AFRICAN UNION

الاتحاد الأفريقي

UNION AFRICAINE

UNIÃO AFRICANA

EXECUTIVE COUNCIL
Eleventh Ordinary Session
25 - 29 June 2007
Accra, GHANA

EX.CL/330(XI)

REPORT ON THE REVIEW OF THE AU SOCIAL SECURITY SCHEME

REPORT ON THE REVIEW OF THE AU SOCIAL SECURITY SCHEME

I. Introduction

1. The Commission of the African Union is encountering difficulties to attract and retain competent staff from all regions of the continent. The main reasons to this situation is the low level of remuneration offered by the Commission associated with the absence of a comprehensive and sound Social Security Scheme. According to ILO, Recommendation No. 67 relating to the guarantee of adequate means of subsistence adopted in 1944, Social Security Scheme are to satisfy the needs of workers and prevent indigence, by reinstating up to a reasonable level, the means of subsistence which are lost, due to incapacity to work, including ageing, sickness, accident leading to a disability. It is therefore necessary that Organisations establish a Social Security Scheme which would enable their staff to meet their needs when they are no longer able to secure the necessary means for life.

2. Payment of Pensions, Insurance benefits and Medical care is considered as an expense to the regular budget and its financing is usually contributory, generally from both employers and employees. International Civil servants are frequently expatriates. They often lack the “safety net” of national benefits available in their respective countries. It is therefore not surprising that international organizations have, for a long time been concerned with attempting to ensure that adequate retirement provisions are available for their staff members. In the UN for example, the need for an adequate Pension Scheme for international Civil Servants was recognized from its early days. The League of Nations, at first established a Provident Fund. In 1929-1930, a Committee of enquiry considered the conditions of employment of staff members of the League and concluded that there was a need for a real Pension scheme rather than a Provident Fund, in order to secure the best candidates for its Secretariat and to maintain the high standard of the Staff. This led to the creation of the current Pension Fund.

3. Such a decision, which was essential for the UN is also essential for the AU. It is indeed a normal characteristic of public employers due to the expatriate nature of the AU staff. A sound and reliable Social Security Scheme would therefore allow the AU to attract staff, boost their moral and retain them. Consequently, staff should be more settled, more productive and positively look forward to their retirement.

4. Apart from Staff on the regular establishment, the Commission also employs Staff on Short-Term Contract. Many of them have worked for many years without being offered the chance to join any Pension Scheme.

5. The current Pension Scheme is rather a savings Plan. It is not adequate and is hardly enough to cover the needs of the staff after separation.

6. In the light of the above background, the Commission appointed a Consultancy Firm, Lane Clark & Peacock to assist in assessing the current position and design a renewed Social Security Plan. The study was undertaken within a specific framework.

II. Legislative Authority of the study

1. The Maputo Decision

7. During the third Ordinary Session of the Executive Council held in Maputo in July 2003, the Executive Council decided (EX/CL/Dec. 34 (III)) that the level of contributions should be 15% for the employer and 8% for the employee. The Executive Council further decided that in view of the fact that management of the Fund is a sensitive issue, a Joint Management Committee should be established and tasked to submit a Pension Plan for consideration.

8. The Maputo Decision also fixed the rule on retirement at 30 years of service or 60 years of age, whichever comes first. It also contained provisions for extension of contract, following formal separation from service for 11 months renewable only once, should the Organisation deem it necessary and finally approved the principle of early retirement.

9. With regard to the Insurance Scheme, the Executive Council stated that *"while continuing the present arrangement with ALICO, an ad hoc Committee comprising Experts and Representatives of the Management and the Staff be set up to consider various offers from other insurers, including ALICO to see if the annual premium can be reduced and the level of service improved"*

2. The Action Plan 2004 - 2007

10. The Extraordinary Session of the Executive Council held in Addis Ababa, on 6 and 7 December 2004 adopted the Vision, Mission and Strategic Framework of the African Union. Item "Reinforcement of the teams and their skills" enumerates the need to put in place a dynamic and attractive human resource management policy as well as providing the Commission with a career and Pension plan among others.

3. Compliance with the AUC Staff Regulations and Rules

11. The Staff Rules (Article 17 © of the Staff Regulations and Article 39 of the Staff Rules entrusts the Chairperson to formulate the Policy of the Pension Scheme and to submit for approval by the Executive Council.

III. Objectives of the Study on the review of the Social Security Scheme

12. The objectives of the study are as follows:

i. Undertake a situational analysis of the current Social Security Scheme and identify constraints;

ii. Make appropriate recommendations on intervention measures to address the situation, including a definition of the actuarial model and adequacy of contributions rates, definition of pensionable remuneration;

iii. Ensure adequate and appropriate benefits to staff of the Organisation, including address the anomalies in the existing AU Commission remuneration policy and salary structure;

iv. Carry out an assessment of the Policy with ALICO and to review the management of the ALICO with the view to highlighting the possible shortcomings of the Policy, as well as the remedial measures.

IV. Scope of the study

13. The study covered the following three aspects of the Social security Scheme:

I. The Pension Scheme;
II. The Insurance Scheme;
III. The Medical cover Scheme.

14. It should be noted that only the Pension Scheme and the Insurance Scheme were addressed in the report. At this stage, the study only addressed the diagnostic review of the Medical Plan and proposed recommendations and a plan of Action. It is proposed that the actuarial valuation of the Medical Scheme, which should include, among others, a long term projection of the Scheme, an analysis of the financial trends of the Scheme, the actuarial cost of the Plan, an analysis of the financing of the Scheme and modalities for the financing as well as a design of the Model of management of the Plan, i.e. through in-house arrangements, or through a third party (Insurance company). This shall be dealt with in a separate phase at the appropriate time. In carrying out the assignment, the Consultants undertook a fact-finding mission to ALICO, Sharjah (United Arab Emirates) and carry out a comparison study with ten (10) selected comparators composed of member States (4), International Organisations (3) and Regional Economic Communities (4). The Consultants also visited seven (7) AUC Offices in Africa and Europe, namely: Lagos, Cote d'Ivoire, Yaounde, Cairo, Nairobi, Brussels, Geneva in order to assess the medical cover in the AU Regional/Representational Offices.

V. Findings of the study

A. Findings on the Pension Scheme

15. The study revealed the following:

i. Weaknesses of the Plan due to the absence in the Pension Plan of death /disability / accident coverage, which are covered through a separate insurance policy;

ii. Inadequate protection of staff after retirement. In addition spouse and children of retired staff are not entitled to any pension benefits. Retiring staff are generally paid lump sum. It is observed that the annuity options cannot be reasonably performed in practice;

iii. AUC is not involved in the investment of the fund with ALICO nor involved in the definition of the investment strategies;

iv. Lack of definition of investment vehicles and lack of clear benchmarking policy as well as poor governance of the fund;

v. Declining interest rates over years leading to inadequate pension capital at retirement

16. From the discrepancies noted above, the study identified the following issues:

i. Existence of several different arrangements within the same System;

ii. Inexistence of consolidated rules;

iii. Inadequate protection after retirement because of the de facto policy of lump sum;

iv. Restriction on eligibility to the Plan;

v. Non involvement of the AUC in decisions on investment made by ALICO;

vi. Decreased and low interest rate given by ALICO;

vii. Recurrent administrative unresolved such as modalities for paying pension to separated staff in their countries;

viii. Administrative charges of ALICO vary between 0.51% and 0.58% of the fund value with an average of 0.53% over the six years of the survey. Thus the annual interest rates declared by ALICO are not realistic and should have been reduced by on average 0.53%;

ix. A comparison of the interest credit benchmark with the rates declared by ALICO revealed that over the same period 2001 – 2006, ALICO did not credit the full interest earned by the fund. This resulted in a profit by ALICO of between 0.90% and 1.45% less than Eurodollar bonds ALICO claims to use to invest the AUC asset. It is therefore concluded that in absolute terms, ALICO is making an annual profit of between US$170,000 and US$235,000.00 which are not credited to the participants' accounts. When compared to the annual deposits, which amount to US$1,57 million per annum on average, the average profit earned by ALICO out of the annual deposit varies between 10.8% and 14.9% of the annual deposits. These amount seem high and explain the reason why the net interest rates credited to the assets for the last 10 years stand around 3.40% per year on average and 2.50% over the last 5 years on average.

VI. Findings on the Insurance Scheme

17. On the Insurance Scheme, the study noted that:

i. Undue delays are noted in the payment of the insurance benefits;
ii. The policy excludes coverage of death due to HIV/AIDS;
iii. The policy contained a limit per person at US$200,000 and per event of US$1.5 million;
iv. Inexistence of after service Scheme for retired staff;
v. Absence of additional cover for a special category of officials undertaking specific missions;
vi. It has been observed that the Commission paid to ALICO US$1,967,223.00 insurance premium for the period 2001 to 2006. ALICO paid only US$687,576 (35%) for claims, leaving a "profit" amounting to US$1,279,933.00 to ALICO (65%). It should be noted that over the 6 years of survey, the rejection ratio was 29% of the total claims amounting to US$973,290.00. This revealed a low variability in claims over the years, which would have generated excess if the Commission was its own insurer.

18. From the discrepancies noted above, the following issues exist with regard to the Insurance Scheme:

i. Existence of several different arrangements within the same System;
ii. Inexistence of consolidated rules;
iii. Insurance premiums have not been cost effective to the Commission;
iv. Exclusion of HIV/AIDS is a crucial issue;
v. Existence of a limitation in coverage per event;
vi. Inexistence of after service Scheme for retired staff;
vii. Absence of coverage for eligible family members of staff;

VII. Recommendations of the Study

1. The current Replacement Factor in the AUC

19. Using actuarial formula, the study determined the Income Replacement Factor of the AUC in respect of staff members joining the Organisation at different ages up to the age of 60 years and compared this factor with what is obtained in the other comparators. The current Replacement Factors for the various ages in the AUC are as follows:

At age 60 years, if	Current Replacement Factor based on capital he/she receives upon separation is
Staff joins the Commission at age 25 years	32% of final salary
Staff joins the Commission at age 35 years	26% of final salary
Staff joins the Commission at age 45 years	17% of final salary

20. It has been observed that the Replacement Factor in AU is lower than the Replacement Factor in all other comparators where, for the same ages, the Replacement Factor is on average of 72%, 53% and 33% respectively.

21. Therefore, the study concluded that the Current Replacement Factor cannot ensure a sound retirement to the Staff. Consequently, There is an urgent need for the Commission to determine an adequate and reasonable Minimum Income Replacement Factor.

2. The AUC should define a minimum adequate Replacement Factor

22. The Commission should set clear objectives as regard to the Replacement Factor. The Minimum adequate Replacement Factors that would be adequate for different ages at recruitment and for different age at retirement. The results are summarized below:

If staff is recruited at	If retirement age remain 60 years,	If retirement age was extended to 62 years,	If retirement age was extended to 65 years,
	Replacement Factor would be	Replacement Factor would be	Replacement Factor would be
Age of 25 years	50% of final salary	57% of final salary	70% of final salary
Age of 35 years	37% of final salary	43% of final salary	54% of final salary
Age of 45 years	23% of final salary	28% of final salary	37% of final salary
Age of 55 years	8% of final salary	12% of final salary	19% of final salary

3. Need for the Commission to define the Actuarial model of the Pension Plan

23. Organisations generally organize their Pension Funds using mainly two (2) models namely, the Defined Benefit Plan (DB) and the Defined Contribution Plan (DC). There is a third Plan that is the combination of the above-mentioned two Plans

4. Need for the Commission to establish a proper Pension Plan, not a Savings Plan as is currently the case

24. The Study indicated the inadequacy of the current Pension Plan. It also advised that this situation is due to the many shortcomings identified above. The current Plan is more a Savings Plan than a Pension Plan.

25. The Study therefore proposed that the Commission should create a proper Pension Plan but should remain a "Defined Contribution Plan" (DC) because of it simplicity and transparency in management. In addition, such a Plan is sustainable by the employer, ease of administration and the control of cost is easier.

5. Financial vehicle: Pension Fund or Management by a third party, Through Insurance Contract

26. One of the question raised here is to determine whether the revised Pension Plan should be managed through a "Pension Fund" or through a third party, such as an Insurance Company. The Study strongly recommended that the Commission should create its "Pension Fund". Such a decision would have the following implications:

- *i. Withdrawal from ALICO as per options in the Contract;*
- *ii. Withdrawal of the total assets with ALICO. The total assets with ALICO stand at US$14,068,973 as of 31 December 2005;*
- *iii. According to the Contract with ALICO, the withdrawal may be immediate or spread over a period of five (5) years. In order to avoid high withdrawal charges, it is proposed that the Commission organizes the withdrawal of the fund, (if applicable) over a period of 5 years.*

6. Need to increase the retirement age of staff of the Commission

27. The proposed Pension Plan recommends that the retirement age be increased preferably to 65 years with a possibility of early retirement from the age of 60 years. Such a decision will enable the Commission not only to follow the current trends in international organisations but also to significantly enable the staff to build a proper pension capital.

28. One of the implications would be that the Commission should abolish the rule of retirement after 30 years of service. However, there should be transitional measures for staff who a currently near the retirement age, whether 60 years of age or 30 years of service.

7. Reduce US Dollar currency risk

29. The Commission should diversify its investment portfolio and invest in other currencies other than the United States Dollar.

VIII. Features of the proposed benefit Plan for the African Union Commission

30. Based on the above premises, the Study proposed the features of the Benefit Plan for the African Union. The main innovation is to combine both the Pension Plan and the Insurance Plan into a single Plan.

A. General considerations of the Newly proposed Plan

i. *The Plan would be a Defined Contribution Scheme funded through a Pension Fund (that should be created) and which should be a separate legal entity from the Commission;*

ii. *If approved, it is proposed that the Plan becomes effective with effect from 1st January 2008. This would allow all the preparatory work during the year 2007, as per the implementation Plan presented below;*

iii. *Any Staff member, including Fixed-term staff, short-term staff, Part-time staff, who is employed for a minimum but continuous period of six (6) months should be eligible to the Plan;*

iv. *Retirement age should be 65 years with the possibility to opt for early retirement as from age 60 years. Retirement should be possible before the age 60 years provided that the Replacement factor reaches 50% of final salary or proportional if the career is less than 35 years*

B. Proposed new Contribution rates and Pensionable remuneration

31. The current rates, i.e. 8% for the staff and 15% for the employer applied across the board to the same basic salary are not adequate to enable both the Organisation and its staff to reasonably build the required Replacement Factor. The following proposals are therefore being made for consideration:

i. *Contribution rates*

32 It is proposed that the contribution rates both for the employer and the employee be gradually adjusted over two years, i.e. 2008 and 2009. In addition, the contribution rates should not be uniform but should vary according to the age ranges as per table below:

ii. *Pensionable remuneration*

33. The pensionable remuneration is based on the principle that there is need to ensure a comparative ratio in the Income Replacement Factor at retirement, commensurate with the status of employment of the staff member. It is therefore proposed to set the Pensionable Remuneration at 117.50% of the basic salary for internationally recruited staff and at 100% of the basic salary for locally recruited staff.

iii. *Voluntary contributions*

34. The Plan should allow the staff to make voluntary contribution if they wish so. However, one of the objectives of this Plan is to enable the Commission to support and accompany staff who are willing to save more for their old days. In this regard, it is expected that:

(a) *If a staff member is willing to contribute x% of his/her pensionable remuneration, the Commission would, as an incentive contribute also x% towards the staff Pension's account;*

(b) *However, in any case, the contribution of the employer in respect of the Voluntary Contribution should not exceed 2% of the Pensionable remuneration whatever the rate paid by the staff.*

35. In integrating the voluntary contribution at 2% the Replacement Factor would considerably improve and would reach the following levels:
`

C. Retirement benefits

36. The proposed Benefits Plan envisages the following retirement benefits:

i. Upon separation, the staff will be paid a lifetime-indexed pension, payable according to a defined periodicity (monthly, quarterly, etc.);

ii. Upon retirement, the staff will only be allowed to withdraw in the form of lump sum, his/her voluntary contributions;

iii. The pension will take into account a 50% or up to 100%) reversibility dependant pension;

iv. Dependant pension should be terminated, should dependency ceases.

D. Death benefits and Disability

i. The death benefits and disability should be totally funded by the Commission as it is currently done through the payment of the Insurance premium paid to ALICO. The Commission should make this payment to the Pension Fund but it should be managed as a separate portfolio within the Fund;

ii. Death benefits should remain at the level of five (5) times the annual basic salary. This should be doubled in case of accidental death while in service. In both cases, the current limit of US$200,000.00 should be removed;

iii. In case of death, the sum insured, which is 5 times the annual basic salary should be paid as follows:

- One time the annual basic salary (or two times in case of accidental death) should paid to the beneficiaries in the form of lump sum;

- The other four (4) times with the remaining balance of pension should be paid to the beneficiaries as Dependant Pension.

iv. The fund should cover any death due to HIV/AIDS or any other specific medical causes of death;

v. Disability benefits should be paid in the form of Disability pension, (at a maximum rate of 80% of basic salary up to the normal retirement age);

vi. Under specified circumstances, a disability pension should be paid for partial and temporary disability.

E. Eligibility to the Pension Plan

37. All staff should be allowed to join the Plan. This should be extended to Short-term contract staff, Experts, Consultants, etc. as of the first month following the six months of employment without interruption of more than thirty days

F. Investment

38. The Commission, through the bodies that would be appointed to manage the Fund should work out its investment strategy.

G. Management of the Fund, Governance and logistics

39. The Commission should appoint the bodies to oversee the management of the Fund. The managers of the Fund should also be appointed. The bodies involved should comprise the Management Committee, the Committee of Actuaries. There would also be need to appoint an Investment Committee, an Audit Committee, etc. The rules, compositions and terms of reference of each Committee should be clearly defined and submitted for adoption by the Executive Council.

40. The Commission should acquire a Pension Administration software and the adequate Human Resources to administer the Plan should be determined.

IX. AU Observers and Peace Keeping Missions

41. It is recommended that the Commission should create a separate Fund that would cater for life cover of Observers and Peace Keeping Mission. The Fund should be managed in-house together with the main Fund but with partial reinsurance arrangements.

X. Implementation of the Benefit Plan

A. The Pension Plan

42. As indicated earlier, the Plan would become operational with effect from 1st January 2008. It is recommended that the implementation should start with effect from 1st March 2008. It is planned that a number of activities should be undertaken during the implementation phase. These would include, among others: computation of the Replacement Factors for all staff members at post, appointment of a Steering

Committee, setting up the Pension Fund and drafting of the legal instruments, constitution of the various organs and choice of their members, preparation of the Pension Rules, preparation of the Structure of the Fund, design the main work processes, procurement and implementation of the Pension Software, financial and Management Reporting, organisation of the Investment function, transfer from current Plan and commencement of operations, development of communication tools and contact with RECs and other institutions

XI. Evaluation of the Report by the Commission

43. The Commission considered the report of the Consultants and circulated document ADM.HRD/30A/2833 to all Member States. The Commission fully supports the conclusions and recommendations of the Consultants. In this regard, the commission would like to request the Executive Council, through the Permanent Representatives' Committee to take the following decisions on the Review of the AUC Social Security Scheme.

i. To create the AU Pension Fund, which should be managed in-house. Such a Fund should be a legally separate entity from the Commission and the other Organs of the AU, with its governing bodies, its rules of functioning, its location, etc. The Commission should submit to Council at its next session, the modalities for operationalizing the Fund;

ii. The Pension Fund should cover all staff members, irrespective of the nature of their contracts (Elected Officials, Fixed-term, Short-term, Consultants, Part-time), provided they have been employed for an initial period of six (6) months. They should be eligible to the Plan with effect from the 7th month of employment;

iii. To manage the Insurance Scheme through the same Pension Fund;

iv. That the newly created Pension Fund should become operational with effect from 1st March 2008. In the meantime, all preparatory work as described in the Action Plan should be completed within 2007 to enable full operation in 2008;

v. To terminate the Contracts with ALICO and to work out the modalities for withdrawal of the accumulated assets, over a period of five years in order to avoid payment of penalties as stipulated in the Contract with ALICO;

vi. That the Actuarial model of the Fund should be a Defined Contribution scheme;

vii. To extend the retirement age and fix it at 65 years of age, with the possibility of early retirement at 60 years. This will imply:

    a. That the Commission should abolish the current rule of retirement after 30 years of service;

b. That the Commission should adopt transitional rules for staff who are near their retirement age;

c. That retirement should be possible before the age of 60 years, provided the Replacement Factor reaches at least 50% or proportional if the career is less than 35 years;

viii. That the Pension Contribution rates (Employer/Employee) should be gradually improved, over two (2) years and determined according to age ranges as follows:

- During 2008

Age range	Employee	Employers
0- 34 years	9%	16%
34 – 49 years	10%	17%
50 years and +	11%	18%

- During 2009

Age range	Employee	Employers
0- 34 years	10%	17%
34 – 49 years	11%	18%
50 years and +	12%	19%

That pension contributions should be calculated based on the defined ***"Pensionable Remuneration".***

ix. That in addition to the statutory contributions, Staff members should be allowed to make voluntary contributions based on the pensionable remuneration. The staff should determine the rate of his/her voluntary contribution. However, as an incentive, the Commission should make an additional voluntary contribution of similar rate towards Staff pension account contributing voluntarily. In any case, the ceiling of the incentive voluntary contribution of the Commission should be set at a maximum of 2% of the staff pensionable salary. The 2% required from the employer should be gradually phased as follows:

1% in 2008 and an additional
1% in 2009

x. That the Commission should diversify the investment portfolio and invest in other currencies;

xi. To approve the proposed features of the Benefit Plan and to request the Commission to work out modalities for operationalizing the new Benefit Plan, including the management and executive bodies that will oversee the management of the Fund, as well as the rules and composition

xii. That the Commission be authorized to work on modalities for establishing a separate Fund to cover death risk of AU Observers and Staff of AU Peace Keeping Missions. Such a Fund should be managed in-house and partial reinsurance arrangements should be made to protect the Fund against possible volatility.

xiii. To approve the financial implications of the project estimated at USD1,515,086.00 for the financial year 2008;

xiv. To authorize the Commission to pursue the study of the Medical Scheme including the actuarial appreciation, to make appropriate recommendations and to submit a comprehensive report for adoption during the next ordinary session in January 2008;

B. Financial implications of the project

45. The financial implications of the implementation of the project is estimated at USD1,515,086.00. The breakdown of the costs is attached as appendix 1 to this Report.

XII. Cost of the withdrawal from ALICO

46. Withdrawal from ALICO can occur using two ways:

1. Withdrawal at once

47. The cost of withdrawal would depend on the “Market Value charge”. This factor is a complex actuarial and financial factor. It is assumed that the cost would vary between 4% and 9% of the total assets, i.e. between USD562,759 and USD 1,266,208 using the assets as at 31 December 2005.

2. Withdrawal over a period of five (5) years

48. The Commission would incurre no charges should it decide to complete the withdrawal over 5 years, as per the schedule indicated in the Contract.

49. The Commission is strongly of the view that the withdrawal over the period of 5 years is the most appropriate and should be considered. It would therefore not recommend that the assets are withdrawn at once.

XIII. Consideration of the Report by the Advisory Sub Committee on Administrative, Budgetary and Financial Matters

50. The Advisory Sub Committee on Administrative, Budgetary and Financial Matters met on 5th April 2007 to consider the report. The Deputy Chairperson of the Commission and Mr. Peter Bastiaens, the Actuary and Consulting Partner of Lane Clark & Peacock attended the meeting and made a presentation.

51. Mr. Peter Bastiaens recalled the scope of the study and submitted the main findings of the study to the Sub Committee for consideration, including the need to set up an in house Pension Fund and withdrawal from ALICO due to the huge administration costs currently incurred by the Commission.

52. Some members of the Sub Committee raised concerns about the proposed retirement age and indicated that the Commission should maintain the status quo. They also raised concerns regarding the implications if the Commission was to withdraw at once or to plan its withdrawal over a period of 5 years as stipulated in the Contract.

53. Some members of the Sub Committee indicated that it would be preferable if the Commission could consider investing the resources with another manager instead of establishing an in house management, since the last option would certainly necessitate the recruitment of additional staff.

54. While acknowledging the importance of reviewing the Pension Plan, some other delegations were of the view that the Commission should have extended the study to other institutions such as the European Union, the Organisation of the American States and Asia. Other delegations raised concerns about the policy of the Commission regarding HIV/AIDS as well as the application of Gender balance in processing death benefits.

55. Most of the delegations underscored the complexity of the issue of Pensions and recommended that the report should be sent to the various capitals for appropriate study.

56. The Advisory Sub Committee resumed on 15 June 2007 to pursue its deliberations on the report on the review of the Social Security System. In introducing the report the representative of the Commission recalled the meeting of the Advisory Sub Committee held on 5 April 2007 during which, following the presentation made by the Commission and the ensuing extensive exchange of views, the Sub Committee had agreed to reconvene in order to further consider the report and make the necessary recommendations to the PRC. The representative of the Commission referred to document ADM.HRD/7/2833, which contained the main recommendations of the Commission, which required a decision from the Executive Council and invited the Sub Committee to consider this document together with the main report.

57. Following this presentation, some members of the Advisory Sub Committee sought clarifications on some specific issues such as the proposed retirement age at 65 years, the taxation of pension in some member states and actions envisaged by the Commission to exempt pension from taxation in member states, the modalities for establishing a Pension Fund. On these issues, some delegations reiterated their view that the status quo for the retirement age should be maintained and that there was a need to carry out a study on the proposed Pension Fund, including its legal status, the relationship of its management with the Commission as well as the financial implications of such a project. Other delegations requested the Commission to provide the cost of the termination of the contract with ALICO should the Commission decide to withdraw at

once the total assets, as well as the cost implications if the Commission were to complete the withdrawal of the assets over a period of five (5) years. They also sought clarifications regarding the implications of the establishment of a separate Fund for the Observer and Peacekeeping Missions. According to the Commission, there were recurrent problems with the management of the current Plan with ALICO and the Commission was incurring huge losses in deposits in relation with pension returns. The return on its investment is far on the lower side. These losses needed to be urgently addressed.

58. Some delegations referred to the Decision of the recent extraordinary session of the Executive Council held in Durban (South Africa) on the institutional audit of the Union. While recognizing the importance of establishing a sound an effective Social Security Scheme for the Commission, these delegations held the view that such a Decision implied that the consideration of the issues of Social Security Scheme should be deferred until the audit is completed. However, some other delegations were of the view that the consideration of the reports on the Remuneration Policy and the Social Security Scheme was not in contradiction with the institutional audit. At this juncture, some members of the Advisory Sub Committee requested to know whether it was a financial audit or an audit of the structures of the Union.

59. The Commission provided the necessary clarifications to the questions raised. It insisted to the fact that there was need for the Sub Committee to differentiate between the issue of improvement of conditions of service of staff, i.e. the salary issues and the social Security, which are within the purview of the normal and peculiar management norms of any Organization whether going through an audit or not. The institutional Audit which is intended to review the competences and organizational structures, their efficiency and effectiveness and the delivery levels as well as the required transformation measures that are expected to enable those structures to fulfill the goals for which they were established to achieve. It was generally acknowledged that not all activities can be halted because of the pending Audit.

60. The Sub Committee has not been able to conclude on this matter but recommended to refer it to the PRC for consideration and directives.

XIV. Other considerations

61. The Commission acknowledges the difficulties of the member states to adopt some of the above recommendations. It wishes to draw their attention on the massive loss it is incurring with ALICO, which needs an urgent intervention. In this regard, while the report is still being considered, it is the considered opinion of the Commission that some interim measures should be envisaged. They could consist of but not limited to the following:

i. To adopt a Decision to terminate the relationship with ALICO with effect from 1st January 2008 for a period of five years;

ii. To freeze any payments of pension contributions to ALICO and keep them in a Special Fund until the process of the revision is thoroughly completed.