This third Revision has been prepared by the Chair of the Budget Committee following consultation with a number of Member country Delegations.
1. Following meetings of the Budget Committee on 15, 21, 27 March and 3 April, joint meetings of the Budget Committee and the Council Working Party on Staff Policy on 21 and 27 March, and the Council meeting of 30 March, 2000, the Chair of the Budget Committee submits to Council the present report, in the form of draft Council Conclusions and a draft Council Decision, concerning the establishment of a Pension Reserve Fund and Pension Benefits.

2. Confirming the Council’s current decisions to achieve financial stability for the Organisation within zero real growth; noting Council’s wish that pension obligations be met in a cost effective manner which does not result in increased charges to Members over the long term; and noting Council’s right to establish budgets for the Organisation at a different level in future years, the Council is invited to adopt the following draft Conclusions and Decision:

THE COUNCIL

SECTION I. Pension Benefits


b) noted the 105th Report of the Co-ordinating Committee on Remuneration;

c) noted that there is a consensus to initiate immediately a procedure to examine the modification of the current Pension Scheme for officials entering service in the Organisation on or after January 1, 2001;

d) asked the Secretary General to request the CCR to consider, inter alia, the elements listed below as possible modifications to the Pension Scheme for new entrants and to respond by 30 September 2000:

   i) an increase in the age at which a full pension may be drawn;

   ii) a reduction in the rate by which a pension is reduced for an official opting for early retirement;

   iii) the calculation of an official’s pension based on an average salary over a period of time;

   iv) adjustment of pensions on the basis of the applicable consumer price indices;

   v) a change in the employer/employee contribution rate.

e) asked the Secretary-General to submit to Council, in the framework of CCR recommendations, the amendments to the Staff Regulations, Rules and Instructions necessary to implement modifications to the Pension Scheme in order that they may take effect on 1 January, 2001, for officials entering the service on or after that date;

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f) asked the Council Working Party on Staff Policy to review the amendments referred to in e) above;

g) agreed to make a decision on the amendments referred to in e) above by 30 November 2000;

h) agreed that the Pension Scheme for serving staff will be evaluated in order to identify future adjustments that it is desirable and possible to make, respecting the rights of staff and the interests of the Organisation as an employer. The Council Working Party on Staff Policy is invited to consider, inter alia, the work of the CCR on this issue and to report to Council by end-October. The Council will then ask the Co-ordinating Committee on Remuneration to advise on the feasibility and desirability of such adjustments.

SECTION II. Pension Financing


b) adopted the draft decision on the Establishment of a Pension Reserve Fund, set out in Section III, below;

c) decided to set up an ad hoc Working Group to prepare a draft Statute of the Pension Reserve Fund for adoption by Council by 30 June this year;

d) noted that Fund assets are to be kept separately from all other assets of the Organisation;

e) noted that the Fund’s assets may be used only to pay pension benefits for officials in the service of the Organisation on or after 1 January 2000 and the authorized expenses of the Fund;

f) invited the Secretary-General, pending adoption of the Statute of the Pension Reserve Fund and the initial Decisions thereunder on investment policy, to invest the Fund assets in short term money market instruments;

g) decided that income on Member country contributions earned until 30 June of this year or until the adoption of a Fund statute, whichever is the later, shall accrue to the respective Member countries.

SECTION III. Draft Decision on the Establishment of a Pension Reserve Fund

THE COUNCIL

Having regard to Articles 5(a) and 20 of the Convention on the Organisation for Economic Co-operation and Development, of 14 December 1960;
Having regard to the historical circumstances which led OECD, in 1974, and a small number of other international organisations to adopt a budgetised pension scheme;

Having regard to the recommendation of the Working Group on the OECD Pension Problem that a fund be created to cover obligations towards existing and future staff, while pension obligations to the closed group of former staff continue to be met on a current budget basis [C(97)81/REV1];

Recognising that this approach would smooth out Member country contributions over time, provide financial stability to the Organisation’s programme of work, introduce investment income as a complement to staff and Member country contributions, and, with regard to future service, meet the concerns which have arisen about the distribution of the financial burden of pensions related to past service;

Recalling the establishment of an OMESYS reserve for the purpose of financing pensions and related benefits;

DECIDES:

a) A Pension Reserve Fund is hereby established from which to meet the pension benefit obligations of the Organisation with respect to staff in service on or after 1 January 2000.

b) The Fund shall operate in accordance with the Pension Reserve Fund Statute, which Council shall adopt before 30 June 2000.

c) The Secretary-General is invited to:

- transfer to the Fund from the OMESYS reserve, which will be replenished by repayments beginning in 2002: FRF 50.9 million in 2000, FRF 5.4 million in 2002 and FRF 2.1 million in 2003; and
- call up, on the basis of the general scale of contributions, Member countries’ contributions to the Fund, equal to the following percentage of staff salaries: 10.5% in 2000, 22% in 2001, 26% in 2002, 27.4% in 2003 and 28.3% in each succeeding year.

d) A portion of the amounts transferred from the OMESYS reserve shall be applied as set out in paragraph 16.c) of the Report of the Chairman of the Budget Committee on OECD Pension Financing, C(2000)35, and the amount called up for the years 2000 and 2001 from the Member countries concerned shall be adjusted accordingly.

e) By 30 June 2001, and every year thereafter, an assessment of the performance of the Fund shall be undertaken and the results reported to Council.
f) If, based on the annual assessment, the Fund’s performance is deemed unsatisfactory, Council shall take all necessary measures to ensure best performance of the Fund in light of market conditions at that time, including replacing the Fund Administrator, if such action is deemed necessary.

g) Before 30 June 2005, a thorough review of the Fund shall be carried out and the conclusions reported to Council. The review shall examine and assess:

i) the Fund’s cost effectiveness and performance;

ii) the impact the Fund’s existence has had on total Member country contributions;

iii) the validity of the Fund’s actuarial assumptions;

iv) the financial impact of any changes to the Pension Scheme which may have occurred in the intervening period;

v) the possibility of an erosion of the Organisation’s operational budget by any new alternative pension scheme; and

vi) the extent to which CCR recommendations have been implemented.

h) In light of the review noted in g) above, Council may decide to extend the Fund beyond 1 July 2005, with appropriate adjustments as deemed necessary. In the absence of such a decision, contributions to the Fund will cease on July 1, 2005. Should this occur, the Fund’s assets will be liquidated over not more than three years, with assets being used to pay pension obligations.

i) Expenses to be financed from the Fund will be excluded from the determination of the annual consolidated budget envelope.