THIRTEENTH ITEM ON THE AGENDA


1. Set out below is a summary of the Standing Committee’s consideration of the main issues on its agenda.

Investment management

2. The market value of the assets of the Fund had declined to US$21,793 million on 31 March 2001 from US$26,056 million a year earlier, a decline of US$4,263 million, or 16.4 per cent. The total investment return for the period under review was a negative 15.0 per cent, which after adjustment for the United States consumer price index (CPI) represented a negative real rate of return of 17.4 per cent. This return was still 0.7 per cent above the benchmark. The Fund was affected adversely by the decline in local markets and the weakness in major currencies against the United States dollar, namely the euro, the pound sterling, the Swiss franc and the yen. Overall, adverse currency movements contributed to about 32 per cent of the Fund’s decline. In other words, out of the 16.4 per cent decline, 5.3 per cent, or about US$1,364 million, was due to the currency impact. During the 41 years that the performance of the Fund has been calculated, the Fund experienced only six years of negative returns, in 1970, 1974, 1977, 1980, 1982 and 2001.

3. The March-to-March reporting period corresponded almost exactly with the peak-to-bottom movement of global equity markets. Before March 2001, the Fund had 18 consecutive years of positive returns. Furthermore, the Fund had experienced double-digit returns in four out of the five years prior to March 2000. The cumulative return during that five-year period had amounted to 98 per cent, or 14.6 per cent per annum compounded, which may be considered abnormally high by historical standards. Therefore, the negative 15.0 per cent return for the year ended 31 March 2001, to some extent, represented a reversion to the mean longer-term sustainable rates of return achieved by the Fund. The Fund’s 41-year return was 8.6 per cent, representing an annualized real rate of return of 4.0 per cent after adjustment by the United States consumer price index of 4.5 per cent.
4. The management of investments continues to rely on broad diversification (by currency, asset class, and geographical area) as a means of reducing risk and improving returns over long periods of time. Although exposure to equities had been reduced during the reporting period because of sharp declines in all markets, the Investments Committee believes that the viability of the Fund is best sustained by maintaining a higher proportion of equities than bonds, and that the long-term guideline of allocating 60-75 per cent of investments to equities is beneficial to the Fund. Such a policy has ensured that the Fund is able to meet its actuarial assumptions.

Preliminary report of the working group charged with undertaking a fundamental review of the Pension Fund’s benefit provisions

5. The final report should be submitted to the Board in 2002. This preliminary version of the group’s report was well received by the Standing Committee. The Committee nevertheless encouraged the group to go into certain aspects of the report in greater depth in view of the recommended changes in the “pay and benefits” system that are to be discussed by the International Civil Service Commission (ICSC) in the coming months.

6. Participants’ representatives stressed the need for the Fund to reinstate benefits (such as 1.5 per cent cost-of-living adjustment), which had been the focus of cost-saving measures implemented during the 1980s to alleviate the actuarial deficit of the Fund.

7. In light of expected changes in the employment structures of organizations and marked increases in short-term employment, representatives of governments and administrations insisted on the need to improve benefits (such as reducing the vesting period from five to three years), in order to promote mobility and make employment in the international civil service more attractive.

8. Representatives of the General Assembly also raised the possibility of a more radical restructuring of the current pension system and hoped that the group would address this matter further to account for changes that have taken place in the pension field in a number of countries, as well as in other international organizations (such as a change in the distribution of the contribution rate between participants and organizations; a study of the pension adjustment system, in particular of the two-track system; and a review of the current “defined benefit” pension scheme in comparison to other “defined contribution” schemes).

Budget

9. The revised budget proposals for the 2001-03 biennium were approved. The budget covering the period 2002-03 was also adopted with a few modifications. The Standing Committee approved an investment in the Fund Secretariat to strengthen the Fund’s Geneva Office and to improve computer systems that will address the long-term needs of the Fund. The Fund Secretariat continues to work with the financial and administrative departments of the various organizations based in Europe, in order to rationalize and improve services provided to organizations, participants, and beneficiaries. In time, the objective is to build up a real common pension scheme that respects the regulatory autonomy of each organization.
Pensioners from the former USSR

10. The Standing Committee noted the Russian Government’s decree to improve the level of benefits received by pensioners from the former USSR. Nevertheless, given that the amounts contained in this decree do not offer sufficient coverage, the Committee decided to continue its efforts to improve the situation of our colleagues and to seek to re-establish their pension entitlements in accordance with their length of service.

11. Firstly, the Standing Committee has requested the Secretary-General of the United Nations and the Secretary of the Fund to intensify their efforts with the authorities concerned in order to find satisfactory solutions to the problem. Secondly, it has requested the Board to examine emergency measures that could be implemented and to propose them to the General Assembly.

Structure of the Board

12. The Standing Committee discussed the Fund Secretary’s proposal to increase the number of seats on the Board from 33 to 36, allocating the additional seats to the United Nations. The Standing Committee nevertheless preferred to maintain the status quo, but granted two additional observer seats to the Federation of Associations of Former International Civil Servants (FAFICS).

13. All of the issues above will be further considered at the next session of the Board, which will be held at the FAO headquarters in Rome in July 2002.

14. Submitted for information