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منظمة الأغذية والزراعة للأمم المتحدة

FINANCE COMMITTEE

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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:

Ms Monika Altmaier
Director, Office of Human Resources
Tel: +3906 5705 6422

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 recommendations and decision adopted by the ICSC related to changes in the conditions of service of staff in the professional and higher categories as well as general service staff.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the contents of this document.

Draft Advice

- **The Finance Committee noted the recommendations and decisions adopted by the International Civil Service Commission (ICSC) related to the conditions of service of staff in the professional and higher categories as well as general service staff, and the United Nations Joint Staff Pension Board (UNJSPB).**

A. INTERNATIONAL CIVIL SERVICE COMMISSION (ICSC)

I. CONDITION OF SERVICE OF STAFF IN THE PROFESSIONAL AND HIGHER CATEGORIES

Update on the Outcome of the Review of the Common System Compensation Package

1. The present update summarizes the outcomes and decisions/proposals that the International Civil Service Commission (ICSC) agreed upon at its 81st session in July/August 2015, with regard to the ICSC Compensation Review. It is highlighted that at the time of preparing this paper, the Report of the ICSC for 2015 was not yet available.

(i) - ICSC Review of the Compensation Package

Base salary scale

2. The ICSC recommended that a unified salary scale be introduced for staff in the Professional and higher categories without regard to family status. The new scale would be composed of 13 steps for each grade between P-1 and D-1 and 10 steps for the D-2 grade. Overall the new scale would result in slight reductions in the salary at lower entry grades, while for higher grades, namely in the Director category, salaries at the higher steps would be slightly higher than at present. Currently the majority of professional grades have an annual step increment cycle for all or most steps. In the new scale, steps up to the midpoint would maintain annual step increases, while steps above the midpoint (step 7 for P grades) would move to biennial step increases only.

3. With regard to cases of staff who could see a reduction in net remuneration following the implementation of the unified salary scale, transitional arrangements are recommended to be put in place in the form of legacy "personal steps" that would be maintained by the ICSC on the salary scales proposed to the General Assembly. These steps would only be available to staff placed at these steps at the time of transitioning and no further step increments would be granted to these staff members.

4. Although the mapping of current staff into the new scale would incur technical transition costs, over time the new scale would produce savings and thus serve as a cost containment tool for two reasons: (a) the step progression is slowing down considerably and (b) the scale provides for lower entry salaries at the bottom of the grades for newly-recruited staff. Furthermore, changes in the salary structure would also affect benefits based on the salary i.e. separation payments.

Dependency and family benefits

5. The current dependency rate of salaries would be replaced by a spouse allowance equivalent to 6 per cent of net remuneration (net salary plus post adjustment). This allowance would be payable to staff members with a dependent spouse but not, as current practice, for a child recognised as primary dependant in the absence of a dependant spouse. Determination of eligibility for a spouse allowance would in future not only consider income from employment but also other income such as pensions.

6. For the staff currently paid at the dependency salary rate in respect of their first dependent child, transition arrangements are being proposed. Immediately after implementation of the new system such staff members would receive a 6 per cent of net remuneration transitional allowance for their first dependent child, this amount would be decreased by 1 per cent point per year until such time that the transitional amount becomes equal or lower than the child allowance.

7. There are no changes to the current eligibility criteria and methodology for the child and secondary dependants' allowances.

8. Over time, the reduced eligibility for spouse allowance compared to the current dependency salary scale, as well as the change in the allowance for the first dependent child, may have effects of cost containment. Furthermore, the Commission noted that the removal of the spousal element from the salary structure would result in an overall cost reduction for the termination indemnity, repatriation grant and death grant.

9. The proposed transitional arrangements, however, are deemed to be relatively complex and could lead to additional administrative costs.

Management of the margin between the net remuneration of the UN staff and US federal civil service in Washington, D.C.

10. The Commission recommends that the desirable mid-point of the margin remain at 115 whilst decreasing the range in which it can fluctuate from 110 to 120 to a range of 113 to 117. This option would allow the normal operation of the post adjustment system as long as the margin was within the 113-117 range and reduce the fluctuation of the margin.

Education grant

11. The education grant scheme would continue to cover school up to tertiary/university level but eligibility for tertiary level would cease with the receipt of a first degree or after four years post-secondary education or at age 25, whichever is first. Under the current rules, the entitlement is to four full years of post-secondary education.

12. The fixed reimbursement rate of 75 per cent of admissible expenses would be substituted by a global sliding scale consisting of seven brackets, which would also replace the currently existing country/zone-specific limits. The revised grant has a built-in mechanism to encourage cost containment as under the seven bracket sliding scale the percentage of reimbursement decreases as the amount of the education expenses and claims increases. Furthermore, the basis of admissible expenses would be reduced to cover tuition, enrolment and mother-tongue tuition fees only.

13. Boarding assistance would be restricted to primary and secondary education, and only for staff members based in non-headquarter duty stations. Exceptions could be granted by Executive Heads, in justified individual situations and in particular for organizations with high mobility and rapid deployment needs. Education grant travel would in future be restricted to children of staff members with an entitlement to boarding assistance and limited to one trip per year.

14. The mechanisms to review the ceilings of education expenses and level of the grant would be greatly simplified and based on the tuition movement of representative international schools every two years.

15. No changes were recommended for the special education grant, in light of the small number of claims and in recognition of the special needs of the children. The ceiling for the special education grant itself would be set with reference to the upper-most bracket of the sliding scale for the regular education grant plus the amount of USD 5,000, equivalent to the boarding lump sum provided in the regular education grant scheme. Admissible expenses would be reimbursed at a rate of 100 per cent up to this ceiling. Boarding assistance would be available in all cases, if requested, as per the current rules.

16. The Commission proposes that the new education grant scheme, for both regular grant and special grant, be implemented at least a full cycle of one school year after the one in progress at the time when the new schemes are approved by the General Assembly and other governing bodies.

17. Precise financial implications are difficult to predict since the scheme design is changing substantially. A first very rough estimation indicates cost reductions of about 10 per cent of overall scheme costs due to restrictions in reimbursement of admissible expenses and for boarding reimbursement. Reduced entitlement to education grant travel should also generate cost savings.

18. On the other hand, the unified global scale would even out current differences in country-specific ceilings and potentially lead to higher expenses in particular in countries currently falling under the "USD outside the US" group of countries. The practical reduction of entitlement to three years of tertiary education (i.e. first degree) should lead to additional savings.

19. The proposal should also lead to some administrative savings, as system-wide education grant claim review can be discontinued and the reduction of admissible expenses should speed up claim processing.

Hardship-related elements

20. The ICSC is proposing to maintain the current hardship categories but to unify the amounts of the hardship allowance, for staff with and without dependants, at the current dependency rate. This would result in an increase in the amounts for single staff.

21. As for the Additional Hardship Allowance (AHA) which currently varies according to the staff member's grade and family status, the Commission proposes to replace it with the "Non-family service allowance" (NFSA) to be paid as a flat amount, depending on family status.

22. Provisions for Danger Pay, Security Evacuation Allowance and Rest & Recuperation would remain unchanged.

23. No transitional arrangements are foreseen for the above changes. The streamlining of amounts for the Hardship Allowance would result in immediate additional cost to organizations. It should be noted that, while the overall cost for the "Non-family service allowance" could be higher than current AHA expenses, a number of staff individually, in particular at higher grades, would receive significantly reduced amounts compared to the current provisions.

Mobility allowance

24. The ICSC proposes to replace the current mobility allowance with a mobility incentive to encourage movement of staff to the field. Under the new scheme, annual flat amounts would be established for each geographical reassignment based on the hardship level of the duty station and personal grade of the staff member. Staff transferred in a "H" duty station would not be eligible for the incentive. Furthermore, gradual increases in the allowance based on the mobility record of the staff members would be discontinued. The Commission proposes to revisit the mobility incentive after five years of its implementation, to re-evaluate the need for such an incentive.

25. The transitional arrangements proposed by the ICSC foresee that staff who move before the implementation date of the mobility incentive maintain the currently applicable mobility allowance levels as long as they stay at the current assignment for up to five years, or until the time staff move to another duty station.

26. First estimates point to potential savings after full transition. However, there are three additional considerations with regard to cost implications: (a) transition arrangements will bear additional costs; (b) organizations that are about to embark in new mobility schemes might find themselves with larger populations of staff on their second assignment, and those populations are relatively favoured in the new system in comparison with the current one - so savings may be significantly smaller; and (c) from an individual staff perspective, staff with a longer history of past moves will experience significant reductions in amounts received with their next geographic move.

Relocation and assignment related payments

27. The ICSC is recommending the discontinuation of the non-removal allowance, assignment and relocation grant and the introduction of the new relocation package consisting of three basic elements: relocation travel, relocation shipment and a settling-in grant.

28. The provisions governing relocation travel remain unchanged.

29. Some changes are proposed for the relocation shipment but, if flexibility is maintained for the organizations, this would not impact FAO as the Organization would retain its current process of organizing the shipment for the staff members upon relocation, and not offering a lump sum.

30. With regard to the assignment grant, re-named settling-in grant, the DSA provisions are unchanged, but DSA for family members should only be payable if they join at the new duty station within six months after the beginning of the assignment. The lump sum portion of the settling in grant would no longer be one month of the staff member' s salary (net remuneration and post adjustment) but an amount equivalent to the salary of a P-4 step 6 at the duty station. The most important change recommended by the Commission is to modify the current practice of paying the lump sum portion only to staff members assigned to field duty stations or with appointments of less than two years. The commission considered that there should be no differentiation between staff members since the settling in grant is meant to cover settling-in expenses which are applicable in all duty stations, whether in H or in the field. A further change concerns the second 1-month lump-sum in assignment grant for staff in field duty stations after completion of two years of service in a duty station is discontinued.

31. The proposed new package for relocation would be applicable to all staff moving (i.e. new recruits and staff on mobility) on or after the implementation date. In addition, relocation travel and relocation shipment would also be applicable to staff who separate from service, subject to relevant eligibility criteria set by organizations.

32. The Commission intends to review the actual cost of the new relocation package, compared to the existing provisions, two years after its implementation.

33. The financial implications are difficult to predict. The abolishment of the non-removal element would lead to savings as well as the abolishment of the second month of the assignment grant lump-sum. However, the proposed change to the lump sum portion of the assignment grant would lead to increases in costs for FAO and this point is being further discussed, including at the HLCM.

Repatriation Grant

34. The current proposal for the repatriation grant is to establish a threshold of a minimum of five years of service as conditionality for eligibility, but to leave the scale as such unchanged (other than basing the weeks of salary on the new, unified salary scale).

35. As a transitional measure, it is proposed that current staff would maintain their eligibility to the repatriation grant under the present schedule up to the number of years accrued at the time of the implementation of the new scheme.

36. The financial implications on the repatriation grant have not yet been determined.

Leave entitlements

37. The ICSC does not recommend any changes to existing provisions for annual leave, sick leave or regular home leave. However, the Commission is proposing the discontinuation of the accelerated home leave (i.e. 12-month home leave cycle for staff in C, D and E duty stations) as it is seen as overlapping in purpose with Rest & Recuperation provisions.

Framework for other payments

38. The ICSC has been discussing frameworks for other payments in the context of the Compensation Review. These are optional provisions in two areas:

(a) Performance-based incentives: The highest performing staff could receive between five and ten per cent of base salary as a one-time, non-pensionable bonus.

(b) Recruitment bonuses: In order to attract candidates to difficult-to-staff positions, a one-time recruitment bonus of up to 25 per cent of annual base salary for each year of the initial contract, up to a maximum of three years can be paid. This scheme would be implemented on a pilot basis, at the discretion of the Executive Heads of the organizations, and with appropriate documentation and oversight requirements as per the rules of each organization.

(ii)- Base/floor salary scale

39. A 1 per cent increase was implemented with effect from 1 January 2015 in the US federal civil service. In addition, some changes with respect to taxation were introduced in the US for 2015. The effect of the 1 per cent increase in the base General Schedule scale and the tax changes translated into a net increase of 1.08 per cent compared with 2014 levels.

40. In order to maintain the United Nations Common System (UNCS) scale in line with the General Schedule levels of the comparator, the ICSC approved the recommended adjustment of the common system salary scale of 1.08 per cent, effective 1 January 2016, by means of the standard method of consolidation, i.e. by increasing the base salary by 1.08 per cent while commensurately reducing post adjustment multiplier points.

41. That method, known as the no-loss/no-gain adjustment, results in no change in take-home pay for staff. Changes in the scale do result in increases in separation payments that are linked to the base/floor salary scale.

42. The resulting annual system wide financial implications are estimated to USD 550,000 and for FAO would be approximately USD 38,500.

(iii)- Evolution of the United Nations/United States net remuneration margin

43. The Commission noted that the margin between the net remuneration of the UN staff and US federal civil service in Washington, D.C., for 2015, is estimated at 117.2, and the average level of the margin for the past five years (2011-2015) is also 117.2.

II. CONDITIONS OF SERVICE APPLICABLE TO BOTH CATEGORIES OF STAFF

Mandatory age of separation

44. The Commission decided to recommend to the General Assembly that the implementation date for raising the mandatory age of separation to age 65 for staff recruited before 1 January 2014 should be 2016, and at the latest 1 January 2017, and should take into account the principle of acquired rights.

B. UNITED NATIONS JOINT STAFF PENSION BOARD (UNJSPB)

45. The 62nd UNJSPF Board meeting was held at the UNOG in Geneva, from 20 to 24 July 2015.

46. The CEO emphasized in his report that the Fund is in a very good operational and financial situation. A trend underlined by the CEO is the continued growth of operational volumes. This is

partly due to the increase in the population of retirees and beneficiaries which continues to grow steadily at more than 3 per cent annually and the high turn-over of active participants amounting to over 9600 cases in 2014. The total number of participants and beneficiaries combined has grown by 73 per cent since 1998.

47. With respect to sustainability, assuming the expected annual 3.5 per cent real rate of return is met, the principal of the Fund will not be utilized to cover the difference between contributions received and benefits paid for at least the next 50 years.

48. The CEO commented that certain demographic trends have financial cost implications that affect long-term sustainability such as improvement in life expectancy, decrease in the utilization rate of the commutation option, increase in the cost of the two-track feature and which it is estimated will be mostly offset by the proposed transition to the new alternative asset valuation method.

49. Turning to the Integrated Pension Administration System (IPAS), the CEO noted that IPAS is arguably the Fund's most important operational and IT initiative in the Fund's recent history. The project is currently being deployed.

Actuarial matters

50. The Pension Board agreed with the recommendation of the Committee of Actuaries that the continuation of the transition to the alternative methodology of the actuarial value of the assets for the 31 December 2015 would be based on (a) 50 per cent of the assets produced by the current methodology plus (b) 50 per cent of the assets produced by the alternative methodology. Furthermore the Board agreed that the assumed long-term cost of the two-track feature should be set at 2.1 per cent of pensionable remuneration. The Board also agreed that the monitoring exercise should continue on the occasion of each actuarial valuation

51. The Board agreed that the 3.5 per cent real rate of return assumption used for the Regular valuation basis for the 31 December 2013 actuarial valuation should continue to be used in the upcoming actuarial valuation.

Investments

52. The Representative of the Secretary General (RSG) informed the Board that the Fund's funded status is strong, with a funded ration of 91 per cent and that the investment return objective of 3.5 per cent real return had been achieved over the past 50 years. From USD 27,721 million as of February 2009, the Fund went on to achieve a historical high valuation of USD 54,311 million on 03 July 2014. As of 31 December 2014, the Fund was valued at USD 52,820 million. Bonds showed a negative return of 1.0 per cent, compared with the 0.6 per cent of the Barclays Capital Global Aggregate benchmark. In 2014, the strength of the USD (12.9 per cent appreciation against major currencies) negatively affected the non-dollar positions of all asset classes of the Fund. As of 31 December 2014, the Fund had an overweight position in equity of 63.5 per cent compared with 60 per cent of the Strategic Asset Allocation (SAA).

53. A revised investments policy was presented to the Board demonstrating the progress of the Investments Management Division in its effort to fulfil its fiduciary responsibilities and provide tools and written investment direction about the plan-specific parameters for investment selection, risk management, and evaluation procedures.

Administrative matters

54. The Board was informed that this year’s statements are the Fund’s third financial statements prepared in accordance with IPSAS. The Fund’s net assets available for benefits increased from USD 51.5 billion as of 31 December 2013 to USD 52.9 billion as of 31 December 2014.

55. The Board reviewed the proposal of the Budget Working Group and approved it for submission to the GA. The proposed budget estimate is amounting to USD 189,714,200.This amount would be apportioned USD 158,464,500 to the Fund and USD 22,249,800 to the UN under the cost sharing arrangement. In addition, the Board approved resources amounting to USD 164,700 from extra-budgetary funding for the GS post to be funded by member organizations participating in the ASHI scheme and an amount not to exceed USD 225,000 for the Emergency Fund.

Governance matters

56. The Board approved the report of the ALM Committee and endorsed its recommendations together with an action plan for the Pension Board and suggestions to the SG in general and in light of the ALM study.

57. The Board also took note of the update on the HR Framework review and suggested proper consultations on the MOU should begin.

58. An update on the work of the HLCM Finance and Budget Network Working Group on ASHI was presented to the Board where there was no scenario where the Fund could use its capabilities to carry out any ASHI business processes. The Board also requested that the CEO/Secretary of the Board continue to be available to address any further concerns and develop possible responses to ensure that its position is fully reflected in the SG’s report to the GA and in other instances, including the Assembly’s deliberations on this matter.

Audit

59. The Board reviewed the Audit Committee’s report and endorsed the following recommendations: OIOS should start the testing of internal controls for the Statement of Internal Control as soon as possible but no later than 2016; the management of the Fund should ensure that the draft Financial Rules are ready for review by the Committee and for submission to the Pension Board at its 63rd session in 2016; management should take appropriate action to fill vacant key posts, including the CFO and IMD Director; the RSG should treat as a matter of highest priority the serious risks posed by the lack of coherent and comprehensive ICT strategy and the current fragmented ICT systems that support business processes in IMD.

60. The Board took note of the unqualified audit opinion on the Fund’s financial statements for the year ended 31 December 2014.

Benefit system

61. The Board took note that the local currency track pension amounts continue to be maintained at or near the targeted levels for the countries under review. It noted that this analysis continues to provide important and useful information to the Board on the targeted income replacement ration for the main currencies and requested the Fund to continue monitoring the local currency track benefits and report to the Board on its analysis on an annual basis.