

TARIFFS AND TRADE

PENSION AND SALARY MATTERS

Note by the Secretariat

Salaries of the professional and higher category staff

1. The Committee will recall that at its meeting on 14 May 1987, the Council adopted the following decision with regard to salaries of staff in the professional and higher categories: "Aware of the urgency of the situation, the Council further considers that the CONTRACTING PARTIES should keep the situation under close review so that appropriate action may be taken as a matter of urgency, if, by the September session of the Council, it becomes clear that no long-term durable solution within the common system is forthcoming, or that arrangements for compensating the staff by the use of the remuneration correction factor prove to be unsatisfactory."
2. The Committee will wish to be informed of developments which have taken place since 14 May, in order to be in a position to advise the Council, which will meet on 7 October 1987.
3. As planned, at its 26th session in July the International Civil Service Commission (ICSC) considered the problem of the effects on salaries of staff in the professional and higher categories of fluctuating exchange rates. For this it had before it, in addition to the recommendations of its own Advisory Committee on Post Adjustment Questions (ACPAQ), a statement on the subject by the Administrative Committee on Coordination (ACC) calling for immediate measures to deal with the problem. The representatives of several organizations, including GATT, made individual statements to the same effect.
4. The ICSC decided as follows:
 - (a) to endorse the ACPAQ recommendation to revise the procedure for calculating the out-of-area price progression factor;
 - (b) to maintain the system of the remuneration correction factor (RCF), and apply the new out-of-area price progression factor procedure to it;
 - (c) to maintain the currency floor protection at the equivalent of 20% below the exchange rate in effect at the time of the last place-to-place survey (in Geneva, October 1983), but to raise the ceiling to 20% above that rate.

5. The practical consequences, in Geneva, of these decisions can be summarized in the following way. Take-home pay (defined as base salary plus post adjustment minus pension fund contribution) in Swiss francs, for a P.4 step VI staff member with dependants, amounts to Swf. 8,599 in September 1987. This compares with a take-home pay in October 1983, at the time of the last cost-of-living survey, of Swf.8,631 (the exchange rate at the time was 2.13). The shortfall is thus Swf.32 per month, at this level. The September pay is, however, Swf.49 more than take-home pay in September 86 when the RCF procedure was first introduced, and Swf.38 more than take-home pay in April 87, when the currency protection floor of Swf. 1.70 was introduced.

6. The table in annex 1 recapitulates these and other figures in some detail.

7. Several additional remarks are in order for complete understanding. The first concerns the difference between these figures and those used as the basis for the conclusions reached by the Informal Advisory Group in Spec(87)10. There are two principal reasons for the difference: the first is that the Informal Advisory Group defined take-home pay as base salary plus post adjustment (before deduction of the pension fund contribution); the changes (reductions) since 1983 in the amounts payable each month as pension contributions have had an impact on take-home pay.

8. The second reason for the difference is that the Informal Advisory Group assumed, as part of the recommendations it made, that the increase (4.1%) in the cost-of-living in Geneva from October 1983 to December 1984 (date of the post adjustment freeze), should be compensated. Under the post adjustment system, however, which requires a five per cent movement in the relevant index in order to trigger a post adjustment modification, the movement in the index of 4.1% prior to the freeze was not sufficient. In other words, if the exchange rate had remained unchanged at Swf. 2.13 since October 1983 i.e. if there had been no "exchange rate problem", there would have been no increase in the post adjustment in Geneva, first because the movement of the index was insufficient to warrant it, and after January 1985, because there was a freeze on post adjustment.

9. A third remark concerns the next place-to-place New York/Geneva cost-of-living survey. The ICSC has decided to maintain the schedule of surveys as recommended by ACPAQ. This means that the survey in Geneva is scheduled for 1988, and will be approved by the Commission in 1989.

10. A fourth remark concerns the freeze on post adjustments. If the United Nations General Assembly approves a recommendation adopted by the Commission at its last session, the margin of UN remuneration over that of the United States federal Civil Service (the comparator) will decrease to a level where an upward adjustment in UN remuneration will be justified, through the granting of a post adjustment class in New York at the beginning of 1988. This will mean effectively the end of the freeze at the

base of the salary system. In Geneva, there will be no practical consequences, as the post adjustment multiplier in Geneva exceeds the post adjustment index, which alone is affected by the lifting of the freeze. In other words, pay levels at the time the freeze is lifted in Geneva will reflect a higher index and less RCF, but local currency take-home pay will be basically unchanged.

11. Finally, and perhaps most important, the Commission has agreed to give priority to the search for a long-term solution to the problem of the effects of exchange rate fluctuations. A tripartite working group (ICSC secretariat, administrations, staff representatives) has been established, and has been instructed to make recommendations to the ICSC in 1988 on:

- (a) possible ways of separating exchange rate variations from cost-of-living movements in the post adjustment index, and
- (b) the adequacy of the post adjustment system in general terms.

Pensions

12. The Committee will recall that the Council, at its session on 15 July 1987, had before it a further report (Spec(87)10/Add.1) from the Informal Advisory Group, this time on pensions. The Group recommends the establishment of two seniority steps, and the relaxation of the requirement that retirement should be at age 60. The Council took note of the report, and requested the Committee to continue its consideration of the matter and to report thereon at the next meeting of the Council.

13. In the meantime, the United Nations Joint Staff Pension Board (JSPB) has held its 37th session, in August, and is making recommendations to the General Assembly which are designed to deal with the decline in the value of the periodic pension benefits in certain local currencies. The essence of these recommendations is to set, as of 1 January 1988, a floor exchange rate for the calculation of the local currency value of periodic benefits. In Geneva, the floor would be in the vicinity of Swf. 2.07 (because of the way the floor is calculated, the precise figure will only be known in December 1987).

14. The new arrangement would have an effect on the periodic benefits of all those who have retired or will retire at a time when the exchange rate used to calculate the benefit in local currency was or is lower than the floor rate. Only periodic benefits payable after 1 January 1988 would, however, be recalculated i.e. there would be no retroactive adjustments.

* It is expected that the ICSC will take decisions on the recommendations of the working group at its 28th session in July 1988. If, as is likely, these involve fundamental changes to the salary system, they will have to be submitted for approval to the United Nations General Assembly in the autumn of 1988.

The lump sum payments which retirees can opt for would not benefit from the same currency floor protection.

15. The recommendation represents a compromise in the Board. It carries an actuarial cost to the Pension Fund. This is considered unfortunate at a time when the actuarial valuation of the Fund shows it to be in accrued deficit. As one measure to reduce the deficit, the Pension Board is recommending an increase in the rate of contributions, from 21.75 to 22.5 per cent of pensionable remuneration. The General Assembly may very well also modify the proposals referred to above in order to reduce their actuarial cost. Its decision on these matters will be known by early December 1987.

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16. The Director-General welcomes the developments in the ICSC and JSPB. They will contribute positively to bringing the discussion in the Committee, and in the Council, to a suitable conclusion.

17. In order to facilitate discussion, the issues on which the Committee may wish to focus are as follows:

(i) the decision of the ICSC regarding the modification of the post adjustment mechanism and the RCF, which has become effective on 1 September 1987;

(ii) pursuant to the Council's decision of 14 May, and in the light of the ICSC decision, the recommendations on salaries formulated by the Informal Advisory Group in Spec(87)10;

(iii) the recommendation of the JSPB to the General Assembly regarding the floor protection for local currency pension benefits, to become effective on 1 January 1988;

(iv) pursuant to the Council's decision of 15 July, and in the light of the JSPB's recommendation to the General Assembly, the recommendations on pensions of the Informal Advisory Group in Spec(87)10/Add.1 that:

(a) two long-service steps be created and

(b) the rules regarding obligatory retirement at 60 be relaxed, permitting staff to continue in service to age 62;

(v) the proposals of the Staff Council (see annex 2) that

(a) six long-term service steps be created and

(b) retiring staff be eligible to receive a lump sum payment from the organization in compensation for the loss in value their pensions.

ANNEX 1

Comparative analysis of take-home pay *Professional and higher categories

(Swiss francs per month)

Date	Oct.1983 Survey	Index (base)	Dec.1984 Freeze	Index (10/83= 100)	Jan.1985 Informal Advisory Group	Index (10/83= 100)	Sept.1986 RCF	Index (10/83= 100)	April 1987 Floor	Index (10/83= 100)	Sept.1987 Modified RCF	Index (10/83= 100)
Ex. Rate	2.13		2.50		2.13		1.65		1.53		1.50	
P2/V1	6,186	100	6,362	102.8	6,164	99.9	6,113	98.8	6,124	99.0	6,153	99.5
P4/V1	8,631	100	8,869	102.8	8,629	99.97	8,550	99.1	8,561	99.2	8,599	99.6
P5/V1	10,062	100	10,344	102.8	10,056	99.9	9,943	98.8	9,973	99.1	10,015	99.5
D2/max	12,034	100	12,372	102.8	12,115	100.7	11,928	99.1	11,942	99.2	11,990	99.6

* Take-home pay is defined as base salary plus post adjustment (dependency rate), minus pension contribution.

ANNEX 2

CONSEIL DU PERSONNEL
STAFF COUNCIL

Memorandum Concerning the Proposals of the GATT Staff Council
Aimed at Settling the Problems of Professional
Salaries and Pensions

1. Salaries

Since the Informal Advisory Group has recommended the principle of seniority steps, applied for many years in the ILO (2,800 staff members) and WHO (4,500 staff members), the Staff Council asks that GATT introduce a system of six seniority steps (as in WHO, and limited to three steps from grade D.2 upwards). This system would consist in the granting of three times two steps, after fifteen, twenty and twenty-five years' service. It would be permanent, since its purpose is to make up for the loss of purchasing power of professional salaries, which will continue to deteriorate in coming years. It has nothing to do with promotion, and the link with "seniority" is only a convenient way of making up for loss of salary while broadly respecting the rules of the Common System; if this were not the case, the Staff Council would request that the same system be immediately applied to General Service staff, as in the ILO and WHO, which it is refraining from doing for the present.

The Staff Council considers that the introduction of six additional steps as from 1 January 1988 could be expected to resolve the problem of professional salaries; if this measure were accepted by the CONTRACTING PARTIES, it would therefore drop its request for the application of an exchange rate of Sw F 2.13 to the dollar, as proposed in the first part of the Informal Advisory Group's report, as this system was not recommended by the ICSC at its session in July 1987, and its introduction seems to raise problems for some contracting parties.

2. Pensions

The problem of the deterioration of pensions is extremely pressing, and its solution cannot be left in abeyance.

The GATT Staff Council would like to see the introduction of a complementary pension scheme, and it has made two proposals to this effect. However, if the CONTRACTING PARTIES consider that such a system would be too burdensome to operate for GATT alone, the Staff Council would agree to the granting of a lump-sum payment. The Staff Council points out that staff members retiring under the Common System have the right to payment of up to one-third of their pension in the form of a lump sum, but in the space of a few years the value of that sum in Swiss francs has nearly halved for various reasons, including in particular the depreciation of the dollar.

The Staff Council proposes that this lump sum should consist in the payment of as many months of the last "take-home pay" (basic salary plus post adjustment) as the staff member concerned has years of service, with two ceilings: the number of months cannot exceed fifteen, and the monthly sum would be limited to take-home pay at the highest step of P.5.

This sum would be paid to all professional staff and directors retiring as from 1 January 1988 and aged 60 or over. The system would remain in force for at least four years, in other words up to the end of 1991. In 1991 the situation would be reviewed by the CONTRACTING PARTIES. If the pension situation had improved in the meantime, the payments would be stopped. Otherwise, the CONTRACTING PARTIES could decide either on a further period of lump-sum payments, or to replace this system by a complementary pension scheme, possibly in conjunction with other organizations.

The lump-sum payment would benefit all retiring staff members without discrimination according to their future place of residence, such discrimination being unjustified in the framework of the system of "replacement income" adopted by the United Nations General Assembly, and being in any event unfeasible in connection with lump-sum payments. The number of staff members concerned would be about twenty over four years. The annual cost can be estimated at about Sw F 700,000, or roughly one-third of the savings achieved annually by the CONTRACTING PARTIES on salaries and pension contributions for professionals.