the General Assembly, the Board reviewed the two-track system as part of the search for measures to eliminate the Fund's continued actuarial imbalance. One measure considered by the Board was the introduction of a "cap" on the extent to which the dollar track amount could exceed the local track amount.

> *"42. The Board recalled that prior to 1971, in the days of fixed parities, a benefit dominated in United States dollars posed no problems. But when*

the dollar weakened against the other major currencies, pensioners living outside the United States, particularly those in countries such as Switzerland, experienced substantial reductions in the purchasing power of their benefits. The "local track" was introduced to counter that loss of purchasing power. The desired objective was achieved, but the cost to the Fund in dollar terms was substantial while the United States dollar was weak. The renewed strength of the dollar in recent years has meant that the "local track" has become largely theoretical, since the vast majority of pensioners are now paid in accordance with the "United States dollar track" (which now yields the higher benefit). In the circumstances, the question could be asked whether there was need to retain the "local track" or whether the Fund could revert to the old single United States dollar-denominated benefit system. The Board concluded that the "local track" should be retained as an insurance against the future weakening of the dollar. At the same time, the Board noted that several major currencies were now so weak in relation to the dollar that the "dollar track" yielded benefits up to 40 per cent higher (in local currency terms) than the "local track". The Board was of the view that such extensive differences over the" local track" were difficult to justify and concluded that they should be controlled.

43. Accordingly, the Board recommends that the" United States dollar track" be "capped" at 120 per cent of the "local track". In other words, in countries where the "dollar track" when converted into local currency yields a larger benefit in local currency units than the "local track" (both duly adjusted for inflation), the amount actually payable to the retiree should not exceed the "local track" amount plus 20 per cent thereof. The Board believes that the 20 per cent limit provides a fair balance between the entitlement to a full United States dollar-denominated benefit and the need to safeguard the purchasing power of the benefit in local currency terms.

44. The Consulting Actuary estimates that the introduction of the recommended "cap" would yield a saving equal to approximately 0.20 per cent of pensionable remuneration." (A/39/9)

4. The General Assembly in resolution 39/246 approved the 120 per cent cap, subject to transitional measures. But the Assembly also requested the Board "to re-examine the operation of the two-track pension adjustment system in countries where the adjusted United States dollar amount, when converted into local currency, yields a larger benefit in local currency unit than the adjusted local currency amount and to report to the General Assembly at its fortieth session on further limiting the resultant excess benefits."

5. In 1985, in its review of the two-track pension adjustment system, the Board recalled "56. ... that a participant who becomes entitled to a periodic benefit starts out with a basic pension determined in accordance with the Regulations of the Fund, pursuant to those Regulations this basic pension is denominated in United states dollars. The two-track adjustment system was introduced in the 1970s in order to protect the purchasing power of the benefit

after award at times when the United States dollar was weak. Unless a participant who is entitled to a pension benefit chooses to submit proof of residence in a particular country (other than the United States of America) – and there is no obligation for him to do so – his pension benefit, after award, is subject to adjustment on the basis of movements of the United States consumer price index. The benefit so adjusted constitutes the "norm". Under the two-track adjustment a beneficiary who opts for the protection of the local track can draw, over his life-time, from the Pension Fund more United States dollars than had he remained solely on the United States dollar track.

57. A participant who retires in a country other than the United States, and who considers submitting proof of residence so that the two-track system can be applied to him, is likely to attach importance to two factors:

(a) How many units of local currency will he get when he retires?

(b) How will the purchasing power of his benefit in (a) above be protected over time?

58. In accordance with paragraph 5 (b) (iii) of the Pension Adjustment System, the local-currency base amount is calculated by applying to the dollar amount "the average, computed over 36 consecutive calendar months up to and including the month of separation, of the exchange rates between the United States dollar and the currency of the country of residence". Such an average is higher than the spot rate when the dollar is dropping, and lower when the dollar is rising. In the latter situation, the local-currency base amount may therefore be less than the base amount (in dollars) calculated in accordance with the Regulations. In such cases a two-track system with a very low cap (and fortiori with a 0 per cent cap) could produce a result that would be inconsistent with the Regulations, namely a local currency benefit that would be lower than the basic pension determined in accordance with the Regulations.

59. A further point to bear in mind is that at a particular point in time the margin by which one track exceeds the other will differ from individual to individual depending on his or her date of separation. The lower the cap, the greater will the discrepancy between the two amounts become.

60. The Board also noted that despite the efforts made to explain the 20 per cent cap to beneficiaries who had been under the two-track system, and notwithstanding the explicit transitional arrangements approved by the General Assembly, which guarantee the dollar amount of the benefit as at 31 December 1984, the introduction of the cap had given rise to much anxiety and lack of understanding. The decisions that have been taken by retired participants based on the 20 per cent cap will not necessarily be valid if the cap is reduced. Any change in the cap would thus further exacerbate the existing difficulties.

61. On the basis of its further review of the operation of the two-track pension adjustment system, the Board has concluded that the 20 per cent cap will have to be monitored over the next few years before a decision can be taken on whether to recommend changes to the General Assembly." (A/40/9)

6. In 1991, the General Assembly requested the Board to consider a change in the "120 per cent cap provision (RES/46/192). At its session in 1992, the Board considered a statistical analysis of the benefit in award as of 1 May 1992, and after an exchange of views on the desirability of changing the cap provision, the Board " agreed, in principle, that the "120 per cent cap" could be changed with effect from either 1 January 1995 or 1 April 1995. It requested the Secretary to prepare, for the 1994 session of the Board, a further study on: (a) the level to which the current cap could be lowered; (b) whether a revised cap provision should apply to all beneficiaries or only to beneficiaries whose pensions had been based on the previous interim floor measure which had applied from 1 January 1988 to 31 December 1990, or on the transitional measure which had applied from 1 January 1991 to 31 March 1992, or on the recent modification of the pension adjustment system which entered into effect on 1 April 1992; and (c) any future transitional measures which would accompany any changes in the cap provision."

7. In resolution 47/203, the General Assembly reiterated its request that the Board continue to consider economy measures, including in particular a change in the "120 per cent cap" provision.

8. At its July 1994 session, the Board examined the further study prepared by the Secretary, which included an updated statistical analysis of the benefits in award as of 1 May 1994. The considerations by the Board are reflected in its report to the General Assembly (A/49/9), as follows:

"176. In his study the secretary noted that it would not be possible to devise a "perfect cap" arrangement. A return to the situation prior to 1 January 1985, namely, the "better of the two tracks", with no cap, would increase costs and might give results which would significantly improve, rather than simply protect, the purchasing power of pensions in award. If the cap were lowered to 100 per cent, the pension amount payable to those under the two-track adjustment system could in principle never be more than the local currency track amount. However, provision would still have to be made to ensure that the amount payable: (a) could not be less than the local currency equivalent of the initial dollar pension under the regulations; (b) for those who separated before 1 January 1985, could not be less than the accrued December 1984 dollar amount; and (c) for those who separated before the date of implementation of the lower cap, could not be less than the local currency equivalent of the accrued dollar amount on the day before the implementation of the lower cap.

177. *The information provided to the Board indicated that a 100 per cent cap, or any other cap below 120 per cent, would have the greatest impact on beneficiaries who resided in countries where there were likely to be frequent and significant changes in the relative value of the local currency vis-á-vis the dollar, thus making all the more difficult the exercise of a choice between opting for the two-track system or remaining on the dollar track only. From a legal perspective, if a revised cap were adopted, it would appear necessary to protect the adjusted pension amounts accrued by existing beneficiaries as of the time of the change, or to give them an option to revert to the dollar track. A 100 per cent cap could discourage many beneficiaries from opting for the two-track adjustment system, thus foregoing stability relating to the local currency amount of their pensions because of concerns that they might receive pensions lower than the adjusted dollar track amounts should the local currency weaken against the dollar. Moreover, they could face, in the future, the possibility of their pensions being less than those of later retirees who had opted for the dollar entitlement only.*

Views of the Committee of Actuaries

180. *The Committee of Actuaries noted that the current level of the cap had not been determined on a technical or scientific basis , but had rather emerged in 1984 as part of a negotiated package of economy measures to reduce the actuarial imbalance of the Fund. It also noted that, in response to requests made by the General Assembly, the level of the cap had been reviewed on several occasions. The Committee reiterated its view that the desirable level of the cap was a judgmental issue to be resolved by the Board, rather than an actuarial issue. The Board would have to decide on the level to which the 120 per cent cap should be lowered, to whom the revised cap should apply, and what should be the recommended transitional measures. The Committee observed that, if the cap were to be lowered, there would obviously be some savings to the Fund; it therefore requested the Consulting Actuary to provide the Board with broad estimates of the savings that might be achieved should the cap be lowered. The Committee of Actuaries also expressed the view that, if the Board were to decide to recommend a lowering of the cap, "it should be done in a manner which would avoid or limit the possibility of creating uncertainties of confusion for current pensioners. Every effort should be made to minimize the additional administrative burdens that would arise in changing the existing arrangements.*

Discussion by the Board

184. *During the discussions in the Board, the representatives of the executive heads and of the participants took the position that no change should be made in the current arrangements, particularly in the light of*

recent currency exchange rate fluctuations. It was recalled that the possibility of lowering the 120 per cent cap had been considered by the Board several times, in response to requests from the General Assembly, and that on each occasion the Board had concluded that lowering the cap would not result in significant savings and that the implementation of any changes would require extensive transitional measures and time-consuming procedures. Reference was also made to the views expressed by the Committee of Actuaries both in 1986, when the Committee stated that it was undesirable to make frequent changes in the pension adjustment system and that in general changes should only be made for important reasons, and in its latest report to the Board. It was also suggested that a 100 per cent cap would involve, in effect, the abolishing of the two-track system for retirees in low- cost countries.

185. The representatives of the General Assembly stated that the substantive decision to change the 120 per cent cap provision had already been made by the Board in 1991, and that now the credibility of the Board before Member States was at stake. They proposed a reduction of the cap to 100 per cent with effect from 1 January 1996, with application to participants retiring on or after that date.

187. Following an extensive exchange of views during which it was not possible to reach a consensus on the item, the Board referred this issue to the small "contact group", established to develop a consensus agreement on four of the items on which differences had emerged during the initial discussions in the Board.

188. As a result of those negotiations, consensus agreement was reached by the Board on all four items, including a recommendation for a reduction of the 120 per cent cap provision to 110 per cent with effect from 1 July 1995, with the revised arrangements applying to participants separating from service on/or after that date. Assuming a conservative decrease in the utilization rate of the two-track option below 35 per cent, the Consulting Actuary estimated the actuarial savings resulting from adoption of a 110 per cent cap at approximately 0.20 per cent of pensionable remuneration. Some members stated that the 110 per cent figure for the cap might be taken as the minimum required to maintain the two-track system."

9. The General Assembly, in resolution 49/224 of 1994, approved with effect from 1 July 1995 the reduction of the "120 per cent cap" provision under the pension adjustment system to 110 per cent for participants separating from service on or after 1 July 1995.

10. The reduction of the cap from 120 per cent to 110 per cent was implemented mainly as a measure to reduce the actuarial imbalance of the Fund. In 1994, the Consulting Actuary had estimated the actuarial savings to be in the order of 0.20 per cent of pensionable remuneration. The table below shows the evolution of the estimated savings since the year 2000.

Assessment period	*Estimated long term savings*
1 July 1995 to 31 March 2000	0.40 per cent of PR
1 July 1995 to 31 December 2001	0.27 per cent of PR
1 July 1995 to 31 December 2003	0. 21 per cent of PR
1 July 1995 to 31 December 2005	0.18 per cent of PR
1 July 1995 to 31 December 2007	0.16 per cent of PR

11. While the Consulting Actuary indicated that these estimates are based on limited data and more years of experience would be needed before a more definite estimate of the savings could be made, the figures show that the longer the period covered by the assessment, the lower the estimated savings resulting from reducing the cap from 120 per cent to 110 per cent.

Conclusion

12. The above excerpts show that the Board has thoroughly discussed the reduction of the cap to 100 per cent on several occasions; however, it has always come to the conclusion that such a change could have severe consequences for the operation of the two-track adjustment system. A further reduction of the cap would not only call for extensive transitional measures, but it would also create an additional administrative burden for the Fund. More importantly, however, a further reduction could well mean the abolition of the two-track system for retirees in low-cost countries.

Annex XIX

WORKING GROUP ON PLAN DESIGN
Application of plan design improvements to existing pensioners

(Note by FAFICS Representatives)

(7 February 2010)

The present note aims at recalling the principle traditionally followed by the United Nations Joint Staff Pension Fund whenever improvements in the plan design are introduced. Such improvements have nearly always been conceived so as to benefit not only participants in service upon their retirement but also beneficiaries in receipt of a pension awarded before the approval of the improvement.

It would be a very difficult and time consuming task to review all the changes in the plan design made since the inception of the Fund and it would be of little use for the purpose of defining the basic principles. This note will therefore concentrate on a few major changes, with special reference to the report of the 1960 Pension Review Group.

The two major elements serving as the basis for the calculation of pensions and other benefits – the final average remuneration (FAR) and the rate of accumulation – were modified on two occasions each in the early years of the Fund. Originally defined as the average of the pensionable remuneration (which originally coincided with net remuneration) over the last ten years of service, FAR was changed in 1955 into the average of the last five years of service and in 1972 into the average of the best 36 months in the last five years of service (which is still the case). The rate of accumulation, originally defined as one-sixtieth of FAR per year of participation, was raised to one-fifty-fifth in 1957 and to one-fiftieth, or two per cent, in 1970 (it remained at this level until 1983 when it was reduced to 1.5 per cent for the first five years of service and 1.75 per cent for the following five years).

It was not obvious in the early stage of the existence of the Fund that such improvements should also be applied to those already in receipt of a benefit. As the 1960 Pension Review Group recalled (par. 251), " the General Assembly has never admitted the principle that improvements in benefits for staff in service should necessarily be extended to existing pensioners". However, it also recalled that in 1957 the Board considered "that there (was) an urgent need for improvement of the benefits already granted". The General Assembly accepted the recommendation of the Board to apply to pensions in payment on 1 January 1958 the improvements already granted.

As for the Pension Review Group it recommended unequivocally (par. 294) that "benefits in the course of payment on 1 January 1961 should be adjusted as from that date to an amount calculated in accordance with the new conditions proposed for staff in service".

The improvements to FAR and to the rate of accumulation mentioned above, approved after the deliberations of the Pension Review Group, were applied as a matter of course to existing beneficiaries. It is interesting to note that, when the change was made in 1972 to the method of calculating FAR, the Secretary of the Board drew its attention to the fact that it would be exceedingly difficult to recalculate all the pensions on the basis of the best 36 months in the last five years of service (computers were still in infancy at that time) and proposed instead an across-the-board increase of five per cent of all pensions in payment, which was accepted.

It would be difficult to retrace here the various stages and modifications of the Pension Adjustment System. Suffice it to say that, since the first adjustment of pensions in payment, equal to one per cent, was approved in 1961, the innumerable changes and reforms of this system have been, as a rule, applied to pensions in payment.

It may therefore be concluded that there is a well established case law of the Fund, based on its practice as recommended by the Board and approved by the General Assembly (and endorsed by the 1960 Pension Review Group) that any improvements to the plan design are applied to benefits in payment. It is often recalled that any such improvements are prospective and not retroactive. This expression does not mean that such improvements are only applied to benefits awarded after their approval. It means that any payments of benefits recalculated in accordance with the improvement are only made with respect to the period following its entry into force and that no retroactive payments are made.

It is to be hoped that, in accordance with the practice of the Fund, any improvements to be recommended by the Working Group on Plan Design will be applied – prospectively – to benefits in payment.

Annex XX

UNITED NATIONS JOINT STAFF PENSION BOARD

Working Group on Plan Design (2008)

List of documents considered by the Working Group on Plan Design

Symbol	*Name*
WG/UNJSPB/2008/1/Rev.1	Draft Provisional Agenda
WG/UNJSPB/2008/2/Rev.2	Working Group Membership
WG/UNJSPB/2008/3	Terms of Reference for Working Group (2008)
WG/UNJSPB/2008/4	Basic Principles of Defined Benefit Plans
WG/UNJSPB/2008/5	Note by the Consulting Actuary on Normal Retirement Age
WG/UNJSPB/2008/6	JIU Report on Normal Retirement Age
WG/UNJSPB/2008/7	Survey of Normal Retirement Age in International Organizations
WG/UNJSPB/2008/8	Extract on Actuarial Valuations
WG/UNJSPB/2008/9	Market Value - Actuarial Valuation – Valuation Needed for Balance
WG/UNJSPB/2008/10	Extract on Margins
WG/UNJSPB/2008/11	Committee of Actuaries Principles
WG/UNJSPB/2008/12	CEO Article on Current Financial Situation
WG/UNJSPB/2008/13	2002 Recommendations Considered in 2008
WG/UNJSPB/2008/14	Previous Economy Measures
WG/UNJSPB/2008/15	Worksheet: Provisions with Actuarial Costs
WG/UNJSPB/2008/16	Salary vs. CPI Adj.
WG/UNJSPB/2008/17	Impact of Currency Fluctuation
WG/UNJSPB/2008/18	Copy of World Bank Plan
WG/UNJSPB/2008/19	Copy of IMF Plan and IMF Staff Bulletin
WG/UNJSPB/2008/20	Working Group 2008 Report Outline
WG/UNJSPB/2008/21	Comprehensive Review of the United Nations Joint Staff Pension Fund
WG/UNJSPB/2008/22	Information received from member organizations concerning "Employment after Retirement"
WG/UNJSPB/2008/23	Issues for the Pension Board Working Group – Note by IAEA

Symbol	*Name*
WG/UNJSPB/2008/24	General Assembly resolutions on UN pension system since 1998
WG/UNJSPB/2008/25	Various articles comparing defined benefit and defined contribution plans
WG/UNJSPB/2008/26	Review of the Mandatory Age of Retirement in the United Nations System
WG/UNJSPB/2008/27	Pensions Panorama: Retirement-Income Systems in 53 Countries
WG/UNJSPB/2008/28	Change in Normal Retirement Age/Age Early Retirement Entitlement Begin
WG/UNJSPB/2008/29	OIOS Report – The UNJSPF Two Track System
WG/UNJSPB/2008/30	IMS Performance Report for UNJSPF
WG/UNJSPB/2008/31	Presentation by the CEO to the Working Group on Plan Design
WG/UNJSPB/2008/32	ICSC – Mandatory Age of Separation
WG/UNJSPB/2008/33	OECD - Public Sector Pensions and the Challenge of an Ageing Public Service
WG/UNJSPB/2008/34	The Last Chance for Defined Benefit Plans? The Case of Cash Balance Hybrid Pension Plans in the United States
WG/UNJSPB/2008/35	Conclusions of the Meeting of the Human Resources Network
WG/UNJSPB/2008/36	Review of the Mandatory Age of Retirement in the UN Common System
WG/UNJSPB/2008/37	Report of the ICSC for the Year 2009
WG/UNJSPB/2008/38	UNJSPF the Last Decade
WG/UNJSPB/2008/39	The Two-Track System
WG/UNJSPB/2008/40	Withdrawal Settlement for Short-Term Staff
WG/UNJSPB/2008/41(i)	Note from Consulting Actuary (with cost estimates)
WG/UNJSPB/2008/41(ii)	Letter with Questions from Working Group to Consulting Actuary
WG/UNJSPB/2008/42	Data on average contributory service (with full withdrawals and without full withdrawals)
WG/UNJSPB/2008/43	Draft Report of Working Group (updated slightly since 17 July meeting)
WG/UNJSPB/2008/44	Extract from Board Sessional Report (2009)
WG/UNJSPB/2008/45	Latest Update on Market Value of the Fund
WG/UNJSPB/2008/46	Normal Retirement Age Working Paper
WG/UNJSPB/2008/47	Note on Early Retirement
WG/UNJSPB/2008/48	Conclusions of the Eighteenth Session of the HLCM
WG/UNJSPB/2008/49	Vulnerabilities in Defined-Benefit Pension Plans
WG/UNJSPB/2008/50	ICSC Survey on Recruitment and Retention
WG/UNJSPB/2008/51	Comments on Two-Track System
WG/UNJSPB/2008/52	Extract from EU Staff Regulations (Pension Scheme)
WG/UNJSPB/2008/53	Agreement between the Republic of Austria and IAEA on Social Security
WG/UNJSPB/2008/54	ISSA – Technical Seminar on Pensions: reports

Symbol	*Name*
WG/UNJSPB/2008/55	WG Meeting 17-19 February 2010: Provisional Agenda
WG/UNJSPB/2008/56(i)	Questions Posed to the Consulting Actuary
WG/UNJSPB/2008/56(ii)	Note by Consulting Actuary to Questions raised at 4th Meeting of WG
WG/UNJSPB/2008/57	GA Resolution on ICSC: Mandatory Age of Separation
WG/UNJSPB/2008/58	"Working Draft" of WG Report as of 5 February 2010
WG/UNJSPB/2008/59	Improvement in Benefits
WG/UNJSPB/2008/60	Benefits of Divorced Surviving Spouses
WG/UNJSPB/2008/61	The Cap Provisions Under the Two-Track Pension Adjustment System
WG/UNJSPB/2008/62	The Threshold for Cost of Living Adjustments of Pensions in Award