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COMPENSATION  
FUND

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Agenda item 13

FUND/A.8/10/1  
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## CONTRIBUTIONS TO THE PROVIDENT FUND

### Note by the Director

#### 1 IOPC Fund Provident Fund

1.1 The UN System operates a pension system, the United Nations Joint Staff Pension Fund. The IOPC Fund would have been entitled to join this Staff Pension Fund, as it is open to intergovernmental organisations which participate in the common system of salaries of the United Nations. However, the IOPC Fund has not joined the UN Joint Staff Pension Fund as the IOPC Fund Assembly considered that the best solution for the IOPC Fund was to set up a Provident Fund instead of a pension system. Nearly all the commodity organisations in London also have provident funds (cf FUND/A.2/5/1, paragraphs 7-12).

1.2 Staff Regulation 23(b) provides that the Director shall establish and operate a Provident Fund to which both the IOPC Fund and staff members shall contribute on such terms and conditions as may be approved by the Executive Committee. The operation of the Provident Fund is governed by Staff Rule VIII.5 which reads:

"(b) All staff members as defined in sub-clause VIII.5(h) shall participate in the Provident Fund which shall consist of:

- (i) Contributions of 7% of the pensionable remuneration of all staff members payable by them as from the dates of commencement of their services with the Fund respectively;
- (ii) Contributions of 14% of the pensionable remuneration of staff members to be made by the Fund as from the date of commencement of their services with the Fund respectively;
- (iii) The interest accrued from the investment of these contributions."

1.3 A staff member's share of the Provident Fund, ie the contributions paid by the staff member and by the IOPC Fund as well as accrued interest, shall, at the discretion of the Director, be payable to the staff member upon his separation from the IOPC Fund or to his nominated beneficiary on his death (Staff Rule VIII.5(e)).

1.4 The calculation of the contributions to the Provident Fund is based on the "pensionable remuneration". As regards the levels of pensionable remunerations, the IOPC Fund has followed the scales applied by IMO for contributions to the UN Joint Staff Pension Fund (FUND/A.2/5/1, paragraph 13). These levels are defined in IMO Staff Rule 103.11 which, in turn, refers to the Regulations of the UN Joint Staff Pension Fund. With regard to staff members in the professional and higher categories, there is a special scale of pensionable remuneration. For general service staff, the pensionable remuneration is equal to the gross salary plus language allowance and non-resident allowance.

1.5 New scales of pensionable remuneration were adopted within the UN system in 1984. The question has now arisen as to which scale of pensionable remuneration should be applied in respect of two of the professional staff members (the Director and the Legal Officer). In addition, the Assembly may wish to consider the question of an increase in the rate of contributions to the Provident Fund to 14.5% and 7.25% respectively.

## 2 1984 Increases in the Levels of Pensionable Remuneration for Staff Members in the Professional and Higher Categories

2.1 With respect to IMO, the Secretary-General implemented an increase in the levels of pensionable remuneration for staff members in the professional and higher categories with effect from 1 October 1984, in accordance with IMO Staff Rule 103.11 and Article 54(b) of the Regulations of the UN Joint Staff Pension Fund (IMO documents C.53/12(b) and C.53/12(b)/Add.1). The previous increase was from 1 October 1982. The procedure for adjusting the pensionable remunerations is laid down in Article 54(b) of those Regulations.

2.2 Accordingly, the Director of the IOPC Fund decided to apply the revised scale of pensionable remunerations implemented by IMO for staff members in the professional and higher categories, as from 1 October 1984. The revised scale of pensionable remunerations applied from that date is attached to this document as Annex I.

## 3 The Actuarial Deficit of the UN Joint Staff Pension Fund

3.1 The UN Joint Staff Pension Fund has, in recent years, had an actuarial deficit. Various measures have been discussed in order to reduce this deficit. The General Assembly of the United Nations decided that, with effect from 1 January 1984, the rate of

contributions to the Pension Fund should be raised from 21% to 21.75% of the pensionable remuneration, of which the employing Organisation should pay 14.5% and the staff member 7.25%. The possibility of increasing this percentage still further has been discussed but so far no decision has been taken.

3.2 The increase of the percentage decided by the General Assembly of the United Nations was reported to, and discussed by, the IOPC Fund's Executive Committee at its 12th session (cf FUND/EXC.12/4). The Executive Committee endorsed the Director's proposal that the development in other international organisations operating provident funds should be followed. The rates of contributions were maintained at 14% and 7%, respectively.

3.3 In order to reduce the actuarial deficit of the UN Joint Staff Pension Fund, the General Assembly of the United Nations, in 1983, requested the International Civil Service Commission (ICSC), in co-operation with the Pension Fund Board, to submit recommendations on appropriate levels of pensionable remuneration for professional and higher categories (IMO documents C.53/12(b) paragraph 7 and C.53/12(b)/Add.1 paragraph 4). ICSC had proposed a new scale of pensionable remunerations which would result in net savings for the UN Joint Staff Pension Fund. The proposals entailed reductions in the level of pensionable remuneration for staff at higher grades and increases for staff at lower grades. The proposal protected the acquired rights of existing staff members in grades where there is a reduction. Staff members whose pensionable remuneration at 31 December 1984 was higher than the amount provided in the new scale should thus retain their pensionable remuneration as at that date, by freezing their pensionable remuneration until such time as it is overtaken by application of the normal adjustment mechanism. ICSC recommended that the new scale of pensionable remunerations be introduced with effect from 1 January 1985.

3.4 At its 1984 session, the General Assembly of the United Nations decided to adopt the new scale of pensionable remunerations as recommended by ICSC, as from 1 January 1985; this scale is set out in Annex II to this document. The General Assembly did not, however, approve the introduction of the transitional measures to protect the acquired rights of existing staff members as suggested by ICSC. The General Assembly requested the Pension Fund Board to prepare recommendations on new transitional measures and a new adjustment procedure, for consideration at the session of the General Assembly in 1985. In the meantime, the General Assembly suspended the operation of the current adjustment procedure; as already stated, this procedure is laid down in the Regulations of the UN Joint Staff Pension Fund (IMO document C.54/13(b), paragraphs 7 and 8).

3.5 The following table shows the differences in Step I of each grade between the old scale of pensionable remunerations and the new scale:

<u>Grade</u>	<u>PR 1.10.84</u>	<u>PR 1.1.85</u>	<u>%age</u> <u>Increase/</u> <u>Decrease</u>
	\$	\$	
P.1	26 338	27 500	+ 4.4
P.2	35 069	35 500	+ 1.2
P.3	44 164	43 800	- 0.8
P.4	55 233	53 300	- 3.5
P.5	70 419	66 100	- 6.1
D.1	80 923	74 500	- 7.9
D.2	96 971	84 800	- 12.6
ASG	124 257	103 900	- 16.4
USG	140 032	115 700	- 17.4

#### 4 Implementation of the Scale Adopted by the UN General Assembly

4.1 With regard to the pensionable remuneration of staff members in the professional and higher categories, the Secretary-General of IMO decided in January 1985 as follows (IMO documents C.54/13(b), paragraph 9 and ADMIN/85/3):

- (a) "All staff members joining IMO from 1 January 1985 will be placed on the new scale."
- (b) "All staff members whose pensionable remuneration under the new scale would be higher than the equivalent amount as at 31 December 1984 will be placed on the new scale. ..."
- (c) "For all others, the 7.25% contributions by the staff member and the 14.5% contributions by the Organization will continue to be based on the pensionable remuneration as at 31 December 1984. However, the amounts forwarded to the Pension Fund will be based on the new scale with the difference being held by IMO in a special account. ... If the final decision taken is to adopt the recommendation of ICSC, the amounts retained in the IMO account will be forwarded to the Pension Fund. If some other transitional arrangements are adopted, the amounts will be used for that purpose. Any portions of the staff members' contributions which are not forwarded to the Pension Fund or otherwise utilized for transitional arrangements will be returned to the staff members concerned."

The Secretary-General informed the IMO Council, at its 54th session in June 1985, of his decision.

4.2 The Director followed IMO and decided to introduce this new scale as regards the professional staff of the IOPC Fund with effect from 1 January 1985, subject to interim measures corresponding to those applied within IMO (cf document FUND/EXC.14/5). With respect to two staff members (the Director

and the Legal Officer) whose pensionable remuneration under the new scale would be lower than under the scale applicable on 31 December 1984, the Director decided, therefore, to apply the following interim measures:

Contributions to the Provident Fund will continue to be based on the pensionable remuneration scale in operation as at 31 December 1984. However, the difference between the contributions based on the old and the new scales will be reserved in a separate account, but within the Provident Fund, pending a decision by the Executive Committee.

4.3 The position taken by the Commodity organisations in London which operate provident funds varies on this point. Three of these Organisations (the International Wheat Council, the International Sugar Organization and the International Rubber Study Group) have decided to continue to apply the old scale for the staff members whose pensionable remuneration would be higher under that scale than under the new scale. The International Sugar Organization intends to review the matter after a solution has been found within the UN. One organisation (the International Lead and Zinc Study Group) is applying the same interim measures as IMO, pending a final decision within the UN. Another organisation (the International Cocoa Organization) is applying the new scale to all staff members without any special measures to protect "acquired rights". Finally, one organisation, (the International Coffee Organization) is keeping the old scale which had been effective before 1 October 1984, pending a final decision within the United Nations.

#### 5 Measures to be Considered Within the IOPC Fund as regards the Levels of Pensionable Remuneration

5.1 The question arises as to whether any special measures should be taken within the IOPC Fund with regard to those professional staff members who were given contracts of employment before the new scale became effective (ie 1 January 1985) and whose pensionable remuneration under the new scale will be lower than under the old one. This question concerns only two staff members, the Director (grade D.2) and the Legal Officer (grade P.4); the third staff member in the professional category (grade P.1 or, as proposed by the Director in document FUND/A.8/10, P.2) will get a higher pensionable remuneration under the new scale than under the old one. The Legal Officer's contract was concluded on 1 November 1982, and he took up office on that date. The Director's contract was concluded on 12 October 1984. He did not take up office until 1 January 1985, but his contract of 12 October 1984 was definite and unconditional; a corresponding situation does not exist for any staff member within IMO.

5.2 Under Staff Regulation 14, the IOPC Fund's staff members' salaries, allowances and grants, and the conditions of entitlement thereto, shall, except as may otherwise be provided in the Staff

Regulations, conform whenever appropriate to the United Nations common system, as applied by IMO. The IOPC Fund's Provident Fund, however, is established and operated outside the UN Joint Staff Pension Fund. The new pensionable remuneration scale was adopted by the UN General Assembly in order to reduce the actuarial deficit of the Pension Fund. An actuarial deficit can never arise in the Provident Fund, as the staff member will, on separation, receive exactly the amount corresponding to his share in the Provident Fund, and the IOPC Fund would have no further pension obligation towards the staff member. The terms and conditions as regards the contributions to the Provident Fund are determined by the Executive Committee (Staff Regulation 23(b)). The Executive Committee is not obliged to follow the terms and conditions applied within the UN system for contributions to the UN Joint Staff Pension Fund. However, in the document that was the basis for the decision of the IOPC Fund's Assembly to establish a Provident Fund, it was stated that the staff member's remuneration would, for the purpose of calculating contributions to the Provident Fund, be an amount equal to the pensionable remuneration of an IMO staff member of identical grade and step (FUND/A.2/5/1, paragraph 13).

5.3 The Director considers that there are, in principle, four options as regards the two staff members concerned:

- (a) to apply the new scale to all professional staff members independent of the date on which their contracts with the IOPC Fund were concluded, without any measures to protect what could be considered as "acquired rights";
- (b) to apply the solution proposed by the ICSC, viz by freezing the pensionable remuneration under the old scale so that the contributions to the Provident Fund (both the contributions to be paid by the staff member and those paid by the IOPC Fund) shall be based on their pensionable remuneration in accordance with the old scale until such time as that scale is overtaken by the pensionable remuneration under the new scale by means of the normal adjustment procedure;
- (c) to continue to apply the interim measures referred to in paragraphs 4.1 and 4.2 above, pending a final decision within the United Nations;
- (d) to develop an IOPC Fund scale of pensionable remunerations based on the old scale and adjusted according to the adjustment procedure that will eventually be adopted within the UN system or by another appropriate body.

5.4 The Assembly of the IOPC Fund decided at its 1st session to follow the United Nations Common system as regards salaries and other allowances. It appears that, as long as the IOPC Fund generally follows the United Nations Common System with respect to the salary scales, it will also have to use the scale of

pensionable remunerations as applied within the UN Common System for the calculation of contributions to the Provident Fund. It would not be practicable for the IOPC Fund to elaborate a pensionable remuneration scale of its own. In addition, the UN salary system must be considered as a whole, and there is a certain relationship between the different scales in that system. It should also be noted that, for the professional staff member below grade P.3, the new scale will, as already stated, result in an improvement of his Provident Fund benefits.

5.5 If a solution in accordance with paragraph 5.3(b) above were to be adopted, the contributions to the Provident Fund paid by the IOPC Fund in 1985 in respect of those two staff members (on the basis of the current rate of contributions by the IOPC Fund, ie 14% of their pensionable remunerations) would be approximately £1 700 higher than if the new scale were applied.

## 6 Rate of Contributions

6.1 As regards the question of whether the IOPC Fund should follow the decision within the UN system and increase the rate of contributions to the Provident Fund (cf paragraphs 3.1 and 3.2 above), the Director has followed the developments in other inter-governmental organisations in London. Among the six inter-governmental organisations which have established provident funds similar to that of the IOPC Fund, three organisations (the International Wheat Council, the International Sugar Organization and the International Cocoa Organization) have raised the rates of contributions to 7.25% and 14.5% for staff members and the organisation, respectively. The effective dates of these amendments are either 1 July 1984 or 1 January 1985. Three organisations (the International Coffee Organization, the International Lead and Zinc Study Group and the International Rubber Study Group) have retained the rates at 7% and 14%.

6.2 In view of the fact that several of the commodity organisations in London operating provident funds have increased the rates of contributions in accordance with the increases within the UN system, the Director is of the opinion that the rates of contributions to the IOPC Fund's Provident Fund should be raised to 7.25% for staff members and to 14.5% for the IOPC Fund.

6.3 IMO introduced these rates with effect from 1 January 1984. The solution adopted in the other Organisations in London mentioned in paragraph 6.1 varies on this point. The Director proposes that these new rates should apply from 1 January 1985.

6.4 The budgetary implication for the IOPC Fund of the implementation of these new rates of contribution would be an extra annual cost of approximately £1 000.

6.5 In view of the foregoing, the Director proposes that the Assembly adopts the amendments to paragraphs (b) and (e) of Staff Rule VIII.5, as set out in Annex III, with effect from 1 January 1985.

7 Action to be Taken by the Assembly

7.1 As already mentioned, the terms and conditions of the contributions to the Provident Fund shall be approved by the Executive Committee (Staff Regulation 23(b)). However, in view of the budgetary implications and the special situation that has arisen, the Director, after consultation with the Chairman of the Assembly and the Chairman of the Executive Committee, has considered it appropriate to refer the matter to the Assembly.

7.2 The Assembly is invited to take note of the information contained in this document and to take such decision as it considers appropriate as regards:

- (a) the levels of pensionable remuneration with respect to certain staff members (cf paragraph 5);
- (b) the rate of contributions to the Provident Fund (cf paragraph 6).

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PENSIONABLE REMUNERATION FOR PROFESSIONAL AND HIGHER CATEGORIES  
FOR PURPOSES OF PENSION BENEFITS AND PENSION CONTRIBUTIONS

(in US dollars)

(Effective 1 October 1984)

Level	Steps												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
P.1	26338	27443	28567	29689	30851	32011	33190	34332	35473	36591			
P.2	35069	36319	37578	38829	40094	41373	42679	43974	45274	46575	47868		
P.3	44164	45714	47247	48788	50381	52009	53623	55218	56730	58228	59741	61235	62770
P.4	55233	57014	58797	60580	62374	64205	66029	67852	69768	71702	73637	75501	
P.5	70419	72481	74521	76490	78461	80469	82494	84520	86565	88610			
D.1	80923	83546	86150	88770	91449	94061	96604						
D.2	96971	99753	102614	105536									
ASG	124257												
USG	140032												

ANNEX I

FUND/A.8/10/1

**PENSIONABLE REMUNERATION FOR PROFESSIONAL AND HIGHER CATEGORIES  
FOR PURPOSES OF PENSION BENEFITS AND PENSION CONTRIBUTIONS**

(in US dollars)

(Effective 1 January 1985)

Grade	Steps												
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII
P.1	27500	28600	29700	30800	31900	33000	34100	35200	36300	37400			
P.2	35500	36700	38000	39200	40500	41700	43000	44200	45400	46700	47900		
P.3	43800	45300	46900	48400	49900	51500	53000	54500	56100	57600	59100	60700	62200
P.4	53300	54900	56500	58100	59700	61300	62900	64500	66100	67700	69300	70900	
P.5	66100	68100	70100	72000	74000	76000	78000	80000	82000	83900			
D.1	74500	76700	79000	81200	83400	85700	87900						
D.2	84800	87300	89900	92400									
ASG	103900												
USG	115700												

ANNEX II

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ANNEX III

Proposed New Wording of Staff Rules VIII.5(b) and VIII.5(e)

with effect from 1 January 1985

RULE VIII.5(b)

- (b) All staff members as defined in sub-clause VIII.5(h) shall participate in the Provident Fund which shall consist of:
  - (i) Contributions of 7.25% of the pensionable remuneration of all staff members payable by them as from the dates of commencement of their services with the Fund respectively;
  - (ii) Contributions of 14.5% of the pensionable remuneration of staff members to be made by the Fund as from the date of commencement of their services with the Fund respectively;
  - (iii) The interest accrued from the investment of these contributions.

RULE VIII.5(e)

- (e) The share of the staff member in the Provident Fund shall, at the discretion of the Director, be payable upon separation of the staff member from the Fund or to his nominated beneficiary on his death. A staff member whose contract is terminated within or at the end of a probationary period shall be entitled only to that part of his share of the Provident Fund contributed by himself plus the interest accruing thereon, unless such separation is in the opinion of the Director due to health reasons; the Fund's contribution under paragraph (b)(ii) of this Rule plus interest thereon shall revert to the Fund.
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