NOTE TO THE COMMITTEE ON BUDGET, FINANCE AND ADMINISTRATION

United Nations Salary System

This note summarizes basic information concerning the operation of the United Nations salary system. By virtue of the application of United Nations Staff Rules and Regulations and United Nations Financial Regulations to the GATT (C/M/65), the United Nations salary system is also applied by GATT.

A. Historical Background

When the United Nations was established Member States decided to introduce, for their staff, a salary system based on the following principles:

1. The system would be the same all over the world.
2. It would be attractive to qualified candidates from any part of the world (resolution 13(I), 13 February 1946).
3. A few years later, when new agencies were created, a third principle was applied: the system would be common, with some variations, to all organizations.

It took several years to organize the system in detail but it was agreed early on that the United Nations Headquarters' local currency (United States dollars) should serve as a basis for all calculations. In the fixed exchange rate system that prevailed in the 1950's, New York Headquarters' remuneration, expressed in dollars, became the basic reference unit for the whole system. "Post Adjustments" linked to the local cost of living and applying to the basic salary (excluding allowances and pension) were developed. The system gave a satisfactory solution to the problem as from the mid-fifties (1 January 1957).
The purpose of the post adjustment system is to ensure, so far as is possible, that the remuneration of staff in the Professional and higher categories, at the same grade and step, will have the same purchasing power irrespective of the duty station where they are serving. This is achieved through two processes:

(a) determining the initial place-to-place adjustment required, as the result of a statistical comparison of the cost of living at the different duty stations. These adjustments may be either additions to or deductions from base salaries;

(b) thereafter, ensuring that the remuneration of staff in all duty stations maintains the same purchasing power over the period of time between revisions of the place-to-place relationships.

Adjustments to basic salaries are made from time to time on the basis of recommendations submitted to the United Nations by U.N. Committees which had been established to review the salary situation. The organizations have the opportunity to submit to such committees their own views on the nature and extent of salary adjustments which they consider appropriate.

Although its main original purpose was to cope with cost-of-living problems, the post adjustment system was also applied to counterbalance the effects of exchange rate fluctuations which became very important from 1971 onwards. These fluctuations were strongly felt in Geneva where there has been a roughly 30 per cent revaluation of the Swiss franc v/dollar. The post adjustment system has proved to be only partially adequate in compensating these fluctuations.

1. Salaries

An upward movement of 5 points of the cost-of-living index justifies the payment of a "class of post adjustment". It corresponds to a net salary increase of approximately:

<table>
<thead>
<tr>
<th>Staff with dependents</th>
<th>Staff without dependents</th>
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<tr>
<td>+ 4.3%</td>
<td>+ 2.9%</td>
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<td>(Slightly more for lower P grades, slightly less for higher officials)</td>
<td>(Only 2/3 of the increase of staff with dependents salary)</td>
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that is:

a. **When exchange rates are fixed:**

   Salaries expressed

   both in US$ and in SF: 100 + 4.3% = 104.3 100 + 2.9% = 102.9

b. **When exchange rates fluctuate:**

   In the case of a 5 per cent revaluation of the local currency, the salary expressed in US dollars will be increased by the same percentage as in the case of cost-of-living increase (about 4.3 per cent for staff with dependents, and about 2.9 per cent for staff without dependents). But, although salaries are increased by these percentages, in dollar terms, the amount actually paid in Swiss francs will bear the consequences of the exchange rate. The result is:

   Salaries expressed:

   in US$ 100 + 4.3% = 104.3 100 + 2.9% = 102.9
   in SF (100 + 4.3%) - 5% = 99.085 (100 + 2.9%) - 5% = 97.755

   This shows that, when the US$/SF exchange rate moves downwards by 5 per cent, the salary actually paid in Swiss francs is reduced by nearly 1 per cent in the case of staff with dependents and by about 2.3 per cent in the case of staff without dependents.

   During the last few years the cost of living has risen while, at the same time, exchange rates have undergone considerable changes. Consequently, salaries have been affected in two ways by the post adjustment system: they have gone up when the cost of living has risen and down when the exchange rate of the local currency (SF) has gone up. The overall result has been that the salary of a staff member without dependents, when expressed in Swiss francs, was lower in October 1973 than in July 1971 although, during the same period, the cost of living increased by about 17 per cent.

   At the beginning of 1974 the consolidation of five post adjustment classes increased the net salary but its only effect in terms of take-home pay was an increase of about 5 per cent for staff members without dependents. Subsequent exchange rate fluctuations have resulted in new reductions in take-home pay.
Chart I gives the resulting curve. On 1 July 1971 (starting date of the last salary revision), the salary of staff without dependents was only 96.2 per cent of the salary of staff with dependents, due to the existence in Geneva at the time of three classes of post adjustment. The two curves have been established with 100 as the basic salary of staff with dependents and 96.2 for staff without dependents.

Chart II compares Kay 1974 percentages to those of July 1971 (July 1971 = 100).

(i) the cost of living in Geneva (123.8)
(ii) the salary actually paid in May 1974 (ref. A)
(iii) the salary which should be paid in May 1974 if the exchange rates were still the same as in July 1971 (ref. B).

2. Allowances

(Family allowance -- wife and children, repatriation grant, education grant.)

No post adjustment system applies to these allowances. The result is, for example, that the actual amount of dependent's allowances in Swiss francs paid to staff members has varied between 25 and 35 per cent below what it was before currency fluctuations began.

It may be noted that as the GATT budget is drawn up on a Swiss franc basis any reduction in staff take-home pay, including allowances, is reflected in savings for the benefit of governments.

3. Pensions

On this issue, special measures had to be taken by the United Nations General Assembly in 1973. They resulted mainly in a special one-time payment to pensioners receiving pensions below £4,000 per annum and provision for future adjustments in line with movements in the weighted average of world-wide post adjustments. Application of a system of weighted averages leaves, of course, pensioners in countries where the downward exchange rate fluctuations have been largest substantially under-compensated. Chart III attached shows the average amounts actually received by pensioners residing in Switzerland.
B. Common System

1. Member Organizations

As indicated above, the system which was applied at New York Headquarters was progressively extended: (a) to the organizations which came into being after 1945, and (b) to some international organizations which existed before World War II and which had a world-wide membership. While there is now in general a uniform and common system of financial and staff rules, a number of variations still exist in the system. Some are justified by pre-war acquired rights, others by operational demands applicable in some organizations, still others by local employment conditions. Hereunder are a few examples:

WHO, created in 1948, has a grade P6 which does not exist in other organizations.

Some organizations (ITU, WHO) grant additional steps in some grades.

WIPO, which took over the terms of reference laid down in several international agreements around 1880, applies the common system, without having formally joined it. Effective 10 October 1971, the Staff regulations of WIPO were modified in such a way that any decrease (solely on account of a change in the US dollar/Swiss franc exchange rate) in the pensionable remuneration or in the take-home pay of any employee is compensated until such time as the pre-decrease position is restored as a result of any subsequent changes in remuneration.

Another organization installed in Geneva, which does not belong to the Common System but follows its rules is EFTA. This organization also applied the same rules as WIPO (see above).

2. Coordination

The mechanism which coordinates the common system may be described as follows:

CCAQ: Consultative Committee on Administrative Questions. Deals with personnel, administrative, budgetary and financial questions. The Committee is composed of senior representatives of each of the organizations in the common system. Recommendations of CCAQ are submitted to the Administrative Committee on Coordination for approval.
ACC: Administrative Committee on Coordination.

Body in which the inter-organizational consultations required by the agreements made between the United Nations and specialized agencies are held. The members of the Committee are the executive heads of the organizations.

Where decisions of ACC require legislative action each organization submits such decisions to its own governing body.
Cost of living in Geneva: 1 July 1971 = 100
(Swiss Consumer price Index
OFIANT: 1.7.1971 = 119.7 points)

Remuneration of Professional Staff in Geneva:
(Base Salary + Post Adjustment)
- with dependents 1 July 1971 = 100
- with no dependent spouse or child
  (Post Adjustment =
  2/3rd of dependency rate) 1 July 1971 = 96.2

U.N. accounting rate 1 July 1971 = 100
(1.7.1971: 1 US$ = 4.08 Sfrs.)
Cost of living in Geneva
(Swiss Consumer price Index)

Staff member with a
dependent spouse or child

123.8

Staff member with no
dependent spouse or child

114.8

A = actual level of salaries in May 1974

B = level of salaries if exchange rate had remained unchanged since July 1971