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Conditions of service of staff in the Professional and higher categories

Post adjustment matters: modification of operational rules governing the post adjustment system

Note by the secretariat of the International Civil Service Commission

I. Introduction

1. The present note has been prepared by the secretariat of the International Civil Service Commission to assist the Commission in its deliberations concerning selected aspects of the post adjustment system that have been reviewed in the context of the comprehensive review of the United Nations common system compensation package. At its thirty-seventh session, held from 23 February to 2 March 2015, the Advisory Committee on Post Adjustment Questions concluded that there were no statistical methodological grounds to support or oppose any of the modifications to the operational rules governing the post adjustment system proposed by the secretariat, and recommended that the Commission take whatever decision it deemed appropriate, in the context of its comprehensive review, without prejudice to the principles underlying the post adjustment system (see ICSC/80/R.5). Accordingly, pursuant to article 11 of its statute, specifically its mandate to establish the classification of duty stations for the purpose of applying post adjustments, the Commission decided at its eightieth session, held from 16 to 27 March 2015, to request the secretariat to conduct further analysis and submit specific proposals on the proposed modifications to the operational rules governing the post adjustment system (see ICSC/80/R.9), for consideration and decision at the present session.

2. Before delving into the details of the proposals for the modification of the operational rules, it is important to point out revisions to the calculation of the post adjustment index already approved by the Commission at its seventy-ninth session,

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held from 21 July to 1 August 2014. Those revisions are based primarily on the use of a harmonized specification of the out-of-area weight for all duty stations and on a new methodology for calculating the rent index for group I duty stations, and they produce a post adjustment index that is more accurate, transparent and cost-effective than the current one (see ICSC/79/R.10). The Commission's aim in considering modifications to the operational rules governing the post adjustment system is to make salary adjustments more predictable and sustainable, following the conduct of cost-of-living surveys and the calculation of the post adjustment index.

3. The modifications proposed in the present note relate to the following operational rules:

(a) The 5 per cent rule under the new regime of synchronization of post adjustment classification review cycles for group I duty stations;

(b) The gap closure measure, specifically the 5 per cent augmentation of the survey-based post adjustment index in setting the new post adjustment classification for a duty station, following negative place-to-place survey results;

(c) The 0.5 per cent rule, which establishes the benchmark level of net take-home pay in local currency at group I duty stations;

(d) The establishment of rental subsidy thresholds.

II. Proposed modifications to the operational rules governing the post adjustment system

4. The present section presents proposals for the modification of four of the operational rules governing the post adjustment system. Drawing extensively from document ICSC/ACPAQ/37/R.5, the proposals take into consideration the recommendations adopted by the Advisory Committee at its thirty-seventh session and subsequent additional empirical evaluations conducted by the secretariat. For each operational rule considered for modification, the rationale for the rule, as well as for its proposed modification, is provided. Proposals for modification are then described, followed by an assessment of their efficacy, relative to the status quo, with respect to the overall goals of the comprehensive review.

A. The 5 per cent rule for group I duty stations

5. Under the 5 per cent rule, the effect of inflation on the cost of living is monitored on a monthly basis. If the cost-of-living index updated for inflation moves by 5 per cent or more, a review of the post adjustment classification is triggered.[1] Under the existing regime of synchronization of post adjustment classification review cycles for all group I duty stations, the implementation of the 5 per cent rule would entail an extra post adjustment classification review for the duty station in addition to the one coinciding with the classification review for New York. In formulating a modification to the 5 per cent rule, the secretariat took into consideration both the rationale for the rule and empirical evidence of its efficacy with respect to the goals of the comprehensive review.

[1] See ICSC/ACPAQ/37/R.5, annex I, for a full explanation of the 5 per cent rule.

B. Review of the effectiveness of the 5 per cent rule on the basis of historical data

6. Over the past 14 years (January 2002 to May 2015), the 5 per cent rule has been triggered on 72 occasions, representing less than 2 per cent of all post adjustment classification reviews over that period.[2] This indicates that the 5 per cent rule can be considered a rare event. Nevertheless, this should not constitute a sufficient reason for abolishing the rule, as the rule tends to follow global inflationary cycles and may be triggered for several duty stations during certain periods, but not during others.[3] Table 1 below shows the number of instances when the 5 per cent rule has been applied to all 32 group I duty stations during the past 14 years.[4] It shows that the 5 per cent rule was triggered within one year of the previous post adjustment classification review in most instances (a total of 39 occasions, representing 54 per cent of the total). The 5 per cent rule was sporadically triggered and, occasionally, not triggered at all, more than one year since the previous review of the post adjustment classification, during periods of low inflation. The rule is eventually triggered when low inflation accumulates over a long period of time because, under current arrangements, the reference date of the post adjustment classification review is not reset if it does not result in a change in the classification.

Table 1
Total number of instances when the 5 per cent rule was applied in a period of 14 years, between January 2002 and May 2015

Number of months since the previous post adjustment classification review	*Frequency*	*Cumulative frequency (percentage)*
1-4	–	–
5-8	13	18
9-12	26	54
13-16	5	61
17-20	5	68
21-24	9	81
25-28	4	86
29-32	2	89
33-36	2	92
37-40	2	94

[2] This refers to the total number of post adjustment classification reviews, calculated as the total number of group I duty stations minus the 118 place-to-place surveys conducted at those duty stations between January 2002 and May 2015, times the number of months over the same period.

[3] See ICSC/ACPAQ/37/R.5, table 3, for relevant empirical evidence.

[4] Athens, Bonn, Bratislava, Brussels, Bucharest, Budapest, Canberra, Copenhagen, French Guyana, Geneva, Helsinki, Hong Kong (China), Iceland, Ireland, Lisbon, London, Luxembourg, Madrid, Monaco, Montreal, New York, Nicosia, Oslo, Paris, Rome, Sofia, Stockholm, The Hague, Valletta, Vienna, Warsaw and Washington, D.C. Note that five of those duty stations (French Guyana, Iceland, Ireland, Luxembourg and Monaco) are not currently active.

Number of months since the previous post adjustment classification review	*Frequency*	*Cumulative frequency (percentage)*
41-44	–	94
45-48	1	96
49-60	1	97
61-72	–	97
>72	2	100

7. It is important to recall that the rationale for the 5 per cent rule, at its inception, was to adjust the salaries of staff in the Professional and higher categories in less than 12 months during periods of galloping inflation in order to preserve, to the extent possible, the purchasing power of such salaries. In evaluating the effectiveness of that rule, it is necessary to distinguish between two types of inflation that may trigger the application of the rule in practice: galloping inflation, which triggers the rule within less than 12 months of the previous review of the post adjustment classification; and low inflation, which eventually triggers the rule, but only after accumulating over periods longer than 12 months without resetting the reference date of the post adjustment classification review for the duty station.

8. Sustained, galloping inflation obviously has a marked impact on the post adjustment index and could lead to the erosion of the purchasing power of salaries, unless such salaries are adjusted in a timely manner to account for it. On the contrary, low inflation has very little impact on the evolution of the post adjustment index for a duty station (all things being equal) and rarely causes a change in the post adjustment classification for the duty station during the regular 12-month review cycles. Nevertheless, under the existing operational rules by which the reference date of the post adjustment classification review is not reset if there is no change in the post adjustment classification for a duty station, it is possible for low inflation to eventually trigger the 5 per cent rule over periods longer than 12 months since the previous review. It is therefore proposed that, in keeping with the original rationale for the 5 per cent rule, only galloping inflation be considered in its application. In other words, the reference date of the post adjustment classification review should be reset on the anniversary date of the review, regardless of whether the review results in a change of classification for the duty station. Furthermore, in the interest of minimizing departures from the complete synchronization of post adjustment classification review cycles for group I duty stations by minimizing the frequency of extra reviews due to the application of the 5 per cent rule, the Commission could consider specifying a minimum number of months (for instance, three months) before the anniversary date of the statutory review of the classification for the duty station, prior to which period the triggering of the 5 per cent rule would lead to a change in the post adjustment classification.

9. In view of the foregoing discussion, three options for the modification of the 5 per cent rule are described below:

(a) Option 1: abolishing the 5 per cent rule;

(b) Option 2: retaining the 5 per cent rule, but with the reference date reset at every post adjustment classification review, regardless of whether it leads to a change in classification;

(c) Option 3: same as option 2, as long as the 5 per cent rule is triggered more than three months before the date of the statutory review of the post adjustment classification.

10. It should be noted that option 1 provides for yearly reviews for all group I duty stations, occurring on a fixed date, regardless of the economic circumstances of the concerned duty stations. Both options 2 and 3 provide for yearly post adjustment classification reviews for all group I duty stations occurring on the date of the review for New York, with the possibility of an additional review whenever the 5 per cent rule is triggered for a duty station, while limiting the application of the rule exclusively to instances of galloping inflation. Option 1 is the simplest to implement and provides the most predictable and transparent salary adjustment procedure. However, under that option, the evolution of the post adjustment classification is not likely to keep pace with the cost of living in any duty station experiencing high inflation. Option 2 is less predictable than options 1 and 3 because it allows for the possibility of a review for all group I duty stations triggered by the application of the 5 per cent rule to New York, to the particular duty station, or to both. On the other hand, option 2 allows for more frequent reviews and thus would reflect more accurately the cost of living at the respective duty stations. It should also be noted that option 3 would lead to a brief loss in the purchasing power of salaries, compared with current arrangements, but that would be corrected a few months later on the date of the statutory review of the post adjustment classification for the duty station. Since the underlying evolution of the post adjustment index remains the same under the three options, it is expected that the total amount of net take-home pay and, therefore, budget allocations to salaries by organizations would not change significantly. The element that would change is the distribution of such increases over time (see ICSC/ACPAQ/32/R.8 and ICSC/79/R.9).

C. Gap closure measure

11. The gap closure measure is applied when the post adjustment index resulting from a place-to-place survey turns out to be lower than the prevailing pay index by more than 5 per cent. Under the measure, the new post adjustment classification is derived by increasing the updated survey-based post adjustment index by 5 per cent. The new classification is applicable to all staff members, including those arriving at the duty station after the date of implementation of the survey results. In addition, staff members present at the duty station on or before that date would be paid under the new post adjustment classification and receive a personal transition allowance. That allowance is based on the difference between the new classification and the prevailing classification at the time of the implementation and is reduced every three months until it is phased out. The reduced allowance for a given adjustment month is calculated by taking the difference between the revised classification and the sum of the allowance and the new classification, reduced by 5 per cent. It should be noted that augmenting the updated post adjustment index by 5 per cent provides a margin for the error that may result from determining salaries exclusively on the basis of a single cost-of-living survey producing negative results. However, the 5 per cent augmentation of the updated survey-based index results in a level of compensation in excess of what would be warranted by the evolution of the cost of living at the duty station. Furthermore, it may lead to persistent disparities

between the post adjustment index and the pay index for a duty station over long periods of time.

12. A possible modification to the gap closure measure that could be considered by the Commission is the elimination of the 5 per cent augmentation of the survey-based post adjustment index, so that the drop in the index as a result of the survey would be fully applied in the determination of the post adjustment classification for the duty station. Under that proposal, the personal transition allowance would be greater than the survey-based post adjustment index by 5 per cent, meaning that a longer period would elapse before the implementation of the gap closure measure is completed.

D. Review of the gap closure measure on the basis of historical data

13. On the basis of data for five group II duty stations with relatively large United Nations staff populations to which the gap closure measure has been applied in the past, the secretariat found that, if the 5 per cent augmentation of the survey-based post adjustment index were eliminated, payment of the personal transition allowance at all those duty stations would be prolonged by three months. Furthermore, once the allowance was phased out, the post adjustment classification for existing and new staff would converge at a significantly lower level than those under current arrangements. The implication is that the salaries of staff members would be lower under the proposed modification of the gap closure measure than under the existing procedure.[5] Nevertheless, the post adjustment classification based on the proposed modification of the gap closure measure better reflects the actual cost of living at a duty station, compared with current arrangements. Furthermore, the proposed modification minimizes the disparities between the post adjustment indices and the post adjustment classifications of affected duty stations that persistently occur under the existing gap closure measure. Table 2 shows the number of months that it would take for the post adjustment classification under the current gap closure measure to converge to that obtained under the proposed modification.

Table 2

Number of months before the post adjustment classification based on the current gap closure measure coincides with that based on the proposed modification

Duty station	*Date of the gap closure measure*	*Months required*
Brasilia	February 2009	29
Brasilia	November 2012	More than 30[a]
Brazzaville	July 2010	16
Jakarta	December 2012	More than 29[a]
Kampala	February 2013	13
Khartoum	November 2012	12

[5] See ICSC/ACPAQ/37/R.5, para. 52 and table 15, for more details, as well as table 1 in annex V for the post adjustment classifications for new and existing staff under both the existing and modified gap closure measures and under proposal 6 in the same document for the five duty stations under review.

Duty station	*Date of the gap closure measure*	*Months required*
N'Djamena	June 2012	More than 35[a]
Santiago	November 2012	More than 30[a]
Tarawa	December 2010, February 2012 and January 2013[b]	47

[a] As at May 2015, convergence had not been achieved for this duty station.
[b] Tarawa has experienced the application of three gap closure measures.

E. Modification to the 0.5 per cent rule

14. The proposed modification to the 0.5 per cent rule addresses the issue of the negative impact of weak and highly volatile local currencies on the net take-home pay at group I duty stations where a significant proportion of in-area expenditures is incurred in non-local hard currencies (typically rents, paid in euros, and school fees, paid in either euros or United States dollars). Whereas the existing rule stabilizes the net take-home pay in local currency until a full post adjustment classification review, the proposed modification allows for the stabilization of proportions of the net take-home pay in both local currencies and non-local hard currencies. The initial interim response of the Commission to that issue has been to grant more frequent place-to-place surveys at the concerned duty stations, a solution that has been welcomed but also judged inadequate by the affected stakeholders. Besides, conducting more frequent place-to-place surveys was logistically challenging for the local administrations, particularly for the survey coordinators, given the complexity of the operations associated with the efficient conduct of such surveys.

15. In order for the proposed modification to be actually applicable, it is essential that the proportion of expenditures incurred in non-local hard currencies at the duty station be significant. In that context, the secretariat has proposed to use a system of bands whereby a proportion of expenditures below a threshold of 10 per cent would be judged to have no impact on the level of net take-home pay and no modification of the 0.5 per cent rule would be necessary. For proportions of in-area expenditures in non-local hard currencies in excess of 10 per cent, applicable shares of net take-home pay to be kept constant in United States dollars would be assigned as the midpoints of the corresponding band in a system of bands of 10 per cent width, as shown in table 3.

Table 3
Applicable share of net take-home pay in United States dollars

Actual average in-area expenditure share in non-local currency (percentage)	*Applicable share in United States dollars (percentage)*
0-10	–
11-20	15
21-30	25
31-40	35
41 and higher	45

16. The advantage of that modification is that it would guarantee a reasonable balance between the accuracy needed to protect the purchasing power of the net take-home pay between full post adjustment classification reviews, and a certain level of stability in the applicable share of net take-home pay to be kept constant in United States dollars. However, while the modification guarantees the stability of the two components of net take-home pay (in local and non-local currencies), it does not guarantee the stability of the total net take-home pay in local currency, as is the case under the existing operational rule. In order to estimate the actual proportion of in-area expenditure share in non-local currency at a duty station, the questionnaire used to collect household expenditure data from staff in place-to-place surveys in group I duty stations must also be appropriately modified by adopting the existing structure of the questionnaire for group II duty stations, in which an extra column for each basic heading of expenditures enables the collection of in-area expenditures in non-local currencies.

17. While the proposed modification of the 0.5 per cent rule addresses concerns about the loss of purchasing power of salaries expressed at some Eastern European duty stations, it must be designed in such a way as to be applicable to all group I duty stations. It should be highlighted that, at present, Hungary is the only duty station where the modified rule is expected to produce results different from the current rule. Consequently, financial implications were studied specifically for Hungary, during the period from May 2009 to December 2014, on the basis of three scenarios with levels of 15, 25 and 35 per cent of the applicable share of net take-home pay in United States dollars. In the absence of firm knowledge about the real proportion of expenditures in that currency, those levels were judged to be realistic estimates. It was thus estimated that average increases for each staff member at the duty stations would be approximately $5, $65 and $130 per month, corresponding respectively to the three mentioned scenarios, equivalent to a total extra cost of about $7,000, $78,100 and $167,400 per annum, respectively, on the basis of the staff population recorded at the duty station in 2012.

18. It is important to remark that the simulations presented during the thirty-seventh session of the Advisory Committee and the consequent financial implications were based on the differences, for each month, between real multipliers, as actually published during the study period, and that multipliers were recalculated by using the modified 0.5 per cent rule. Post adjustment indices were not considered, since operational rules do not interfere with the calculation of the indices. The secretariat also considered that, if the amount of in-area expenditures in non-local currencies was so significant as to warrant a modification of the 0.5 per cent rule, then, since there should be correspondence between the factors regulating the evolution of the post adjustment classification and that of the post adjustment index, those expenditures should also be appropriately factored into the mechanisms regulating the time-to-time update of the index, as is currently done at group II duty stations. The immediate effect of modifying the formula used for the time-to-time update would be to render the post adjustment index of duty stations that would be affected by the modified 0.5 per cent rule, such as Hungary, less sensitive to local inflation trends. Although such modification to the update of the index would be technically feasible, its implementation for group I duty stations would introduce an additional complication in the post adjustment system.

19. In view of the secretariat’s analysis of the financial and technical implications of the proposed modification, and the views expressed by participants at the thirty-

seventh session of the Advisory Committee, the Commission might wish to approve the continued use of the existing 0.5 per cent rule, or its modification as proposed by the secretariat, bearing in mind the parallel modification needed to ensure that the time-to-time update of the post adjustment index for group I duty stations takes into account the same factors as those used for the time-to-time update of the post adjustment classification.

F. Establishing rental subsidy thresholds in the framework of a unified salary scale

20. The rental subsidy scheme operates as an integral part of the post adjustment system. The scheme was introduced as a measure to reduce inequities within a duty station whereby some staff, typically newcomers, must pay rents considerably higher in proportion to their income than other colleagues already serving at the duty station. Under the scheme, eligible staff may receive a rental subsidy amount that is determined by taking into account:

(a) The rent paid by the staff member, if it does not exceed the maximum reasonable rent, set in relation to household size and possibly other parameters determined locally (if the rent paid by the staff member exceeds the maximum reasonable rent, the latter is used for calculation purposes);

(b) The net remuneration of the staff member;

(c) The rental subsidy threshold applicable to the staff member, based on dependency status (lower for staff with dependants than for staff with no dependants);

(d) Other parameters, such as the applicable reimbursement rate or the maximum subsidy limit, normally set at 40 per cent of the rent. Those, however, are not relevant in the present context.

21. Under the current methodology, two separate rental subsidy thresholds are determined for staff with dependants and staff with no dependants, respectively, taking into account the dual salary scale, where the net remuneration of staff with dependants is higher, for any given grade and step, than that of staff with no dependants. Regardless of any operational rules that may be applicable, the rental subsidy thresholds are, invariably, a function of the average rent-to-income ratio recorded at a duty station from a place-to-place or housing survey.

22. When a place-to-place or housing survey is conducted at a duty station, rents reported by respondents in the housing questionnaire included in the analysis are used to calculate a rent-to-income ratio for each respondent. The income of staff with no dependants is determined as if they had dependants, which produces slightly lower ratios. All individual ratios are averaged and the average rent-to-income ratio is increased by 2 percentage points to arrive at the rental subsidy thresholds for staff with dependants. This is then multiplied by 1.111 to obtain the rental subsidy thresholds for staff with no dependants. The higher the applicable rental subsidy threshold, the lower the rental subsidy received.

23. With the proposed change from the current dual salary scale by dependency status to a unified salary scale emanating from the ongoing comprehensive review of the United Nations common system compensation package, it has become necessary to modify the determination of rental subsidy thresholds accordingly. In

that context, the determination of such thresholds could be considered an operational rule, since a unified salary scale would significantly modify the average rent-to-income ratio at a duty station, on which rental subsidy thresholds are based, and because the current operational distinction between rental subsidy thresholds for staff with dependants and staff with no dependants might no longer be needed, depending on which alternative course of action for the estimation of the rental subsidy thresholds is ultimately adopted. In the following paragraphs, two options for modifying the determination of the rental subsidy thresholds are described. The advantages and disadvantages of each option are discussed, as are the considerations related to their practical implementation.

24. Under option 1, the rental subsidy thresholds would be calculated on the basis of the unified salary scale for all staff responding to a housing survey, regardless of their status. That threshold would be applied to staff with no dependants. As in the past, the derivation of the relationship between the rental subsidy thresholds for staff with dependants and staff with no dependants would be based on the relativity of the compensation for the two categories of staff. On the basis of the proposal from the comprehensive review to set a spouse allowance as 6 per cent of the net remuneration of staff, the multiplicative factor used to derive the dependency status rental subsidy threshold from the single status threshold would be 1.06. In other words, the threshold for staff with dependants would be obtained by dividing the threshold for staff with no dependants by 1.06.

25. Under option 2, the current dual salary would become unified for all staff, regardless of their status, and only one rental threshold would be established at the duty station, calculated on the basis of the rents and income effectively applicable to all survey respondents, regardless of their status. In that case, the differentiation in the applicable subsidy between staff with dependants and staff with no dependants would be based on maximum reasonable rents, which may be set at higher levels for staff with dependants. That option would be a more radical departure from the status quo in the sense that it would generate only one rental subsidy threshold per duty station, applicable to staff with either status.

26. Some considerations should also be given to the practical aspects of implementing any of the scenarios considered above. Under option 1, there would still be two separate rental subsidy thresholds, applicable to staff with dependants and staff with no dependants, and thus not requiring much practical adjustment to the human resource or payroll systems of organizations. Under option 2, the Commission would publish only one rental subsidy threshold per duty station, applicable to all staff, regardless of their status. Strictly speaking, even under that option, organizations would not need to change their administrative or payroll systems, owing to changes to the rental subsidy scheme alone, since the unique value published by the Commission could be entered in both fields, that is, that for dependency status and that for single status, used in the calculation of rental subsidy of eligible staff. However, under the more general revisions of administrative and payroll systems as a result of changes in other aspects of the reviewed compensation package, a revision of the modules for establishing the rental subsidy amounts of eligible staff might also take place.

III. Recommendations

27. The Commission may wish:

(a) To take note of the findings presented by the secretariat herein;

(b) To decide that the 5 per cent rule should be:

(i) Abolished for all group I duty stations;

(ii) Applied in accordance with the existing operational rules;

(iii) Retained, but with the reference date reset at every post adjustment classification review, whether or not it leads to a change in classification; or

(iv) Retained, but with the reference date reset at every post adjustment classification review, whether or not it leads to a change in classification, as long as the 5 per cent rule is triggered more than three months before the date of the statutory review of the classification;

(c) To decide that the gap closure measure should be:

(i) Applied in accordance with the existing operational rules; or

(ii) Modified by eliminating the 5 per cent augmentation of the post adjustment index derived from a survey;

(d) To decide that the 0.5 per cent rule should be:

(i) Applied in accordance with the existing operational rules; or

(ii) Modified, as proposed by the secretariat, to take into account significant in-area expenditures in non-local currencies, with a corresponding modification to the time-to-time updating of the post adjustment index, in order to reflect separately in-area expenditures in local and non-local currencies;

(e) To decide that, with effect from the promulgation of the unified salary scale for staff in the Professional and higher categories, rental subsidy thresholds should be established:

(i) By applying the thresholds calculated on the basis of the unified salary scale to staff with no dependants, and dividing it by 1.06 to derive the threshold for staff with dependants; or

(ii) By applying the threshold calculated on the basis of the unified salary scale to all staff, regardless of their status, but allowing organizations to set levels of maximum reasonable rents for staff with dependants higher than those for staff with no dependants.