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FINANCE COMMITTEE

Hundred and Fifty-first Session

Rome, 11 - 15 November 2013

Recommendations and Decisions of the International Civil Service Commission and UN Joint Staff Pension Board to the General Assembly (including Changes in Salary Scales and Allowances)

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- The purpose of this paper is to inform the Committee of recent developments in the activities of the International Civil Service Commission (ICSC) and the United Nations Joint Staff Pension Board (UNJSPB) and changes in the conditions of service of staff in the professional and higher categories as well as general service staff.
- Furthermore, following the General Assembly's endorsement of ICSC's decision to raise the mandatory age of separation to 65 for staff recruited on or after 1 January 2014, the Secretariat proposes an amendment to Staff Regulation 301.9.5 in order to align FAO's rules on the mandatory age of separation with those of the UN Common System and the UNJSPF rules on normal age of retirement.
- The financial implications for FAO resulting from the implementation of the ICSC decisions amount to approximately USD 6,650 for the year 2014 (paragraph 33 refers).

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the contents of this document and the attention of the Committee is drawn particularly to paragraphs 4 to 9 regarding the raise of the mandatory age of separation to 65 years, for staff recruited on or after 1 January 2014.
- The Committee is requested to endorse the proposed amendment to Staff Regulation 301.9.5, as set out in paragraph 9, and refer it to the Council for approval, under the terms of Rule XL.3 of the General Rules of the Organization.

Draft Advice

- **The Finance Committee recommends the approval of the amendment to Staff Regulation 301.9.5, as per the text reproduced in paragraph 9 of the document.**

INTERNATIONAL CIVIL SERVICE COMMISSION (ICSC)

CONDITIONS OF SERVICE APPLICABLE TO BOTH CATEGORIES OF STAFF

Standards of Conduct for the International Civil Service

1. At its sixty-seventh session, the General Assembly approved, with effect from 1 January 2013, the revised Standards of Conduct for the International Civil Service contained in Annex IV to the 2012 Report of the International Civil Service Commission (ICSC)[1].

2. The Secretariat wishes the Committee to note that Appendix A to Manual Section 304 was accordingly updated with the new version of the Standards of Conduct and published in July 2013.

3. The primary changes in the revised Standards of Conduct concern the areas of 'Conflict of Interest', 'Disclosure of Information', 'Use of the resources of United Nations organizations' and 'Post-employment restrictions'.

Mandatory Age of Separation- Amendment to Staff Regulation 301.9.5

4. In 2012, during its fifty-ninth session, the Governing Board of the United Nations Joint Staff Pension Fund (UNJSPF) recommended to increase the normal age of retirement to age 65 for new participants of the Fund with effect no later than from 1 January 2014. The Board also urged the ICSC and the member organizations of the Fund to immediately raise the mandatory age of separation to age 65 for new staff of the Fund's member organizations. At its seventy-fifth session in 2012, the ICSC decided to support the recommendation of the United Nations Joint Staff Pension Board to raise the mandatory age of separation (MAS) to age 65 years for new staff of member organizations of the Pension Fund, effective no later than 1 January 2014.

5. In its resolution of 12 April 2013, (No. 67/257), the United Nations General Assembly endorsed the decision of the ICSC regarding the raise of the MAS to 65 for staff recruited on or after 1 January 2014.

6. Accordingly, FAO is required to align its rules on the MAS with those of the UN Common System and the UNJSPF rules that are being modified to increase the normal age of retirement to 65 for staff recruited on or after 1 January 2014.

7. The current provisions of the FAO Administrative Manual, including Staff Regulation 301.9.5, require appropriate amendments to reflect the above decision.

8. The Committee is requested to endorse the proposed amendment of Staff Regulation 301.9.5, as set out below, and refer it to the Council for approval, under the terms of Rule XL.3 of the General Rules of the Organization.

9. The proposed amendment to Staff Regulation 301.9.5 reads: "Staff members may not be retained in active service beyond the age of 65 years (62 years for staff members appointed prior to 1 January 2014), unless the Director-General, in the interests of the Organization, extends this age limit in exceptional cases. Normally, such extension will be one year at a time. Staff members, except those whose participation in the United Nations Joint Staff Pension Fund commences or recommences on or after 1 January 1990, may, however, elect to retire at the age of 60 years."

[1] The revised Standards of Conduct for the International Civil Service are available only in English at the following ICSC website: http://icsc.un.org/resources/pdfs/general/standardsE.pdf?d=713

Mandatory Age of Separation for Existing Staff

10. In its resolution 67/257, the General Assembly also welcomed the ICSC recommendation to undertake a strategic review of the implications of raising the mandatory age of separation to 65 for all serving staff, in consultation with organizations and staff representatives, and looked forward to considering the outcome of this review at its sixty-eighth session.

11. At its seventy-seventh session, the ICSC secretariat presented a document which provided a historical perspective on retirement practices in some member states. It also noted that from a perspective of the United Nations Joint Staff Pension Fund, raising the mandatory age of separation to 65 for existing staff would result in cost savings. It was estimated by the Fund's Consulting Actuary that if this option were to be provided to current staff, there would be a further reduction in the actuarial deficit in the range of 0.13 per cent of pensionable remuneration further positively impacting the Fund's long term sustainability. The estimated savings were based on an assumed utilization rate of 70 per cent.

12. The HR Network expressed surprise at the Commission's approach to discussing the application of Mandatory Age of Separation to existing staff. The recent decisions to increase both the Normal Age of Retirement and the Mandatory Age of Separation for new staff members in a complementary manner precisely came into effect as a remedy for challenges of long-term financial sustainability of the UNJSPF induced by globally increasing life expectancy. The present work of the ICSC secretariat did not provide a rationale why organizations should move away from a widely harmonized and well-working practice in the light of the recently taken consensual and balanced agreement.

13. At present, many organizations were taking unavoidable efforts for organizational review and redesign in order to contain costs and at the same time to ensure an influx of required new critical skills in a number of professional domains. The decision as recommended in the secretariat's document would clearly jeopardize these efforts and potentially induce significant additional cost for buy-outs. The HR Network members also expressed disappointment about the quality and pertinence of the analysis which, in its view, did not substantiate the conclusions made in the report.

14. The HR Network, as the representation of the Executive Heads of its member organizations, was unanimous in the rejection of the report and the recommendation it contained. It recommended that, if the Commission wished to pursue this matter, it should request the secretariat to undertake further analysis in consultation with the organizations.

15. The three staff federations, FICSA, CCISUA and UNISERV, welcomed the report and the final analysis and recommendations. The Federations maintained their position that the mandatory age of separation for current staff should increase to 65 years of age provided that the acquired rights to retire at 60 and 62 were preserved.

16. In its deliberations, Commission members observed that many member states had increased the age of retirement. The Commission considered that given the changing global demographics and the profile of the population, the United Nations common system could not continue to go against the world-wide trend of raising retirement age.

17. In its conclusion the Commission acknowledged that the matter was a complex one but that it had to be recognized that longevity had increased significantly and many staff members continued to be very productive and had the skills to work well beyond the age of 60 or 62. It agreed that in taking a decision on whether to extend to current staff the mandatory age of separation due consideration had to be given to organizations' readiness given their budgetary and strategic plans.

18. After consideration of all the points made, the Commission considered that the mandatory age of separation should be extended to 65 for current staff. In order to allow organizations time to implement the change, the Commission decided to recommend to the General Assembly to raise the mandatory age of separation to age 65 for current staff members effective 1 January 2016, it being understood that this decision would have no effect on the acquired rights of current staff.

Review of the Common System Compensation Package

19. At its seventy-sixth session, the Commission, in accordance with its decision to include the matter in its 2013-2014 programme of work, commenced a review of the common system compensation package. The Commission was provided with an overview of the elements in the present compensation system, along with their rationale and basis for payment, to assist in its consideration of the issue.

20. The Commission noted that the present compensation system had remained, for the most part, unchanged over a number of decades. The individual elements that comprised the present system were reviewed independently of each other and at varying periodicities. Therefore, the risk of fragmentation in such a system called for a holistic review of all the elements and any inter-dependencies.

21. It was agreed that the underlying philosophy of the compensation package should be grounded in the principles emanating from the provisions of Article 101 of the United Nations Charter, namely, the independence of the international civil service and the need for the organizations to secure staff with the highest standards of efficiency, competence and integrity, with due regard to geographical distribution and gender balance.

22. The Commission considered that attributes of, and the approach to, a revised system should be as follows:

1) A new compensation system should support the delivery of the organizations' mandates and should:

   a) Be competitive;
   b) Be fair and equitable;
   c) Be transparent;
   d) Be simple in design, easy to administer and easily understood by staff and stakeholders;
   e) Reward excellence and manage underperformance;

2) The new system should be cohesive at its core, but should allow for some flexibility to meet the specific needs and challenges facing the organizations, particularly with regard to diversity, specialized occupations or hard-to-obtain skills;

3) Upon implementation, the new system should be premised on overall cost containment and be sustainable going forward;

4) The review would commence with the Professional staff and then be expanded to the National Professional Officers and General Service categories; and

5) While the assumption was that the new system would apply to all staff recruited on or after its date of promulgation, the applicability to existing staff would be considered later, taking into account acquired rights.

23. At its seventy-seventh session, the Commission continued its review of the United Nations compensation package and had before it three documents prepared by the ICSC secretariat. These documents:

- Highlighted the role of the compensation philosophy as the basis for structuring pay for the common system within the ICSC framework for human resources management, including the performance management framework;

- Explored external practices and typical approaches to constructing expatriate pay packages, and the current trends in expatriate compensation, outlining the compensation packages of selected national and international organizations; and

- Examined the applicability of these trends and practices by others to the common system.

24. The Commission also considered the progress of the work done so far as well as a plan to moving forward on the compensation review.

25. The Commission took note of the information on external expatriate pay practices, with the understanding that it would be used as reference at the stage of designing a revised system.

26. The Commission then reviewed the schedule and plan of work of the review. In this context, the HR Network expressed concerns that the tight timeline for such a complex review project might turn out to be overly ambitious and that solely focusing on reaching agreed milestones on time might compromise the quality of the project outcome. Staff federations and several members shared the concerns of the organizations about the short deadline of the project as established by the General Assembly, given its broad scope. They felt that the Assembly should be aware of these concerns. The Commission appealed to all parties involved to do their utmost to contribute to timely implementation of the project activities while at the same time ensuring that the quality of outcomes was not compromised.

27. The Commission's attention was also drawn to communications from the governing bodies of FAO and IMO to the ICSC Chairman in which they urged the Commission to consider the need for greater vigilance with regard to increases in staff costs within the context of its ongoing comprehensive review. These developments needed to be duly taken into consideration.

28. Having reviewed the attributes and goals endorsed at the previous session, the Commission considered it appropriate to summarize and complement them in the following review mission statement:

- The objective of the review of the common system compensation package is to ensure the continued ability of the organizations to effectively deliver their respective mandates on the basis of the guiding principles and provisions of the United Nations Charter and within the framework of the common system.

- The review aims at a compensation system that, without prejudice to the overall cohesion of the common system, shall provide the organizations with a degree of flexibility in applying the compensation package. Compensation should attract and retain the best combination of talents, competencies and diversity. The revised system should also promote excellence and recognize performance.

- The review should focus on the creation of a coherent and integrated system that is streamlined, transparent and cost effective. Allowances would be targeted to drive organizational excellence through motivation and engagement of staff. Further, the revised system would allow Member States, organizations and staff to understand the structure, processes and outcomes. Finally, the revised system would offer the stability and predictability necessary for cohesion with the programming and budgeting process.

- ICSC, as requested by the General Assembly in its resolution (67/257), in undertaking the review, shall bear in mind the financial situation of the organizations participating in the common system and their capacity to attract a competitive workforce.

29. Regarding the scope of the review, it was agreed that all elements of remuneration, including salaries, post adjustment, allowances and other conditions of service as well as other human resources management elements under the ICSC mandate should be included to ensure a holistic analysis of the system. It was also noted that the review could have implications in some areas outside of the Commission's authority, such as pensions, insurance, etc. In these cases, resulting linkages would need to be flagged to the respective authorities so that appropriate action could be taken by them.

30. As regard to the project modalities, the Commission agreed that the detailed consideration and analysis of issues should be implemented by working groups consisting of ICSC members, with full participation of the organizations and staff representatives. The working groups would conduct

substantive analysis, develop recommendations and report their findings to the ICSC. This would be followed by the assessment of the implications of proposed arrangements.

31. The Commission endorsed the review outline and modalities for further activities as stated above, and decided to establish three working groups to consider the following themes of related matters:

- Remuneration structure
- Competitiveness and sustainability
- Performance incentives and other HR issues.

32. The working groups would report on their progress and proposals to the Commission. These proposals would then be integrated into a revised compensation package. The modus operandi of the working groups should ensure information sharing among them so as to produce a coherent and consistent outcome of their deliberations.

CONDITIONS OF SERVICE OF STAFF IN THE PROFESSIONAL AND HIGHER CATEGORIES

Base/Floor Salary Scale

33. The Commission decided to recommend to the General Assembly, for approval with effect from 1 January 2014, the revised base/floor salary scale for the Professional and higher categories reflecting a 0.19 per cent adjustment implemented by increasing the base/floor salary scale and commensurately reducing post adjustment multiplier points, resulting in no change in net take home pay. The system-wide financial implications of this change would be limited to the revision of the separation payments schedule, and such implications would be relatively small owing to the minimal movement of the scale. For FAO, the financial implication of this change is estimated to be approximately USD 6,650 for the year 2014.

Evolution of the United Nations/United States Net Remuneration Margin

34. As a result of the statutory pay freeze introduced in the United States Federal Civil Service for the period 1 January 2011 - 31 December 2013, no general or locality pay increase had been granted to comparator federal employees in the Washington, D.C. in 2013.

35. The Commission noted that the margin level continued to increase in 2013 which was primarily due to the statutory pay freeze in the comparator civil service and was expected to almost reach the upper limit of the established range, even without any further adjustment of pay levels in the two services. However, a further increase in post adjustment was likely to become due for New York in February 2014. While its actual extent was not yet know, the trend in the New York post adjustment index movement clearly indicated that, if granted in full, this increase would result in the margin moving above the upper limit of the range.

36. The Commission decided to report to the General Assembly that the margin between the net remuneration of officials in the Professional and higher categories of the United Nations in New York and officials in comparable positions in the United States Federal Civil Service in Washington, D.C., for the calendar year 2013 amounted to 119.6 and its 5 year (2009-2013) average margin amounted to 115.7, which was above the desirable midpoint of 115.

37. Furthermore, having considered probable scenarios of, and trends in, the evolution of major margin calculation variables and their cumulative effect on the margin, the Commission agreed that its resulting projected level was unlikely to allow for an implementation of any increase in post adjustment for New York in February 2014, if the margin was to be maintained within the established range. Therefore, the Commission also decided to inform the General Assembly that it would need to implement, in February 2014, the margin management procedures approved by the Assembly in its resolution 46/191 (section IV, paragraph 3) which called for granting only that portion of the post adjustment increase that would result in a margin not greater than 120.

38. As a result, in order to maintain purchasing power parity of salaries with New York, the base of the post adjustment system, post adjustment indices for all other duty stations would be proportionately scaled back to the extent of the ratio of the pay index that would actually be granted to the pay index that would otherwise have been granted in New York.

Children's and secondary dependants' allowances: review of the methodology

39. The Commission decided to:

- Take note of the study undertaken by its secretariat on the methodology to determine the children's and secondary dependant's allowances;
- Use, as factors to adjust the allowance, the weighted average of the eight headquarters duty stations and the general trend in growth rates of child benefits;
- Inform the General Assembly that it would keep the methodology under consideration within the framework of the broader review of the common system compensation package;
- Recommend to the General Assembly that the current level of the children's and secondary dependants' allowances be maintained.

UNITED NATIONS JOINT STAFF PENSION BOARD (UNJSPB)

60th United Nations Joint Staff Pension Board Meeting, New York, 11-20 July 2013

40. Aside from the standard budget and governance matters, the Board discussed the financial statements of the Fund for the year ended 31 December 2012, actuarial valuation methodology and assumptions for the thirty-second actuarial valuation of the Fund as of 31 December 2013, membership of the Committee of Actuaries and Investments Committee and the report on the fund's investment performance. The Board also reviewed the increase of the normal retirement age for new entries and status report on increase in mandatory age of separation within member organizations. Among the most important decisions made and discussions are the following.

Financial Statements and Statement of Internal Control

41. After review of the financial statements and considering the presentations of the Fund's Audit Committee and the Board of Auditors, the Board approved the Fund's financial statements for the year ended 31 December 2012.

42. The Board discussed the Fund's approach and plan for the implementation of the Statement of Internal Control and decided that full documentation should be submitted at its next session including a proposal regarding settlement of potential disputes between the Fund and its member organizations. The Board took note of the Fund's approach to developing a Statement of Internal Control and requested that this be coordinated with the development of the Terms of Reference for the Staff Pension Committees and their secretaries. The Fund was requested to apply a gradual implementation approach in close consultation with member organizations.

Report on IPSAS Implementation

43. The Board welcomed the successful implementation of IPSAS and requested that the Fund monitor the development of both accounting frameworks.

Appointment of Full Time Representative of the Secretary-General

44. The Board supported the Secretary-General's recommendation for the appointment of a full time Representative of the Secretary-General for the Investment of the Assets of the United Nations Joint Staff Pension Fund ("RSG"). Further, as set forth in the Board's decision regarding the proposed programme budget for the Fund (JSPB/60/R.18 Rev.1), the Board has decided that the position of Assistant Secretary-General for full-time RSG shall be an "expense of the Fund" within the meaning of Article 15(a) of the Regulations of the United Nations Joint Staff Pension Fund.

Report of the Working Group on Sustainability

45. It was recalled that at its 59th session in July 2012, the Board determined that it should address the actuarial situation of the Fund as at 31 December 2011, which had resulted in an actuarial deficit of 1.87 per cent of pensionable remuneration - a second actuarial deficit, following that of 0.38 per cent of pensionable remuneration as at 31 December 2009. The Board observed that the increase in the deficit was primarily the result of lower than expected investment experience. Consequently, the Board established a Working Group that was tasked with considering possible measures to ensure the Fund's long-term sustainability. The Board directed its Working Group to focus on long-term sustainability, including governance, investment management and asset liability management. The Chair noted that the Group had considered many items associated with plan design, investments, and governance, which are all summarized in its report. The Chair then summarized the Group's observations:

- The Fund has reached a high level of maturity, meaning that the stability of benefit provisions should be kept in mind and risk management reinforced in order to ensure long term-sustainability. It was noted that the Fund has made a lot of progress in this regard by the establishment of guiding principles for plan design and it was suggested that these principles be adopted by the Board.

- The high level of maturity means that there is an increasing interdependency of assets and liabilities. The Group reaffirmed that achieving the 3.5 per cent real long-term investment return is the single most important factor affecting the long-term sustainability of the Fund.

46. Another factor identified by the actuaries as a long-term risk that has contributed to the current deficit was the increasing longevity of beneficiaries.

47. With these observations in mind, the Group developed its recommendations. With regard to the increase in Normal Retirement Age, the Working Group recommended that the Board submit to the General Assembly the proposed change to the UNJSPF Regulations to raise the normal retirement age for new participants of the Fund with effect not later than from 1 January 2014.

48. With regard to the early retirement age, the Group recommended increasing the early retirement age to 58 for new participants entering or re-entering the Fund on or after 1 January 2014. The Group also recommended that, in case of future increases in the normal retirement age, a seven-year difference be maintained between the normal retirement age and the early retirement age.

49. With regard to early retirement reduction factors, the Working Group recommended that the Pension Board adopt early retirement factors for new participants (joining the Fund on or after 1 January 2014 with normal retirement age of 65 years and an early retirement age of 58 years) as follows:

- For participants with less than 25 years of contributory service: 6 per cent for each year below age 65;

- For participants with 25 or more years of contributory service: 6 per cent for each year below age 60, and 4 per cent for each year from age 60 to 64;

- The current 1 per cent reduction factor for participants with 30 or more years of contributory service would no longer be available.

50. The Board approved the recommendations of the Working Group for changes to the UNJSPF Regulations with effect 1 January 2014.