United States Government Accountability Office

Report to Congressional Requesters

June 2014

UNITED NATIONS

Key Compensation Elements Should Be Reviewed to Address Costs and Sustainability

GAO-14-546

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GAO Highlights

Highlights of GAO-14-546, a report to congressional requesters

Why GAO Did This Study

The UN General Assembly has expressed concerns about the relatively large and growing portion of the UN budget spent on total compensation. The United States contributes 22 percent of the UN's regular budget.

UN total compensation consists of salary, benefits, and allowances. Since its inception in 1945, the UN has based salaries for its professional employees on salaries for the U.S. civil service. In 2013, GAO reported that the UN sets its salaries between 110 to 120 percent of U.S. civil service salaries, and that UN salaries were 116.9 percent of U.S. civil service salaries in 2012. UN salaries increased to 119.6 percent in 2013. GAO also recommended that the UN clarify its process for comparing salaries for UN professional staff with U.S. civil service salaries.

GAO was asked to review the structure of UN total compensation and how it compares with that of U.S. federal employees. This report (1) examines similarities between UN and U.S. government benefits and allowances and compares their monetary values, and (2) examines UN efforts to address concerns about the sustainability of total compensation costs. GAO reviewed UN and U.S. government documents and data, and interviewed UN and U.S. officials.

What GAO Recommends

The State Department (State) should work with other UN member states to ensure that the costs of key elements of UN total compensation are reviewed to address rising staff costs and sustainability. State concurred with this recommendation.

View GAO-14-546. For more information, contact Thomas Melito at (202) 512-9601 or melitot@gao.gov.

What GAO Found

Benefits and allowances offered by the United Nations (UN) and the U.S. government are generally similar, and GAO found that each provided certain benefits or allowances with greater monetary value than the other. Similar UN and U.S. benefits include retirement plans and health insurance, while similar allowances include hardship and danger pay. Where comparable data were available, GAO found that each organization provided some benefits or allowances of greater monetary value than the other. For example, under a scenario where UN and U.S. staff retire at 62 with 20 years of service, the U.S. Federal Employees Retirement System replaces a higher percentage of pre-retirement salary than the UN Joint Staff Pension Fund. However, when these staff retire with 30 years of service, similar percentages of pre-retirement salary are replaced. In contrast, the UN allowance for staff serving in dangerous duty stations with families at separate locations had a higher average monetary value per recipient in 2012 than the comparable U.S. allowance.

United Nations and U.S. Benefits and Allowances That GAO Reviewed

Compensation element	Result
Retirement benefits	Benefits varied depending on years of service and other factors.
Health insurance	The average cost per employee was higher for eligible U.S. government employees than for UN staff.
Allowances	The UN and the U.S. government each provided certain allowances with higher monetary value than those provided by the other.

Source: GAO analysis of United Nations (UN) and U.S. data. | GAO-14-546

The UN has begun to address concerns about the sustainability of its rising total compensation costs, including initiating a review of total compensation, but that review does not include key elements. GAO analysis of UN data shows that staff-related expenditures rose steadily from $1.95 billion in 2002-2003 to $2.98 billion in 2010-2011, at an average rate of about 7 percent per 2-year budget, when adjusted for inflation. To help address costs, the UN raised its retirement age from 62 to 65 for new hires and froze rates paid for allowances for at least 1 year. In addition, the UN's International Civil Service Commission (ICSC) began a review of UN compensation, to be completed in 2015. The UN General Assembly requested that the ICSC review consider all elements of UN total compensation holistically, including both monetary and non-monetary elements. However, according to ICSC officials and documents, the review focuses only on elements within the ICSC's area of administrative responsibility, such as salary and allowances. Other key elements with significant costs, such as pensions and retiree health insurance, fall outside the ICSC's authority and therefore the study's focus. For example, the unfunded liability of the UN's retiree health insurance plan was estimated in 2012 at almost $4 billion. Without including all elements of total compensation in its review, member states will not have a complete set of information with which to make fully informed decisions about changes to the compensation system.

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Abbreviations:

CEB	United Nations System Chief Executives Board for Coordination
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CSRS	Civil Service Retirement System
DOD	Department of Defense
FERS	Federal Employees Retirement System
FMLA	Family and Medical Leave Act
FRTIB	Federal Retirement Thrift Investment Board
GS	General Schedule
ICSC	International Civil Service Commission
IRS	Internal Revenue Service
OASDI	Old-Age, Survivors, and Disability Insurance
OPM	Office of Personnel Management
SMA	Separate Maintenance Allowance
TSP	Thrift Saving Plan
UN	United Nations

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Congressional Requesters

United Nations (UN) total compensation consists of salary, benefits, and allowances. Since its inception in 1945, the UN has based salaries for its professional employees on salaries for the U.S. national civil service. In May 2013, we reported that the UN sets its salaries between 110 and 120 percent of U.S. civil service salaries, and that UN salaries were 116.9 percent of U.S. civil service salaries in 2012. We recommended that the UN clarify its process for comparing salaries for professional staff in the UN with U.S. civil service salaries.[1]

In addition, several UN organizations and member states, including the United States, have expressed concern regarding the large and growing portion of the UN budget spent on the total compensation of its staff. The UN Board of Auditors reported that staff costs for the 2010-2011 biennium were the UN's single largest item of expenditure, with costs rising because of higher salaries and related staff benefits. The UN Secretary-General and the General Assembly have also raised concerns about the long-term sustainability of compensation costs. The United States contributes 22 percent of the UN's regular budget.

You asked us to review the structure of UN total compensation, including benefits and allowances, and how it compares with that of U.S. government employees. In this report, we (1) examine similarities between UN and U.S. government benefits and allowances and compare their monetary values, and (2) examine UN efforts to address concerns about the sustainability of total compensation costs.

To compare UN and U.S. government benefits and allowances, we reviewed relevant UN and U.S. documents and interviewed UN and U.S. officials. We examined the similarity of these compensation elements by comparing the purpose, structure, and eligibility requirements in the UN and U.S. systems. To compare the monetary value of UN and U.S. government benefits and allowances, we collected available salary,

[1]GAO, *UN Compensation: United Nations Should Clarify the Process and Assumptions Underlying Secretariat Professional Salaries,* GAO-13-526 (Washington, D.C.: May 29, 2013).

benefits, and allowance data for UN Secretariat professional staff for calendar year 2012 from the UN's Payroll Operations Unit. We also collected data for U.S. employees from the Office of Personnel Management (OPM), the Department of State (State), and the Department of Defense (DOD). Using these data, we calculated average benefit and allowance amounts provided to UN staff and U.S. employees. For data on allowances, we collected data from State for State Foreign Service employees and civil service employees serving overseas and data from DOD for civil service employees serving overseas, because these employees are comparable to UN Secretariat professional staff. Data from State and DOD were for calendar year 2012.[2] We also calculated examples of retirement benefits paid by UN and U.S. retirement programs, as well as the average cost of health care benefits for both UN staff and U.S. government employees. Because of variations in the structure, administration of payments, and data availability for individual compensation elements, we calculated monetary value for individual compensation elements using different approaches. As a result, individual calculations cannot be summed into a single total for all benefits, allowances, or compensation.

To assess the reliability of these data, we (1) interviewed officials from the UN, and officials from OPM, State, and DOD; (2) reviewed available technical documentation; and (3) performed basic reasonableness checks for obvious inconsistency errors and completeness. When we found discrepancies, we brought them to the attention of relevant agency officials and worked with them to correct the discrepancies before conducting our analyses. We determined that these data were sufficiently reliable for the purposes of determining the monetary value of included payroll transactions, retirement contributions, staff costs, and the number of UN, U.S. civil service, State, and DOD staff receiving benefits and allowances. However, these data do not include information on certain allowances that are not captured by the UN's, State's, and DOD's central payroll systems.

To examine UN efforts to address concerns about the long-term sustainability of total compensation costs, we reviewed UN documents and interviewed UN officials regarding the long-term costs of UN benefits

[2]Although data from the U.S. government and UN payroll represent slightly different time periods, we interviewed UN and U.S. officials and determined that these differences were not likely to significantly affect our results.

and allowances and actions taken to address them. In addition, we analyzed UN General Assembly resolutions that direct UN organizations to perform further actions to address these concerns. Appendix I provides more information on our scope and methodology.

We conducted this performance audit from June 2013 to June 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Role of the UN Secretariat and Its Professional Staff

The UN Secretariat administers the programs and policies established by the other principal entities of the UN, including the General Assembly and the Security Council. The duties of the Secretariat include administering peacekeeping operations, mediating international disputes, surveying economic and social trends and problems, and preparing studies on human rights and sustainable development. The Secretariat is headquartered in New York City and has employees at other locations throughout the world. According to the UN, as of June 30, 2013, the Secretariat employed 41,273 people, of which about 30 percent (12,220) were professional staff.[3]

Elements of the UN Total Compensation Package

The total compensation package for UN employees consists of salary, benefits, and allowances. UN salaries consist of a base salary and post adjustment added to account for the cost of living at individual posts. The UN administers a staff assessment, which is used to contribute to a tax equalization fund, and which does not affect take-home pay. This fund is used to compensate UN employees from countries that require them to pay taxes on their UN income.[4] UN benefits consist of items including

[3]United Nations, *Composition of the Secretariat: Staff Demographics, Report of the Secretary General*, A/68/356 (August 2013).

[4]As of the current UN biennium, the United States is the only country that uses the tax equalization fund.

retirement, health insurance, and retiree health insurance. In addition, about 20 allowances are available to UN professional Secretariat staff, including danger pay, hardship pay, mobility allowance, education grants, and others. Receipt of these allowances is based on whether a UN staff member meets the eligibility criteria established by the UN for each allowance. Our 2013 report on UN compensation provides more detailed information on benefits and allowances available to UN professional staff.[5]

Administration of UN Compensation Elements

Separate bodies within the UN administer the different elements of total compensation or provide information to the General Assembly about staff demographics and trends in compensation.

- *International Civil Service Commission (ICSC)*. The General Assembly established the ICSC in 1974 as an independent expert body with a mandate to regulate and coordinate the conditions of service of staff in the UN common system.[6] As a part of its mandate, the ICSC makes recommendations or determinations for certain compensation elements for employees within the UN common system, such as salary and allowances. On some matters, the ICSC can act independently, while on others its decisions are subject to General Assembly approval. For example, the ICSC can determine changes to the post adjustment, or cost-of-living adjustment portion of UN salaries, without prior approval from the General Assembly. In addition, the ICSC can set some allowances, such as the hardship allowance for employees serving at posts where living conditions are considered difficult, without General Assembly approval. However, proposed ICSC changes to UN base salary must be approved by the General Assembly. The ICSC is also responsible for annually reviewing the percentage difference between UN professional salaries and those of U.S. civil service employees in a process called the margin calculation. The UN's process uses net salary, rather than total compensation, to compare UN and U.S. staff salaries because

[5]GAO-13-526, 23-31 and 51-57.

[6]The UN common system includes the UN Secretariat, its affiliated programs, 13 specialized agencies, and 1 related entity.

the General Assembly has directed the ICSC to conduct the margin calculation only using salaries.[7]

- *Joint Staff Pension Fund Board.* The UN Joint Staff Pension Fund provides retirement and related benefits to UN staff and is administered by the Joint Staff Pension Fund Board in accordance with regulations adopted by the General Assembly. The Joint Staff Pension Fund is a defined benefit fund that provides benefits to more than 67,000 retirees and beneficiaries. As of 2013, approximately 121,000 active participants from 23 organizations in the UN system are accumulating pension benefits under the Joint Staff Pension Fund.

- *Health and Life Insurance Section*. This office is part of the UN Office of Program Planning, Budget, and Accounts, and administers health plans, after-service health insurance, and life insurance for UN Secretariat staff.

- *United Nations System Chief Executives Board for Coordination (CEB)*. The CEB provides coordination and strategic guidance, and prepares reports on staff demographics and other compensation issues for use by UN organizations. The Human Resources Network of the CEB brings together directors of human resources departments from more than 30 UN and related organizations at biannual meetings.

[7]In a 2014 resolution (A/RES/68/253), the General Assembly requested that the ICSC, as part of its ongoing compensation review, ensure the comparability of the UN total compensation package, including all monetary and nonmonetary elements, under the Noblemaire Principle. This principle states that UN compensation should be set high enough to attract civil service employees from all member states, including those with the highest-compensated government employees.

While the UN and the U.S. Government Offer Generally Similar Benefits and Allowances, Each Provides Certain Benefits and Allowances with Higher Monetary Values than the Other

Benefits and allowances offered by the UN and the U.S. government are generally similar, and each provides certain benefits or allowances with greater monetary value than the other. Similar UN and U.S. benefits include retirement plans and health insurance for staff and retirees, while similar allowances include hardship pay and education grants. Where comparable data were available, our comparisons of UN and U.S. government benefits and allowances show that each entity provided some benefits or allowances of greater monetary value than those provided by the other. We did not compare some benefits and allowances, such as danger pay and retiree health benefits, because of the limited availability of comparable data.

Benefits and Allowances Offered to UN Staff Are Generally Similar to Those Offered to U.S. Employees, with Some Differences in Structure

The UN and the U.S. government offer generally similar benefits, with some minor differences. For example, both the UN and the U.S. government offer health, dental, and retiree health insurance to their staff. Table 1 compares the benefits available to eligible UN professional staff and U.S. civil service employees.

Table 1: Comparison of Benefits for United Nations (UN) Professional Staff and U.S. Civil Service Employees

Type of benefit	UN professional staff	U.S. civil service employees
Retirement income	UN Joint Staff Pension Fund	Federal Employees Retirement System or Civil Service Retirement System
Health insurance	UN-sponsored health insurance	Federal Employees Health Benefits[a]
Retiree health insurance	After-service health insurance	Federal Employees Health Benefits and Medicare
Life insurance	UN group life insurance plan[b]	Federal Employees' Group Life Insurance
Dental insurance	UN-sponsored dental insurance	Federal Employees Dental and Vision Insurance Program
Vision insurance	No separate benefit, but vision benefits included in UN-sponsored health insurance	Federal Employees Dental and Vision Insurance Program
Payment to survivor upon death of employee	Death grant	Survivor benefit

Source: GAO analysis of UN and U.S. documents. | GAO-14-546

[a]Most federal employees who are eligible for Federal Employees Health Benefits are also eligible to apply for coverage under the Federal Long Term Care Insurance Program.

[b]The UN offers an optional life insurance plan, but does not contribute to its cost. U.S. civil service employees are automatically enrolled in group life insurance, unless they waive the coverage. The U.S. government covers one-third of the cost of this insurance.

While similar in purpose, some of the benefits offered by the UN and the U.S. government differ in design and structure. For instance, while both the UN and the U.S. government offer retirement benefits, the UN offers its professional staff a pension plan that provides retirees a defined benefit, based on factors including an employee's age, years of participation in the plan, and salary history. The UN pension plan provides benefits similar to the Civil Service Retirement System (CSRS), a retirement plan providing U.S. federal civilian retirees with a defined benefit. CSRS was created in 1920 and was the only retirement plan for most federal civilian employees until 1984. However, most current U.S. civil service employees, including all those hired after 1984, are covered by the Federal Employees Retirement System (FERS).[8] FERS is a three-part retirement plan consisting of (1) a basic defined benefit pension, (2) Social Security benefits, and (3) the Thrift Saving Plan (TSP)—a retirement savings and investment plan in which employee contributions are matched by the employer up to a certain percentage of salary.

[8]OPM reported that as of September 30, 2011, approximately 89 percent of U.S. federal employees were covered under FERS.

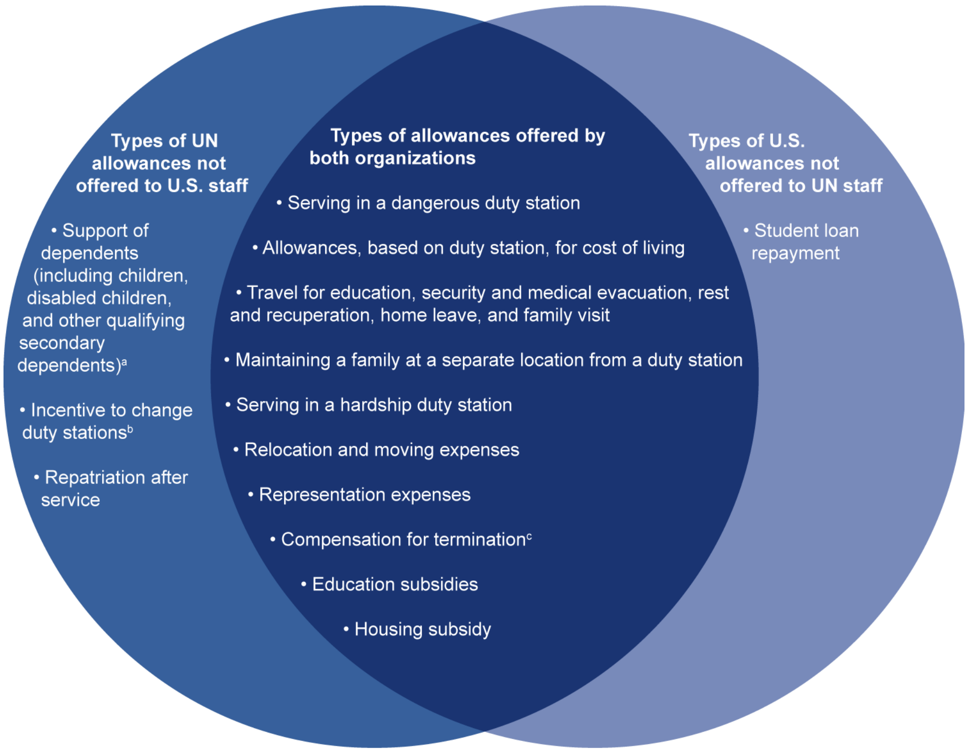
Compared with participants in the UN Pension Fund or CSRS, U.S. civil service employees participating in the FERS plan receive a smaller defined benefit pension, but receive Social Security and earnings from accumulated TSP investments upon retirement.[9] Further information on eligibility requirements and key plan provisions of the UN Pension Fund and FERS can be found in appendix II.

Many allowances offered by the UN to its professional staff are similar to those offered by the U.S. government, but both entities also offer allowances unique to their own employees. Figure 1 compares similar allowances provided by both the UN and the U.S. government to eligible staff, as well as allowances offered by one but not the other.[10]

[9]CSRS employees may also contribute a portion of pay to the TSP, however, they do not receive employer matching contributions.

[10]Figure 1 focuses specifically on allowances provided by either the UN or the U.S. government, and not on other forms of compensation that each entity may provide. As noted in the figure, in some cases, while the UN and the U.S government provide forms of compensation or assistance for a related purpose, the other may provide this assistance under a different mechanism than an allowance.

Figure 1: Comparison of Selected Allowances Offered to Eligible United Nations (UN) Professional Staff and U.S. Foreign Service Employees and Civil Service Employees Serving Overseas



Source: GAO analysis of UN and U.S. documents. | GAO-14-546

Notes: In fig. 1, we do not discuss U.S. allowances, such as transit benefits, that are available only to U.S. civil service employees serving domestically.

[a]The UN also pays employees with dependents at a higher salary rate than those without dependents. According to the International Civil Service Commission, this practice is similar to the practice of member states that provide a tax advantage for having dependents. Many UN employees are not eligible for these tax advantages, as they might be if they were employed in their national civil service, because most UN employees are not required to pay income taxes on their UN earnings in their home country. The UN also has separate allowances specifically related to dependents, including the children's allowance and the secondary dependent's allowance.

[b]While the amount of the UN mobility allowance varies depending on the level of hardship of the duty station to which the staff member is moving, UN staff members moving between nonhardship duty stations also receive the allowance. The U.S. government also offers certain relocation incentives. However, these incentives are either for hardship duty stations only or require an employee to sign an agreement to complete a specified period of service with the agency granting the incentive.

[c]In cases of unsatisfactory service, payment of the UN's compensation-for-termination allowance is at the discretion of the Secretary-General for up to half of what is otherwise payable. The Office of Personnel Management does not permit the payment of the compensation-for-termination allowance in cases of unsatisfactory service.

As shown in figure 1, both the UN and the U.S. government, for example, provide allowances to compensate staff for serving in a dangerous or hardship duty station and to account for the cost of living at particular duty stations. However, the UN and the U.S. government each offer some allowances to staff that are not offered by the other. For example, eligible UN professional staff may receive a dependents allowance, to compensate for having a child or other qualifying dependent; or a mobility allowance, to provide incentive for staff to change duty stations. Similar allowances are not part of the compensation package for U.S. Foreign Service employees and civil service employees serving overseas. In addition, U.S. government employees can be eligible for student loan repayments, at the discretion of each agency, if the employee signs a service agreement to remain with the agency for at least 3 years. Appendix III provides more detailed information on UN and U.S. allowances.

The UN and the U.S. Government Each Provided Certain Benefits and Allowances of Greater Monetary Value than Those Provided by the Other

Using available data, we compared specific benefits and allowances provided by the UN and the U.S. government, and found that each entity provided certain benefits and allowances of greater monetary value than those provided by the other. However, the lack of available or comparable data prevented us from making a monetary comparison of all UN and U.S. benefits and allowances.

UN and U.S. Benefits and Allowances That Were Comparable

We were able to compare certain UN and U.S. compensation elements, including retirement benefits, health insurance, and allowances such as hardship pay. Table 2 summarizes the benefits and allowances that we compared and the results of our analysis.

Table 2: United Nations (UN) and U.S. Government Benefits and Allowances That GAO Reviewed

Compensation element	Result
Retirement benefits	The results of our estimates varied depending on years of service and other factors. For example, under a scenario where UN staff and U.S. federal civilian employees retire at age 62 with 20 years of service, the Federal Employees Retirement System (FERS) replaced a higher percentage of preretirement salary than the UN Joint Staff Pension Fund. When these employees retire at age 62 with 30 years of service, FERS and the UN Pension Fund replaced similar percentages of preretirement salary.[a]
Health insurance	The average cost per employee was higher for eligible U.S. government employees than for UN staff.
Allowances	The UN and the U.S. government each provided certain allowances with higher monetary value than those provided by the other.

Source: GAO analysis of UN and U.S. data. GAO-14-546

[a]We compared the UN Joint Staff Pension Fund and FERS as of December 2012. Both plans have recently changed in ways that we did not model. For instance, effective January 2014, the General Assembly increased the normal retirement age from 62 to 65 for new UN staff. For U.S. federal civilian employees, contribution rates for the FERS pension increased for those hired on January 1, 2013, or later. Employees enrolled in FERS and first hired in 2013 contribute 3.1 percent of gross salary toward their pension plan, while employees first hired in 2014 or later contribute 4.4 percent.

Retirement Benefits

To compare the UN and U.S. civil service retirement systems, we estimated income replacement rates for UN employees and U.S. civil service employees covered by FERS under different scenarios, including differing work histories, and retirement contribution rates.[11] Income replacement rates provide a method of comparing retirement programs that describe how much of a worker's preretirement salary is replaced in the first year of retirement by a retirement plan. For example, an employee with a preretirement salary of $100,000 who received $60,000 in the first year of retirement from his or her retirement plan has an income replacement rate of 60 percent. Our scenarios had varying results. One scenario showed that income replacement rates under FERS were higher than for the UN Pension Fund, given the economic conditions

[11]Because approximately 89 percent of current U.S. federal civilian employees are covered under FERS, and this percentage will continue to grow in the future, we focused our analysis on FERS.

of the time periods we analyzed.[12] In another scenario, the income replacement rates for the two systems were similar. Both scenarios are summarized in table 3.[13] One of our scenarios compares UN staff and U.S. civil service employees covered by FERS who retire at age 62, contribute an equivalent percentage of salary to their retirement, and have 30 years of service.[14] Our estimates show that the FERS retirement package replaces between 63 and 69 percent of salary, while the UN Pension Fund replaces between 63 and 68 percent of salary. We also compared UN staff and U.S. employees with 20 years of service who retire at age 62 and contribute an equivalent percentage of salary to their retirement. Our estimates show that FERS replaces between 48 and 55 percent of salary, and the UN Pension Fund replaces between 40 and 44 percent of salary.[15]

[12]When analyzing income replacement rates for UN employees and U.S. civil service employees under FERS, we made several simplifying assumptions. We assumed that employees (1) retired at the end of December 2012, and (2) started collecting retirement income in January 2013. Additionally, we assumed wages grew at the same rate in the UN and the U.S. government. We also assumed that both UN and U.S. government staff were married at retirement, and that U.S. employees selected a FERS pension with a 50 percent benefit for their surviving spouse, and converted their TSP balance into a similar 50 percent survivor annuity at retirement. UN employees receive a 50 percent survivor annuity payable to surviving spouses automatically, with no reduction in pension benefits required. For the analysis of TSP annuities, we assumed that U.S. government employees invested in the TSP's Government Securities Investment Fund (G fund), and that this fund earned its historical rates of return. See app. II for additional details about the assumptions used in our calculations.

[13]In both of these scenarios, we assumed that UN staff and U.S. civil service employees covered by FERS retire at age 62. However, U.S. government employees who retire at age 62 receive a Social Security benefit that is 25 percent lower than for employees who retire at age 66 with equivalent earnings histories.

[14]To provide a contribution rate for U.S. civil service employees covered by FERS that was equivalent to the UN contribution rate, we assumed that U.S. employees contribute 9.4 percent of net salary to their retirement plans. We chose 9.4 percent because it is the mean pension contribution rate across UN professional staff pay grades. A contribution by U.S. employees of 9.4 percent of net salary corresponds to 7.3 to 8.3 percent of gross salary, allocated across contributions to the FERS pension, Social Security, and the TSP. Therefore, U.S. government employees' TSP contributions range from 2.7 to 3.5 percent of 2012 gross pay in this scenario. See app. II for additional details on our analysis.

[15]We included this scenario because, according to UN officials, the UN tends to hire midcareer staff with prior work experience, who are therefore less likely to accumulate 30 years of service at the UN.

Table 3: United Nations (UN) and U.S. Retirement Income Replacement Rates under Different Scenarios

Scenario	Salary range: UN[a]	Salary range: U.S. government[b]	Income replacement rate (percent): UN	Income replacement rate (percent): U.S. government (FERS)
U.S. federal civilian employees and UN staff with 30 years of service who retire at age 62 and contribute similar proportions of take-home pay toward retirement	$65,272-$176,274	$47,413-$120,347	63 - 68	63 - 69
U.S. federal civilian employees and UN staff with 20 years of service who retire at age 62 and contribute similar proportions of take-home pay toward retirement	$65,272-$176,274	$47,413-$120,347	40 - 44	48 - 55

Source: GAO analysis of UN and U.S. data. | GAO-14-546

Notes: The income replacement rate we calculated for UN staff divided total (gross) retirement income in the first year of retirement by net remuneration (take-home pay) in the last year of work. The income replacement rate we calculated for U.S. federal civilian employees divided total (gross) retirement income in the first year of retirement by net salary (take-home pay after taxes) in the last year of work. We use this measure for the purpose of comparing the Federal Employees Retirement System (FERS) and the UN Joint Staff Pension Fund; it is not meant to assess the absolute generosity or appropriateness of either retirement plan.

These salary ranges represent the administrative salary ranges of the UN and U.S. professional systems, and attempt to show the minimum and maximum of each system. Unlike the UN's margin calculation, they do not reflect consideration of the distribution of employees or the individual or average pay of employees within the systems.

[a]For UN staff, the salary range represents UN net remuneration in New York City at the dependency rate of salary, a rate of salary paid by the UN to staff members with dependents. Net remuneration is defined by the UN as net base salary plus post adjustment. This represents take-home pay for a staff member with dependents, and is consistent with the UN's method for calculating income replacement rates in retirement.

[b]The salary range for U.S. federal employees is gross salary in New York, net of U.S. federal and New York state taxes. We estimated taxes assuming employees were married and filing jointly, with no children. We used this measure of salary to ensure comparability with take-home pay at UN headquarters.

While our analysis of income replacement rates showed varying results, several factors affected our estimates. First, to achieve higher income replacement rates than UN staff, U.S. employees have to make voluntary contributions to their retirement plan and accept a higher degree of risk in their retirement income because of their TSP investments. TSP investment risks include both individual ability and willingness to defer income and to make appropriate asset allocation choices, as well as market risk on returns. Because the amount that U.S. civil service employees contribute to their TSPs affects the income replacement rate, we also analyzed scenarios for U.S. employees who make different contributions to their TSPs. For example, we analyzed a scenario where U.S. civil service employees who have 30 years of government service, retire at age 62, and contribute the average contribution rate among FERS employees who made elective contributions to the TSP in 2012, and found that FERS replaced between 77 to 82 percent of their salaries.[16] In contrast, if employees make no elective contribution to the TSP throughout their careers, our estimates show income replacement rates from 57 to 64 percent. Second, UN staff generally earn higher salaries than U.S. civil service employees in comparable jobs. Therefore, UN pensions may not replace as great a percentage of preretirement salary as the FERS retirement plan, but in some cases may have the same or greater estimated monetary value. Last, the income replacement rates we obtained for FERS employees reflect the economic conditions over the 30-year period from 1983 to 2012, with relatively high wage growth and asset fund returns in the early years of this period. Scenarios using different economic conditions would have obtained different income replacement rates.[17]

Health Insurance

We compared the costs of health care plans for UN staff based in New York City, New York, and U.S. civil service employees, and found that the average organizational cost per employee in 2012 was 5 percent higher for U.S. employees than for UN staff. The average health care subsidy for UN professional staff in New York who participated in a plan in 2012 was $6,228, according to UN payroll data. Approximately 98 percent of UN

[16]In 2012, the average contribution rate for U.S. civil service employees who made elective contributions to the TSP was 8.5 percent. When also including contributions to an employee's FERS pension and Social Security, employees in this scenario contribute between 12.3 and 13.5 percent of gross salary to retirement. U.S. civil service employees who made no elective contributions to the TSP contributed between 3.8 percent and 5.0 percent of gross salary to retirement in 2012, including their contributions to their FERS pension—0.8 percent of salary—and their contributions to Social Security, which in 2012 was 4.2 percent of salary up to the Social Security income threshold. U.S. civil service employees contributed 4.2 percent of their salary to Social Security—up to the Social Security maximum taxable income level—in 2012, because of a temporary payroll tax reduction, but this contribution rate returned to 6.2 percent in 2013.

[17]Salary growth rates and the market performance of the TSP's G fund, the default fund for employees' TSP investments, reflected a period of high growth in the 1980s and 1990s, with salary growth rates exceeding 5 percent per year and G fund returns at or exceeding 9 percent per year throughout most of the 1980s, followed by a period of slower growth. It is also significant that the period of high salary growth occurred early in the working lives of the workers in our scenarios, building up their portfolios and allowing interest to compound on a larger base than would have occurred if the period of high growth came later in their careers. For example, workers facing lower salary increases at the beginning of their careers may never obtain the TSP balances that they would have done had they started their careers in a high-growth period.

professional staff in New York received a health care subsidy, and when we included both participants and nonparticipants, we found that the overall average cost per UN staff member in New York was approximately $6,100.[18] According to OPM, the average agency cost of providing health care plans to U.S. employees who participated in federal employee health benefit plans in 2012 was $8,022, excluding employees of the U.S. Postal Service.[19] When we accounted for the 80 percent participation rate in federal employee health benefit plans,[20] we found that the average agency cost per employee, excluding U.S. Postal Service employees, was approximately $6,417, including both participants and nonparticipants.[21]

Allowances

Comparing allowances, we found that the UN and the U.S. government both provide certain allowances with higher monetary value than those provided by the other. Using available data, we were able to compare three allowances with similar purposes. Table 4 provides a summary of our analysis of these allowances.

[18]The average subsidy for participants without dependents was approximately $3,600, while the average subsidy for participants with dependents was approximately $7,800.

[19]OPM's data include nonprofessional staff as well as professional staff. We did not present data on average health insurance costs for U.S. civil service employees at a specific location because OPM does not disaggregate these data by location. In addition, we did not conduct a detailed comparison of the coverage of UN and U.S. civil service health insurance plans.

[20]According to an OPM official, the 80 percent participation rate among non-Postal employees reflects primary policy holders only. It does not include employees who may be otherwise covered under a federal health care plan, such as through a spouse.

[21]The average cost to the agency for self-only plans in 2012 was approximately $4,500, while the average cost to the agency for self-and-family plans was approximately $10,300.

Table 4: Comparison of 2012 Allowance Payments to United Nations (UN) Secretariat Professional Staff, State Foreign Service Employees and Civil Service Employees Serving Overseas, and Department of Defense (DOD) Civil Service Employees Serving Overseas

	Allowance names				
Type of allowance	**UN**	**U.S. government**	**Average amount per recipient—UN**	**Average amount per recipient—State**	**Average amount per recipient—DOD**
Serving in a hardship duty station	Hardship pay	Hardship differential	$10,294 5,299 recipients	$13,902 7,018 recipients	$9,248 11,858 recipients
Maintaining family at a separate location from a duty station	Additional hardship allowance for nonfamily duty station	Separate maintenance allowance (SMA)[a]	$12,141 2,928 recipients	$8,831 876 recipients	$9,446 622 recipients
Relocation and moving expenses	Nonremoval allowance	Foreign transfer allowance	$1,918 7,541 recipients	No data available	$1,785 1,118 recipients

Source: GAO analysis of UN, State, and DOD data. | GAO-14-546

[a]The U.S. government offers three kinds of SMA: (1) involuntary SMA, which is granted because of dangerous, unhealthful, or adverse living conditions at the employee's post; (2) voluntary SMA, granted to employees who face special needs or hardship involving the employee or family members; and (3) transitional SMA, granted to employees whose family members require temporary, post-evacuation housing or in connection with an unaccompanied assignment. According to the UN, the involuntary SMA is more comparable to the UN's additional hardship allowance for nonfamily duty stations. However, we were not able to disaggregate involuntary, voluntary, and transitional SMA based on the data provided by State and DOD.

As shown in table 4, UN staff received higher average dollar amounts for additional hardship allowance for nonfamily duty stations than State and DOD staff received for the separate maintenance allowance. UN staff also received a higher average dollar amount for the nonremoval allowance than DOD staff did for the foreign transfer allowance. Finally, State staff received higher average dollar amounts for hardship differentials than UN staff did for hardship pay, but UN dollar amounts were higher than those paid to DOD staff.

We also compared other allowances that are unique to either the UN or the U.S. government. Table 5 shows the allowances, total number of recipients, total spent by the UN or U.S. government on each allowance in 2012, and average monetary value per recipient.

Table 5: Number of Recipients, Total Monetary Value, and Average Monetary Value per Recipient in 2012 for Unique United Nations (UN) or U.S. Government Allowances

Type of allowance	Allowance name	Number of recipients	Total monetary value	Average monetary value per recipient
Unique UN allowances				
Support of dependents	Dependents[a]	6,126	$28,724,961	$4,689
Incentive to change duty stations	Mobility	1,065	$8,557,920	$8,036
Return to home country after service	Repatriation grant	478	$10,736,110	$22,460
Unique U.S. government allowances				
Supplement repayment of student loans	Student loan repayment	4,643[b]	$32,937,786[b]	$7,094

Source: GAO analysis of UN Payroll and State and DOD data. | GAO-14-546

[a]UN allowances specifically related to dependents, include the children's allowance and the secondary dependents' allowance. The UN also pays employees with dependents at a higher salary rate than those without dependents. According to the International Civil Service Commission (ICSC), this is similar to the practice of member states that provide a tax advantage for having dependents. Many UN employees are not eligible for these tax advantages, as they might be if they were employed in their national civil service, because most UN employees are not required to pay income taxes on their UN earnings in their home country.

[b]Data on student loan repayments are for State and the Department of Defense (DOD) only. Other U.S. federal agencies also offer this allowance to eligible U.S. civil service employees.

As shown in table 5, the UN provides allowances to its staff that are not provided by the U.S. government to Foreign Service employees and civil service employees serving overseas. For example, the UN provides a mobility allowance as an incentive for its staff to move among duty stations, including moving to more difficult duty stations.[22] UN staff who received this allowance received an average amount of $8,036 in 2012. As shown in table 5, the U.S. government also provides some eligible Foreign Service employees and civil service employees serving overseas, in addition to employees serving domestically, with a student loan repayment incentive, but the UN does not provide a similar allowance to its professional staff. According to State officials, the agency spent

[22]While the UN Secretariat does not currently require its staff to move between duty stations, including moving between headquarters and the field, the UN General Assembly adopted a resolution in April 2014 approving a managed mobility framework that is scheduled to begin implementation in 2016. This framework will add more specific requirements on staff moves, including imposing a 7-year time limit for staff serving in headquarters posts, and requiring at least one geographic move for staff to be eligible for positions at the P-5 grade level.

approximately $12 million in 2012 on 1,337 employees serving both domestically and abroad for student loan repayments.[23] According to DOD, the agency spent approximately $20.9 million in 2012 on 3,306 employees for student loan repayments.

Other Benefits and Allowances That Could Not Be Compared

The lack of available and, in some cases, comparable data prevented us from comparing certain other UN and U.S. benefits and allowances, including the costs to fund retirement benefits and retiree health insurance, certain allowances, and leave benefits.

- *Costs to fund retirement benefits and retiree health insurance.* While we compared income replacement rates for the UN Pension Fund and FERS, we were unable to estimate future costs to the UN and the U.S. government of providing retirement benefits or retiree health insurance because of the lack of comparable data. For instance, while both the UN and OPM conduct regular studies to estimate the future costs of their respective retirement systems, these studies use differing methods and assumptions to determine future costs, including different assumptions on key factors such as investment growth rates and rates of inflation as well as different actuarial methods of assigning retirement costs across years of employee service. Because of these differences, the UN's and OPM's current estimates cannot be used to produce a valid comparison of future costs.

- *Allowances, including danger pay and education grants.* Comparable data were not available for certain allowances, including danger pay and education grants. Payroll data on these allowances are maintained at individual duty stations and are not linked to the State, UN, and DOD central payroll systems. Therefore, these allowances were not reflected in the payroll data that we collected.

- *Leave benefits.* While we previously reported that UN Secretariat staff are eligible for more generous leave benefits than those received by U.S. civil service employees,[24] we were unable to compare the

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[23]Federal agencies may repay certain types of insured, or guaranteed, student loans, up to a maximum of $10,000 for an employee in a calendar year and not more than $60,000 for any one employee. In return, employees must sign a service agreement to remain with the agency for at least 3 years.

[24]GAO-13-526.

monetary value of leave used by UN staff and U.S. employees because the UN and U.S. agencies were unable to provide comparable data on leave amounts used by their employees. See appendix IV for more information on UN and U.S. civil service leave benefits.

The UN Has Begun to Address Concerns about the Long-Term Sustainability of Rising Compensation Costs, but Its Review of Total Compensation Does Not Incorporate Key Elements

The UN has begun to take action to address concerns about the long-term sustainability of its rising total compensation costs, but its ongoing effort to review total compensation does not incorporate the costs of key elements, such as pensions and health insurance. Staff-related expenditures rose steadily from $1.95 billion in 2002-2003 to $2.98 billion in 2010-2011, the most recent period for which data were available, at an average rate of about 7 percent per 2-year budget, when adjusted for inflation. Concerns about the level of total compensation costs and long-term sustainability have been raised by the Secretary-General, General Assembly, member states, and other UN organizations. In response, the General Assembly, the ICSC, the UN Joint Staff Pension Fund, and others have taken actions aimed to address these concerns, such as freezing current allowance amounts. Efforts to study and revise the total compensation package include the ICSC's review of total compensation and the CEB's baseline study of compensation costs. The General Assembly has called upon the ICSC to include all elements of total compensation in its review. However, we found that the ICSC review does not incorporate key elements of total compensation, such as retiree health insurance.

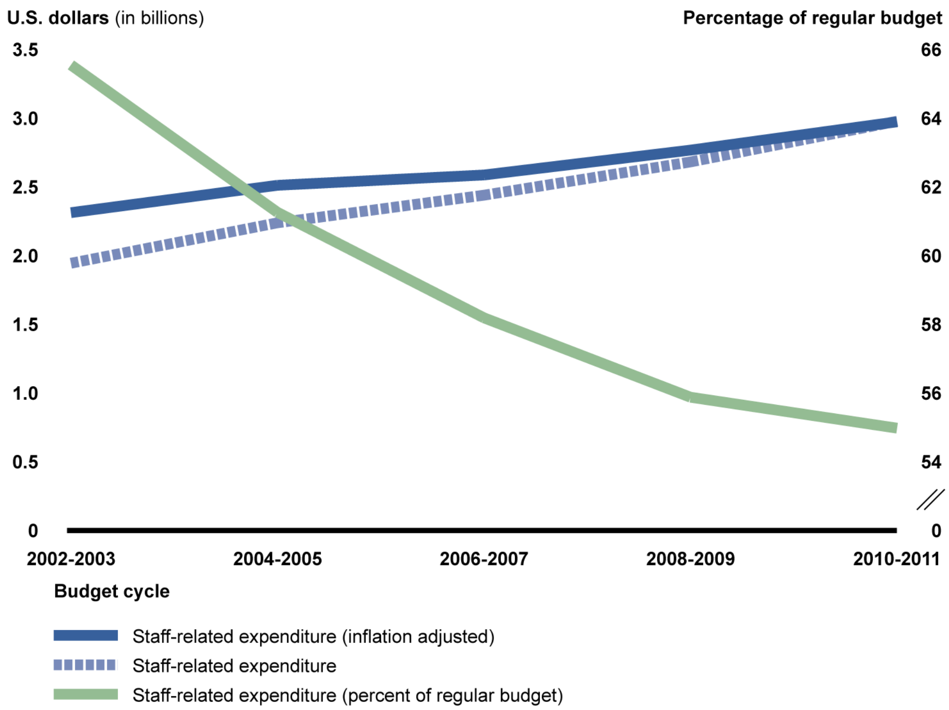
The UN Has Begun to Take Action to Address the Long-Term Sustainability of Its Rising Total Compensation Costs

The UN has recently begun taking action in response to concerns about its total compensation costs raised by the General Assembly, member nations including the United States, and various UN organizations. These concerns have focused on the long-term sustainability of UN total compensation, as well as the present and historical costs of specific elements of UN compensation. According to budget data provided by the UN Secretariat, staff-related expenditures rose steadily from $1.95 billion in 2002-2003 to $2.98 billion in 2010-2011, at an average rate of about 7 percent per 2-year budget, when adjusted for inflation.[25] Figure 2 shows

[25]Staff-related expenditures includes salaries, benefits (including contributions to pensions and health insurance), certain allowances (including dependency, hardship, and mobility allowances), and other costs.

that staff-related expenditures accounted for over half of the regular budget during this period. Between 2004-2005 and 2010-2011, growth in staff-related expenditure was accompanied by faster growth in the Secretariat's regular budget, causing a decline in the share of staff-related expenditures in the regular budget over this time period.

Figure 2: United Nations (UN) Secretariat Staff-Related Expenditures, 2002-2003 to 2010-2011



Source: GAO analysis of UN data. | GAO-14-546

Concerns have also been raised in regard to specific elements of the UN total compensation package. For instance, the General Assembly has brought attention to the growing margin, or percentage difference, between average UN salaries and average U.S. civil service salaries. The General Assembly has stipulated that the UN salaries should be between 110 and 120 percent of U.S. civil servant salaries, with a desirable midpoint of 115 percent over 5 years. We previously reported that the margin between UN and U.S. civil service salaries increased from 109.3

percent in 2002 to 116.9 percent in 2012.[26] In 2013, the margin rose again to 119.6 percent, also raising the 5-year average above 115 percent to 115.7 percent.

Additionally, the General Assembly has raised questions regarding the long-term sustainability of other elements of UN compensation, such as retiree health insurance. In 2013, the Secretary-General reported the unfunded liability for its after-service health insurance program to be almost $4 billion. The General Assembly expressed “deep concern” over these costs, and the Secretary-General noted that the UN lacks the assets to settle this liability. The Secretary-General further reported that a long-term funding strategy is needed. In 2012, a General Assembly resolution noted that the UN Joint Staff Pension Fund ran a deficit for a second consecutive biennium, and emphasized the need to ensure the long-term sustainability of the fund.

The General Assembly, the ICSC, and others have taken actions to address these concerns. For instance, to address the rising costs of salaries and allowances, the General Assembly and the ICSC have taken steps such as freezing allowance amounts for at least 1 year, freezing the post adjustment for New York in 2014, raising the retirement age for new hires from 62 to 65, and conducting a review of the UN total compensation package for professional staff. UN actions taken in response to specific concerns are summarized in table 6.

[26] GAO-13-526. In 2012, the General Assembly took action to alleviate these concerns by freezing the implementation of the New York post adjustment for 6 months.

Table 6: United Nations (UN) Actions Taken in Response to Concerns over the Sustainability of UN Compensation Costs

Element(s) of UN compensation	Concern	Action
Allowance amounts	The General Assembly expressed concern about increases in claims for the education grant, resulting in a 35 percent increase in education grant payments between 2009 and 2011.	In 2013, the General Assembly froze all UN professional allowances amounts for at least 1 year.
After-service health insurance	The General Assembly expressed "deep concern" about the long-term sustainability of its after-service health insurance program. The Secretary-General reported that the UN lacks the assets to settle these unfunded liabilities and that a long-term funding plan is needed to address them.	In 2011, the UN required eligible participants to enroll in Medicare Part B, with the UN reimbursing the required premium, which was estimated to lower actuarial liabilities by $258 million. It also increased deductibles to health care plans in 2009 and 2013 to further contain health care costs.
Pensions	The actuarial value of the UN Joint Staff Pension Fund declined from a surplus of 4.25 percent in 1999 to a deficit of 1.87 percent in 2011 (second consecutive 2-year deficit). While this deficit is within the safety margin of plus or minus 2 percent established by the UN's Committee of Actuaries, the General Assembly has raised concerns over the fund's financial sustainability, as the increasing longevity of UN staff has increased its liabilities.	Effective January 2014, the General Assembly raised the normal retirement age from 62 to 65 for new staff.

Source: GAO analysis of UN documents. | GAO-14-546

In addition, the UN has initiated a review of its total compensation package. Specifically, in 2012, the ICSC began a review of UN total compensation, and the General Assembly endorsed this action. The ICSC added the total compensation review to its 2013-2014 work plan and has begun collecting data related to many elements of the UN compensation package. The CEB has assisted the ICSC with this data collection effort.[27] As a result of its review, the ICSC plans to issue several recommendations to the General Assembly on changes to the overall compensation structure. The study is scheduled for completion in 2015.

[27]In addition to assisting the ICSC in data collection, in 2013, the CEB began a baseline costs study of the UN compensation package. According to ICSC and CEB officials, this study will be used to validate the cost estimates performed as part of the ICSC total compensation review, and will be reported to the General Assembly.

The ICSC's Total Compensation Review Does Not Incorporate Key Elements of Total Compensation

While the UN is undertaking efforts to examine its compensation package, we found that the ICSC's review does not incorporate all key elements of total compensation. The General Assembly's 2013 resolution commenting on the ICSC's total compensation review noted that the ICSC should review all elements of total compensation holistically, including both monetary and nonmonetary elements. Further, the ICSC has reported that a holistic review of all elements of compensation is important to prevent fragmentation of the UN compensation system. However, according to ICSC officials and documents, the ICSC's review of total compensation will not incorporate all key elements of total compensation. Instead, the ICSC review will focus on certain compensation elements, such as salary and allowances. Other key elements of compensation with significant costs, including benefits such as pensions, health insurance, and after-service health insurance, will not be incorporated into the ICSC review.

According to the ICSC, the compensation review will result in the development of a compensation calculator and a series of recommendations to the General Assembly about possible changes to the UN compensation structure. The calculator will be based on a series of estimates about the current and future costs of individual elements of compensation. For example, an estimate of danger pay might multiply the total number of staff serving at duty stations eligible for that allowance by the danger pay rate of $1,600 per month as of 2013. However, according to ICSC officials, the calculator will not generate estimates for key elements of compensation, including pensions, health insurance, and retiree health insurance.

ICSC officials noted that because the various elements of compensation affect one another, their study may have effects on elements of compensation not directly included in their review. For example, any changes proposed to the salary structure could affect other items that are linked to salary, such as pensions. However, ICSC officials stated that, as part of their review, they will not make specific recommendations related to compensation elements outside of their area of administrative responsibility. Within the UN system, several different entities have administrative responsibility for the various elements of total compensation. The ICSC is responsible for matters pertaining to salary and allowances, the Joint Staff Pension Fund Board administers the pension fund, and the Health and Life Insurance Section administers health and retiree health insurance plans. ICSC officials told us that their review will focus only on the elements of compensation—salary and allowances—that are within their area of responsibility. In addition, ICSC officials told us that issues related to elements outside their responsibility will be flagged for separate review by the UN entities with responsibility for their administration, such as the UN Joint Staff Pension Fund and the UN Health and Life Insurance Section.

Until all aspects of UN total compensation have been reviewed by the ICSC and other relevant entities, the General Assembly and member states will not have a comprehensive set of information with which to make fully informed decisions about proposed changes to address concerns about the compensation system. The cost to the UN of some of the elements not fully incorporated in either study is significant. For example, the unfunded liability of the UN's retiree health insurance plan was estimated in 2012 to be almost $4 billion. In addition, according to the UN Secretariat, contributions to the Joint Staff Pension Fund and health insurance plans totaled $419 million in 2010-2011, which was 8 percent of the 2-year regular budget.

Conclusions

We found that the UN and the U.S. government offer generally similar benefits and allowances to their employees, with some differences. Our comparisons of the monetary value of certain UN and U.S. benefits and allowances show that each offered compensation elements of higher value than the other. However, the lack of available or comparable data prevented a comparison of other UN and U.S. benefits and allowances.

The Secretary-General; General Assembly; member states, including the United States; and other UN organizations have expressed concerns about the rising costs and long-term sustainability of the UN's total compensation package. Many of these concerns relate to the organization's retiree health insurance system and its pension fund. The retiree health insurance system, for example, has a large unfunded liability that may place the long-term viability of the program at risk. The UN has recognized these issues and begun taking actions to address the costs of its compensation package. The ICSC's ongoing review of total compensation and the CEB's baseline compensation cost study are important steps in understanding the current costs of the compensation package, with the ICSC study making recommendations about possible changes to the structure of the system and developing a cost calculator that could be used to estimate the impact of these possible changes. However, because various entities within the UN system have administrative responsibility over different elements of the compensation package, the ICSC review will not include key elements of compensation, particularly pensions, health insurance, and retiree health insurance.

Without a holistic evaluation of its compensation package that incorporates all key elements of compensation, the General Assembly and member states will not be able to make fully informed decisions about proposed changes to the compensation system.

Recommendation for Executive Action

To assist member states in their oversight of the budgetary implications and financial sustainability of UN total compensation, the Secretary of State should work with other member states to ensure that the costs of key elements of total compensation are reviewed to address rising staff costs and sustainability.

Agency Comments and Our Evaluation

We provided a draft of this report for comment to the Secretary of State, the Secretary of Defense, the Director of OPM, the Executive Director of the Federal Retirement Thrift Investment Board (FRTIB), and the UN. State, OPM, and the UN provided us with technical comments, which we incorporated into the report as appropriate. State also provided written comments, which we reprinted in appendix V.

State agreed with our recommendation and stated that it generally accepts and endorses our findings. State noted that our report reveals that several elements of compensation, including pension benefits and after-service health benefits, are not included in the ICSC's compensation review. State further commented that the ICSC review faces inherent challenges, including complexities associated with the Noblemaire Principle, which requires that compensation for UN professional staff be set in comparison to the highest compensated national service, which the UN has considered to be the U.S. federal civil service. State commented on ambiguities with the Noblemaire Principle, including ambiguities over the comparison group and which elements of compensation should be included in the comparison. We agree that there are ambiguities associated with the Noblemaire Principle and therefore we did not use it as the basis for our comparison of UN and U.S. government benefits and allowances. As we discuss in the report, the UN General Assembly has directed that only salaries be used as part of the margin calculation, rather than total compensation, which would include benefits and allowances in addition to salaries. It was beyond the scope of our review to comment on how the Noblemaire Principle should be applied, and our comparisons of UN and U.S. government benefits and allowances should not be interpreted as a statement or opinion on how Noblemaire comparisons should be conducted.

We are sending copies of this report to the appropriate congressional members, the Secretary of State, the Secretary of Defense, the Director of OPM, the Executive Director of the FRTIB, the UN, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-9601 or melitot@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

Thomas M

Thomas Melito
Director, International Affairs and Trade

List of Requesters

The Honorable Bob Corker
Ranking Member
Committee on Foreign Relations
United States Senate

The Honorable Lindsay Graham
Ranking Member
Subcommittee on State, Foreign Operations,
and Related Programs
Committee on Appropriations
United States Senate

The Honorable John Barrasso
United States Senate

The Honorable Richard Burr
United States Senate

The Honorable Tom Coburn
United States Senate

The Honorable James Inhofe
United States Senate

The Honorable Johnny Isakson
United States Senate

The Honorable Mike Lee
United States Senate

The Honorable James Risch
Unites States Senate

The Honorable Marco Rubio
United States Senate

Appendix I: Objectives, Scope, and Methodology

We were asked to review the structure of United Nations (UN) total compensation, including benefits and allowances, and how it compares with that of U.S. government employees. In this report, we (1) examine similarities between the UN and U.S. government benefits and allowances and compare their monetary values, and (2) examine UN efforts to address concerns about the sustainability of total compensation costs.

To compare UN and U.S. government benefits and allowances, we reviewed relevant UN data and interviewed UN officials to determine the elements of the UN total compensation package available to UN Secretariat professional staff in 2012. Similarly, we reviewed relevant U.S. data and interviewed U.S. officials to determine similar elements of total compensation offered in 2012 to U.S. civil service employees, and for U.S. civil service employees serving overseas for the Departments of State (State) and Defense (DOD), and State Foreign Service employees. We examined the similarity of these compensation elements by comparing the purpose, structure, and eligibility requirements in the UN and U.S. systems.

To compare the monetary value of elements of the UN total compensation package with similar elements of the U.S. government total compensation package, we collected available salary, benefit, and allowance data for UN Secretariat professional staff from the UN's Payroll Operations Unit for calendar year 2012. We also collected available data for U.S. government employees, including civil service employees serving overseas and Foreign Service employees, from the Office of Personnel Management (OPM), State, and DOD. For data on health insurance, life insurance, and retiree health care benefits, we collected data from OPM on U.S. civil service employees, because OPM does not disaggregate these data by salary scale, occupation, or location. For data on retirement benefits, we collected data on the cost of the Federal Employees Retirement System (FERS) pension plan from OPM on U.S. civil service employees hired under FERS, because OPM does not disaggregate these data by salary scale or occupation; and we collected data on Thrift Saving Plan (TSP) participation rates and deferral rates from the Federal Retirement Thrift Investment Board (FRTIB) for U.S. civil service employees who are enrolled in the FERS retirement plan, because the FRTIB does not disaggregate these data by salary scale or occupation. For data on allowances, we collected data from State and DOD for

Foreign Service employees and civilians serving overseas, because these employees are comparable to UN Secretariat professional staff. Data from State and DOD were for calendar year 2012.[1] Because of variations in the structure, administration of payments, and data availability for individual compensation elements, we calculated monetary value for individual elements using different approaches. As a result, individual calculations cannot be summed into a single total for all benefits, allowances, or compensation.

To assess the reliability of UN data, we interviewed UN officials, reviewed available technical documentation, and performed basic reasonableness checks of the data for obvious inconsistency errors and completeness. When we found discrepancies, we brought them to the attention of relevant agency officials and worked with these officials to correct the discrepancies before conducting our analyses. We determined that these data were sufficiently reliable for our analyses, including determining the monetary value of available UN payroll transactions, and the number of employees receiving these benefits and allowances in calendar year 2012; determining the monetary value of retirement contributions for UN staff for income replacement rate scenarios that we conducted and for determining the UN pension benefit formula; and for discussing UN staff-related costs and the level of these costs as a percentage of the regular budget. However, these data do not include complete information on certain allowances that are not captured in the UN's central payroll system, such as danger pay allowances.

To assess the reliability of U.S. data, we interviewed officials from OPM, State, DOD, and the FRTIB; reviewed available technical documentation; and performed basic reasonableness checks for obvious inconsistency errors and completeness. When we found discrepancies, we brought them to the attention of relevant agency officials and worked with officials to correct the discrepancies before conducting our analyses. We determined that these data were sufficiently reliable for our analyses. However, these data do not include information on certain allowances that are not captured by State's and DOD's central payroll systems, such as danger pay.

[1] Although data from the U.S. government and UN payroll represent slightly different time periods, we interviewed UN and U.S. officials and determined that these differences were not likely to significantly affect our results.

Using these data, we calculated benefit and allowance amounts provided to UN staff and U.S. government employees.

We also estimated benefit amounts UN and U.S. retirement programs would pay to employees—which we expressed in the form of income replacement rates—under different scenarios, including differing years of service and contributions toward retirement. We note, however, that these are illustrative examples, which do not represent actual or average benefits received by UN staff or U.S. government employees. We calculated these income replacement rates for UN staff and for U.S. civil service employees covered by FERS. The income replacement rates we calculated divided a workers' gross retirement income in the first year of retirement by the worker's net salary in his or her final year of work. We use this measure for the purpose of comparing FERS and the UN Joint Staff Pension Fund; it is not meant to assess the absolute generosity or appropriateness of either retirement plan.[2] For more information on our assumptions and methodology in estimating income replacement rates, see appendix II.

To identify health care costs for the UN, we used data on health care subsidies from the UN payroll system. UN payroll data contain the amount of health care subsidy that each employee receives from the organization. We examined the mean and median values of the health care subsidy for professional staff located in New York, first for the entire staff population, and then for staff members who participate in a health care plan. Because approximately 98 percent of UN staff members receive a health care subsidy, there is little difference between average plan costs for the entire staff population, and average plan costs per participant. We also examined the mean and median values of the health care subsidy for participants with and without dependents.

[2]The income replacement rates in this report measure the value of retirement income at the time of an employee's retirement, which may not fully reflect differences in benefit indexation. For example, the Social Security benefit is fully indexed to inflation using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), while the FERS defined benefit is partially indexed to inflation (with a formula based on CPI-W). The TSP allows participants to select an annuity that is partially indexed, or one with level payments. In the scenarios presented in this report, we assume the TSP participants have selected an annuity with benefit increases that are partially indexed to inflation. The UN retirement benefit includes pension adjustments that reflect both changes in the U.S. Consumer Price Index and changes in the exchange rate between the United States and the retiree's country of residence.

To identify health care costs for U.S. civil service employees, we used data provided by OPM about the average cost to the agency of providing health insurance. OPM provided the average cost per participant, overall, and broken down into participants in self-only plans and participants in self-and-family plans. We multiplied this average cost by the participation rate in 2012, approximately 80 percent, to obtain the average cost to federal agencies of providing health insurance to U.S. civil service employees. A limitation of using OPM health care cost data to compare U.S. civil service employees with UN staff is that OPM's data are not restricted to professional employees. To the extent that professional civil service employees choose different plans or have different patterns of health care usage than nonprofessional employees, federal agency costs to provide health insurance to professional employees may differ from the overall average.

To show growth in UN staff costs over time, we collected data on staff-related expenses from the UN Secretariat. We adjusted these figures for inflation using the annual U.S. gross domestic product deflator from the U.S. Bureau of Economic Analysis, which we normalized to use 2011 as the base year.

To examine UN efforts to address concerns about the long-term sustainability of total compensation costs, we reviewed UN documents and interviewed UN officials regarding the long-term costs of UN benefits and allowances and actions taken to address them, including the International Civil Service Commission's total compensation review and the UN Chief Executive Board's baseline compensation cost study. In addition, we analyzed UN General Assembly resolutions that direct other UN organizations to perform further actions to address these concerns.

We conducted this performance audit from June 2013 to June 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Additional Information on GAO's Estimates of Income Replacement Rates for United Nations Staff and U.S. Federal Civilian Employees

To compare the UN and U.S. government retirement systems, we estimated income replacement rates for UN staff and U.S. federal civilian employees at various salary levels and under different scenarios, including varying years of UN or U.S. government employment and retirement contribution rates for U.S. federal civilian employees. Income replacement rates are a method of comparing retirement programs that describe how much of a worker's preretirement salary is replaced in the first year of retirement by a retirement plan. We focused our analysis on U.S. federal civilian employees hired under FERS, which covers approximately 89 percent of current federal civilian employees and all federal civilian employees hired since 1984.

Eligibility Requirements and Plan Provisions for the UN Pension Fund and FERS

Retirees from the UN receive a pension, while the vast majority of active U.S. federal civilian employees receive retirement benefits under FERS. The UN Joint Staff Pension Fund and FERS have some structural differences. The UN Joint Staff Pension Fund provides retirees a defined benefit, based on factors including an employee's age, length of participation in the plan, and salary history. The UN pension is similar to the Civil Service Retirement System (CSRS), which also provides U.S. federal civilian retirees with a defined benefit.[1] FERS is a three-part retirement plan consisting of (1) a basic defined benefit pension, (2) Social Security, and (3) the TSP—a tax-advantaged retirement savings and investment plan in which employee contributions are matched by the employer up to a certain percentage of salary. Compared with participants in the UN Pension Fund or CSRS, U.S. federal civilian employees participating in the FERS plan receive a smaller defined benefit pension, but receive Social Security and earnings from accumulated TSP investments upon retirement.

Table 7 provides additional information on the eligibility requirements and other plan provisions of the UN Pension Fund and FERS, including retirement age, contribution rates, and benefits formulas.

[1] CSRS covers U.S. government employees who were hired before 1984 and did not switch to FERS.

Table 7: Eligibility Requirements and Plan Provisions for the United Nations (UN) Joint Staff Pension Fund and the Federal Employees Retirement System (FERS)

	UN Joint Staff Pension Fund	FERS
Retirement age	The retirement age is 60 for employees who began working at the UN before January 1, 1990. Normal retirement age is 62 for employees who began working at the UN after January 1, 1990. The retirement age for UN employees hired on or after January 1, 2014 is 65.	The retirement age is 60 with at least 20 years of service or 62 with at least 5 years of service. A person with 30 years or more of service may retire earlier; the minimum retirement age ranges from 55 to 57.
Retirement contribution	Defined benefit The current rate of contribution to the fund is 23.7 percent of pensionable remuneration. The employee pays one-third, or 7.9 percent, of that amount. The UN pays the remaining two-thirds, or 15.8 percent.	Defined benefit The current contribution rate to FERS is 12.7 percent of gross salary.[a] For employees hired before January 1, 2013, employees pay 0.8 percent of their gross salary and agencies pay the remainder, or 11.9 percent. For employees hired in 2013, the employee contribution is 3.1 percent of gross salary, and the employer contribution is 9.6 percent. For employees hired on or after January 1, 2014, the employee contribution is 4.4 percent of gross salary. Thrift Savings Plan (TSP) (U.S. employees only) The U.S. agency contributes 1 percent of pay automatically to the TSP. Employees may contribute pre-or post-tax income to the TSP up to the federal limit ($17,500 in 2013). The government matches up to 4 percent of gross salary. Social Security (U.S. employees only) The employer and the employee each contribute 6.2 percent of earnings to Social Security up to the Social Security income threshold ($113,700 in 2013).[b]
Benefits formula	For employees who reach full retirement age and have at least 5 years of service, the annual pension is calculated as 1.5 percent of the final average remuneration for each of the first 5 years of service, plus 1.75 percent of the final average remuneration for each of the next 5 years of service, plus 2 percent of the final average remuneration for each year of service between year 10 and year 35 of service; plus an additional 1 percent of final average remuneration for any years of service above 35, up to a maximum total accumulation rate of 70 percent of final average remuneration. Final average remuneration generally means the highest average pensionable remuneration for 36 months of the last 5 years of service.	Employees who meet the age and service requirements receive an annual pension benefit equal to the following formula: 1.1 percent of their average "high-3" salary for each year of service. For employees who retire under age 62, or with less than 20 years of service, the formula is 1 percent of their average high-3 salary for each year of service. Thus, an employee, retiring above age 62, who worked 30 years receives an annual pension benefit equal to 33 percent of his or her high-3 salary. "High-3" is an employee's average salary in the three highest-paid consecutive years of service.

Source: GAO analysis. | GAO-14-546

[a]Certain groups of federal employees have different retirement contribution levels under FERS. For example, law enforcement officers and firefighters, congressional employees, and members of Congress have higher contribution rates. We are not including these groups of federal employees in our estimates of income replacement rates under FERS.

[b]In 2011 and 2012, employees contributed up to 4.2 percent of wages to Social Security, up to the Social Security income threshold, because of a temporary reduction in payroll taxes.

Key Assumptions for Estimates of Income Replacement Rates

When analyzing income replacement rates for UN staff and U.S. federal civilian employees under FERS, we made several simplifying assumptions. We assumed that staff (1) retired at the end of December 2012 at age 62, and (2) started collecting retirement income in January 2013.[2] Additionally, we assumed wages grew at the same rate for both UN staff and U.S. federal civilian employees. In certain scenarios, we assumed that staff worked for 30 years at their respective UN or U.S. government employers, and in others we assumed that staff had 20-year work histories. Both UN and U.S. staff are assumed to be married at retirement, and U.S. employees are assumed to select a FERS pension with a 50 percent benefit for their surviving spouse.[3] When estimating Social Security benefits, we assumed that all employees had a 35-year Social Security work history, as Social Security benefits are based on a person's highest 35 years of earnings. Thus, we assumed that employees receiving Social Security have a work history prior to their years of service with the federal government or the UN.

We made the following additional assumptions for estimating retirement income from TSP portfolios for U.S. federal civilian employees:

[2]FERS employees are eligible for a nonreduced FERS pension after 20 years of work at age 60 or older, or 5 years of work at age 62 or older. In 2013, FERS employees could retire with nonreduced Social Security benefits at age 66; FERS employees who retired at age 62 in 2013 receive a Social Security benefit that is 25 percent lower than a 66-year-old with an identical earnings history would receive. UN staff are fully vested in their pension after 5 years of work once they have reached the normal retirement age, which was 60 for staff who started employment prior to 1990, 62 for staff who started or reentered employment on January 1,1990, or later, and 65 for staff who started or reentered employment on January 1, 2014, or later.

[3]The default option for FERS employees who are married is a spousal survivor benefit in which the spouse receives 50 percent of the FERS retiree's pension if the FERS retiree dies before his or her spouse. Selecting this benefit results in a reduction in the FERS pension (relative to an unmarried recipient) of 10 percent in most cases. FERS employees may select a 25 percent spousal benefit, which results in a reduction in the FERS pension of 5 percent (relative to an unmarried recipient) in most cases, or they may select no spousal benefit. However, FERS employees who are married require their spouse's written permission to select any option other than the default option. UN employees receive a 50 percent survivor annuity payable to surviving spouses automatically, with no reduction in pension benefits required.

1. We assumed that employees participated in the TSP for each year of their 20- or 30-year work histories.
2. We assumed that TSP investments were fully invested in the TSP's G fund,[4] and we allowed the TSP rate of return to vary each year,[5] reflecting the annual rate of return of the G fund for the years 1988-2012.[6] We applied these rates of return to an individual's TSP contributions to calculate his or her final TSP balance.
3. We assumed that FERS retirees purchased an annuity using their entire TSP balance at the end of 2012.[7] We used an annuity interest rate of 1.95 percent, which was the annual average rate in 2012. We also assumed that the retiree's spouse was the same age as the retiree and that the retiree selected an annuity with a 50 percent survivor benefit with increasing payments to adjust for the cost of living.

Methodology for Estimating Income Replacement Rates

We calculated income replacement rates for UN staff and U.S. federal civilian employees at various levels of take-home pay in their final year of work. We focused on take-home pay, rather than gross salary, because for UN staff there is no measure that directly corresponds to U.S. federal civilian employees' gross salary, since most UN member states do not require their citizens who work for the UN to pay income taxes. UN staff members' take-home pay is termed net remuneration, which is obtained

[4]The G fund stands for the Government Securities Investment Fund. This is the default fund into which an employee's TSP investments are put unless an employee actively selects an alternative fund. The G fund's investment objective is to produce a rate of return that is higher than inflation while avoiding exposure to credit (default) risk and market price fluctuations. The G fund purchases Treasury securities that are guaranteed by the U.S. government.

[5]Salary growth rates and the market performance of the TSP's G fund reflected a period of high growth in the 1980s and 1990s, with salary growth rates exceeding 5 percent per year and G fund returns at or exceeding 9 percent per year throughout most of the 1980s, followed by a period of slower growth. It is also significant that the period of high salary growth occurred early in the working lives of the employees in our scenarios, building up their portfolios and allowing interest to compound on a larger base than would have occurred if the period of high growth came later in their careers.

[6]For the years 1983 to 1987, we used the rate of return equal to the annual interest rate on Social Security special issues, which very closely track the annual interest rate on the TSP G fund.

[7]A TSP life annuity is an insurance product that provides guaranteed monthly payments for as long as the retiree, or his or her designated survivor, is alive.

from the UN's published salary scales, and is equal to the base salary for an employee's assigned grade and step, an allowance for staff members with dependents, and a post adjustment reflecting the cost of living for the location where the staff member is posted. In our scenarios, we define "salary" for UN staff as the net remuneration for a staff member of the assigned grade and step, living in New York City, New York, receiving salary at the dependent rate. For U.S. federal civilian employees, take-home pay is calculated by applying federal and New York state tax rates to the General Schedule gross salary scale for New York.[8]

Estimating Equivalent Contribution Rates

First, we estimated the income replacement rates for UN staff and U.S. federal civilian employees who contribute an equivalent percentage of salary to their retirement. Obtaining this equivalent contribution rate involves identifying the percentage of net remuneration that UN staff contribute to their retirement, and identifying the comparable contribution rate from take-home pay made by U.S. employees. To identify the percentage of net remuneration that UN staff contribute to their retirement, we first calculated the dollar value of the pension contribution that UN staff at each grade and step must make, and then divided that dollar value by the appropriate level of net remuneration. UN staff are required to contribute 7.9 percent of their pensionable remuneration to their pension plan.[9] To obtain the dollar value contributed to the pension plan at each grade and step, we multiplied the appropriate level of pensionable remuneration by 7.9 percent. We then divided this dollar value by the appropriate level of net remuneration, resulting in the percentage of net remuneration contributed to pensions by UN workers who live in New York City and are paid at the dependent rate, at various grade and step levels. UN workers who are posted in New York City and paid at the dependent rate contribute between 8.9 percent and 9.8 percent of net remuneration to their pension plans. The mean and median contribution rate, across all grade and step levels (not weighted by population), is 9.4 percent.

[8]We assume that U.S. employees are married and filing jointly, with no children, and with a spouse with zero taxable income.

[9]Because UN pensions are subject to taxation in the country where the staff member receives the pension benefit, they are established in gross terms to account for the amount of taxes UN retirees will have to pay on their pension benefits. "Pensionable remuneration" is a term used by the UN to describe the "grossed-up" salary scale on which pension contributions and subsequent gross pensions are based. Thus pensionable remuneration is higher than net remuneration for UN staff.

To obtain an equivalent contribution rate for U.S. civil service employees, we estimated income replacement scenarios for U.S. civil service employees who contribute 9.4 percent of their net salary to retirement. We defined net salary for U.S. employees as gross salary, net of U.S. federal and New York state taxes. We used net salary as a measure for U.S. employees, as it was more comparable to UN net remuneration, or take-home pay. After we converted gross salary to net salary, we obtained the corresponding dollar value U.S. employees contributed to retirement. When applying the U.S. federal tax code and the New York tax code, we assumed that our U.S. civil service employees were married, filing jointly, with no children. Once we obtained the dollar value of the worker's contribution to retirement, we converted this into a percentage of gross income that each worker contributes to retirement.[10]

TSP Contributions

Once we obtained the percentage of gross salary that each U.S. civil service worker in our scenarios contributes to retirement, we were able to determine the worker's contribution rate to the TSP in each year. In our scenarios in which UN staff and U.S. federal civilian employees have equivalent contribution rates, we determined the TSP contribution rate as a residual result of the other calculations. As a result, the TSP contribution rate equals the total contribution rate to retirement, minus the mandatory Social Security contribution rate each year, minus the mandatory 0.8 percent contribution rate to the FERS pension plan.[11] For example, in the scenarios in which we set equivalent retirement contributions between UN staff and U.S. federal civilian employees, an employee is assumed to contribute 0.8 percent of gross pay to a FERS

[10]Because of the tax code, even though all U.S. civil service workers in a given scenario are contributing 9.4 percent of net salary to retirement, their contribution rate as a percentage of gross salary varies across salary levels.

[11]One limitation of the residual approach for generating TSP contribution rates is that we are not recalculating the relationship between net salary and gross salary for every level of salary in each year of an employee's 20- or 30-year salary history. In practice, the effective tax rate for an individual at any given level of 2012 salary would have changed over the past 20 or 30 years, for two reasons. First, even if the federal and New York tax rates did not change, the individual would have fallen into different tax brackets in some of the years when his or her salary was lower. Second, even had the individual experienced no salary growth over the previous 20 or 30 years, the federal and New York state tax rates would have changed over this period, resulting in different effective tax rates in different years.

pension, 4.2 percent of gross pay to Social Security, and between 2.7 to 3.5 percent of gross pay to the TSP depending on salary.[12]

In addition to this indirect approach, where TSP contributions are identified as a residual, we also present scenarios where we directly set the level of TSP contribution. In the direct approach shown in tables 12 and 13, we entered a TSP contribution as a constant percentage of gross salary and multiplied this contribution rate by each year's salary, to obtain an annual contribution to the TSP for each employee.

Once we calculated each employee's annual contribution rate to the TSP, through either the indirect or the direct method, we then calculated the employing agency's matching contribution rate to the TSP.[13] We then summed the employee and employer contribution to the TSP, to obtain the total dollar value of contributions to the TSP for each employee in each year. Once we determined each employee's annual contributions to the TSP fund, including both the employee and employer contributions, we calculated the employee's final TSP balance. As stated earlier, we assumed that employees invest their entire TSP balance in the G fund.[14] Once the final TSP balance was obtained, we calculated a lifetime TSP annuity for each worker using the *TSP Annuity Calculator Worksheet*, published by the FRTIB, along with accompanying tables from the FRTIB, including monthly annuity factors and interest adjustment factors.[15]

In directly setting the level of TSP contribution, we presented income replacement rates for U.S. federal civilian employees with two different

[12]Since 1990, in most years employees have contributed 6.2 percent of salary to Social Security, up to the Social Security maximum taxable income level, which was $110,100 in 2012. In 2012, workers contributed 4.2 percent of salary to Social Security, because of temporary tax provisions in 2011 and 2012. The Social Security employee tax rate returned to 6.2 percent in 2013. Our model incorporates these variations in Social Security tax rates.

[13]Federal agencies contribute an automatic 1 percent of gross salary to the TSP for all FERS employees. In addition, agencies match 100 percent of employee contributions up to 3 percent of gross salary, and match 50 percent of employee contributions up to 5 percent of gross salary. Thus the maximum employer contribution to the TSP in any year is 5 percent (1 percent automatic plus up to 4 percent matching contribution.)

[14]We do not apply a constant rate of return, but instead assign the rate of return earned by the G fund in each year from 1988 to 2012.

[15]The FRTIB administers the TSP.

TSP contribution levels: 8.5 percent of gross salary, and 0 percent of gross salary. We selected 8.5 percent of gross salary because, according to an FRTIB report, the contribution deferral rate to the TSP among FERS participants in 2012 was 8.5 percent of salary.[16] We selected 0 percent in order to present the lower bound on income replacement rates for U.S. FERS employees.

Our scenarios examine workers retiring at the end of December 2012. However, changes have been made to the FERS retirement system for U.S. federal civilian employees hired on January 1, 2013, or later. Employees enrolled in FERS and first hired in 2013 contribute 3.1 percent of gross salary toward their pension plans, while employees first hired in 2014 or later contribute 4.4 percent.[17] The benefit formula remains unchanged; thus, employees are funding a larger portion of their retirement income. In addition, although employees may choose not to contribute to the TSP, the default contribution rate was set at 3 percent for employees hired after August 2010. FERS employees who contribute 4.4 percent of gross salary toward their pension plan contribute more toward their retirement plans than UN employees, even when they contribute nothing to their TSP accounts. Under our scenario 4 below, we estimated income replacement rates for U.S. federal civilian employees who did not defer any of their salary to the TSP in any years of service.

Social Security Benefits

To estimate Social Security benefits, we assumed that each employee has a 35-year total employment history (1978 to 2012), which includes employment years in addition to the employees' 30-year or 20-year U.S. government work histories in our scenarios.[18] We estimated each employee's wage history, starting with the employee's final salary in

[16]TSP participation rates and contribution rates have varied over time. The average employee contribution rate among TSP participants who made any elective contributions was 8.5 percent in 2012. In November 2012, among federal civilian employees who were enrolled in FERS, 86 percent of those who were eligible to participate in the TSP were making payroll deductions.

[17]OPM estimates the cost of the FERS basic annuity at an amount equal to 12.7 percent of pay. For FERS employees first hired before 2013, the federal government contributes 11.9 percent of pay and employees contribute 0.8 percent of pay. For FERS employees hired in 2013 or later, the federal government pays 9.6 percent of pay. Employees first hired in 2013 pay the remaining 3.1 percent and employees hired after pay 4.4 percent.

[18]We assumed that all employees had a 35-year Social Security work history because Social Security benefits are based on a person's highest 35 years of earnings.

2012, and then determining salaries for earlier years. To set wage growth rates, we used the annual salary growth rate assumptions for various years that are listed in OPM's assumptions for the Civil Service Retirement and Disability Fund. Wage growth rates varied over the 35-year period, ranging from 5.5 percent in 1979 to 3.25 percent in 2012. We applied the same salary growth rates to both the UN staff and U.S. civil service employees.

To estimate Social Security contributions, we calculated the dollar value of employee contributions to Social Security each year by multiplying each year's Old-Age, Survivors, and Disability Insurance (OASDI)[19] tax rate by the lesser of the employee's salary[20] in that year or the Social Security maximum taxable earnings. We show income replacement rates for U.S. federal civilian employees who retire at age 62. Employees who retire at age 62 in 2013 have not reached Social Security's full retirement age for 2013, and therefore receive a reduced Social Security benefit that is 25 percent lower than the benefit received by employees retiring at the full retirement age (66 in 2013) with equivalent earnings histories.

Calculating Income Replacement Rates

Our income replacement rate estimates are defined as gross retirement income divided by take-home pay in the final year of work. Specifically, we estimated the income replacement rate as follows:

- The income replacement rate for U.S. employees equals gross retirement income in the first year of retirement divided by net salary in the final year of work.
- The income replacement rate for UN staff equals gross retirement income in the first year of retirement divided by net remuneration in the final year of work.

[19]The OASDI program provides benefits for retired workers, their families, and the survivors of deceased workers through the Old-Age and Survivors Insurance Program, and provides benefits to disabled workers and their families through the Disability Insurance program. Since 1990, the OASDI tax rate has been set at 6.2 percent for employers and employees. An exception is the period 2011 and 2012, when the OASDI tax rate for employees was temporarily reduced to 4.2 percent.

[20]For U.S. federal civilian employees in the FERS retirement plan, the income base for the Social Security tax is total pay, up to the maximum taxable amount. For U.S. citizen employees of the UN, the income base for the Social Security tax is the gross base salary plus the post adjustment, plus any salary allowances. The gross base salary is defined as the net base salary, at the dependent or single rate, plus the staff assessment.

In order to compare the employee and employer contributions to retirement plans, we also calculated the amount of retirement income attributable to employee contributions, and the amount of retirement income attributable to employer contributions. In conducting these calculations,

- For the UN pension, we attributed one-third of the pension benefit to the employee contributions and two-thirds of the pension benefit to employer contributions, based on the UN contribution rates.
- For the FERS pension, we attributed 6 percent of pension income to employee contributions and 94 percent to employer contributions, based on the percentage of salary that employees contribute (0.8 percent) and the percentage of salary that agencies contribute (11.9 percent).
- For Social Security, we attributed half of the Social Security income to employee contributions and one-half to employer contributions, because in most years of the program, employees and employers contribute equally to Social Security.
- For the TSP annuity, we attributed a percentage of the annuity to employee contributions that equaled the sum of all TSP contributions made by the employees over their working lives divided by the sum of all TSP contributions made by the employer and the employee combined over the employee's working life. We attributed a percentage of the annuity to employer contributions that equaled the sum of all TSP contributions made by the employer over the employee's working life divided by the sum of all TSP contributions made by the employer and the employee combined over the employee's working life.

Using these calculations, we constructed the income replacement rates for the employee and employer, where

- the income replacement rate (employee) equals retirement income attributable to the employee's contributions divided by final year salary, and
- the income replacement rate (employer) equals retirement income attributable to the employer's contributions divided by final year salary.

Below we present income replacement rates for UN staff or U.S. federal civilian employees under five scenarios.

Scenario 1—UN Staff and U.S. Federal Civilian Employees with 30-Year Work Histories Making Equivalent Contributions

In our first scenario, UN staff and U.S. federal civilian employees have worked for 30 years at their respective UN organization or U.S. government agency and contribute an equivalent percentage of their salaries to their retirement. Because UN staff contribute, on average, 9.4 percent of net remuneration to their pensions, in this scenario we assume that U.S. federal civilian employees also contribute 9.4 percent of take-home pay to their retirement. This corresponds to 7.3 to 8.3 percent of gross salary, allocated across contributions to the FERS pension, Social Security, and the TSP. U.S. federal civilian employees' TSP contributions in this scenario therefore range from 2.7 to 3.5 percent of 2012 gross pay. Table 8 shows our estimates of income replacement rates for UN staff who retire at age 62, while table 9 shows our estimates of income replacement rates for U.S. FERS employees who retire at age 62.

In each table, we also show the percentage of salary replaced by the employee's and employer's contributions to the retirement package. As can be seen in table 8, the total income replacement rates for UN staff range from 63 percent to 68 percent, and the portion of income replaced by the UN ranges from 42 percent to 45 percent. As shown in table 9, the total income replacement rates for U.S. federal civilian employees who retire at age 62 range from 63 to 69 percent, and the portion of income replaced by the U.S. government ranges from 48 to 49 percent.

Table 8: United Nations (UN) Professional Staff Retirement Income and Income Replacement Rates in the First Year of Retirement for Staff Retiring at Age 62 with 30 Years of UN Service

	2012 net remuneration[b]	UN gross pension	Income replacement rate	Income replacement rate (employee)	Income replacement rate (employer)
Grade/step[a]	(A)	(B)	(C = B / A)	(D)	(E = C – D)
P1/1	$65,272	$40,861	63%	21%	42%
P1/5	$73,575	$46,476	63%	21%	42%
P2/6	$93,254	$59,775	64%	21%	43%
P3/8	$116,358	$75,391	65%	22%	43%
P4/8	$138,197	$91,293	66%	22%	44%
P5/7	$160,050	$107,327	67%	22%	45%
P5/13	$176,274	$119,467	68%	23%	45%

Source: GAO Analysis of UN data. | GAO-14-546

Notes: The income replacement rate is defined as total retirement income in the first year of retirement divided by net remuneration (take-home pay) in the last year of work.

[a]This column presents UN grade levels at the UN Professional (P1-P5) grade levels. We selected step levels for each grade, ranging from the lowest step for P1 to the highest step for P5, in order to represent the full range of salary levels from P1 to P5. For the other grade levels, we include the step level at the midpoint of each grade.

[b]This column presents UN net remuneration in New York City at the dependency rate of salary. Net remuneration is defined by the UN as net base salary plus post adjustment. This represents take-home pay for a worker with dependents, and is consistent with the UN's method for calculating income replacement rates.

Table 9: U.S. Civil Service Federal Employees Retirement System (FERS) Employee Retirement Income and Income Replacement Rates in the First Year of Retirement for Employees Retiring at Age 62 with 30 Years of Federal Service

	2012 net salary[b]	FERS pension	Social Security	Thrift Savings Plan (TSP) annuity	Total gross retirement income	Income replacement rate	Income replacement rate (employee)	Income replacement rate (employer)
Grade/step[a]	(A)	(B)	(C)	(D)	(E = B + C +D)	(F = E / A)	(G)	(H = F – G)
9/1	$47,413	$15,322	$14,384	$2,807	$32,513	69%	19%	49%
9/5	$53,022	$17,364	$15,750	$3,016	$36,131	68%	19%	49%
10/5	$57,847	$19,124	$16,928	$3,190	$39,241	68%	19%	49%
11/5	$63,020	$21,010	$18,015	$3,396	$42,420	67%	18%	49%
12/5	$74,465	$25,182	$19,316	$3,808	$48,307	65%	17%	48%
13/5	$86,092	$29,945	$20,767	$3,951	$54,663	63%	16%	48%
14/5	$98,816	$35,386	$22,141	$4,264	$61,791	63%	15%	48%
15/5	$113,472	$41,625	$22,323	$7,104	$71,052	63%	14%	48%
15/10	$120,347	$44,534	$22,323	$8,616	$75,473	63%	14%	48%

Source: GAO analysis of U.S. data. | GAO-14-546

Notes: The income replacement rate is defined as total retirement income in the first year of retirement divided by net salary (take-home pay after taxes) in the last year of work. Employees in this scenario contribute 9.4 percent of net pay toward retirement, which is equivalent to 7.3 to 8.3 percent of gross salary. In 2012, employees in this scenario contribute between 2.7 and 3.5 percent of gross salary to their TSP accounts.

[a]This column presents U.S. government grade levels on the General Schedule (GS) scale from grade 9 to grade 15. We selected step levels for each grade, ranging from the lowest step for GS-9 to the highest step for GS-15, in order to represent the full range of salary levels from GS-9 to GS-15. For the other grade levels, we include the step level at the mid-point of each grade.

[b]This column presents U.S. civil service net salary in New York, New York, to ensure comparability with take-home pay at UN headquarters.

Scenario 2—UN Staff and U.S. Federal Civilian Employees with 20-Year Work Histories Who Make Equivalent Retirement Contributions

Tables 10 and 11 reflect the assumptions made under our second scenario, where UN staff and U.S. federal civilian employees have worked for 20 years at their respective employers and contribute an equivalent percentage of their salaries to their retirement. Table 10 provides our estimates of income replacement rates for UN staff who retire at age 62, and table 11 shows our estimates of income replacement rates for U.S. FERS employees who retire at age 62. In each table, we also show the percentage of salary replaced by the employee's and employer's contributions to the retirement package. As can be seen in table 10, the total income replacement rates for UN staff range from 40 percent to 44 percent, and the portion of income replaced by the UN range from 27 to 29 percent. As shown in table 11, the total income replacement rates for U.S. federal civilian employees who retire at age 62 range from 48 percent to 55 percent, and the portion of income replaced by the U.S. government ranges from 35 percent to 38 percent.

Table 10: United Nations (UN) Professional Staff Retirement Income and Income Replacement Rates in the First Year of Retirement for Staff Retiring at Age 62 with 20 Years of UN Service

	2012 net remuneration[b]	UN gross pension	Income replacement rate	Income replacement rate (employee)	Income replacement rate (employer)
Grade/step[a]	(A)	(B)	(C = B / A)	(D)	(E = C – D)
P1/1	$65,272	$26,333	40%	13%	27%
P1/5	$73,575	$29,951	41%	14%	27%
P2/6	$93,254	$38,522	41%	14%	28%
P3/8	$116,358	$48,585	42%	14%	28%
P4/8	$138,197	$58,833	43%	14%	28%
P5/7	$160,050	$69,166	43%	14%	29%
P5/13	$176,274	$76,990	44%	15%	29%

Source: GAO Analysis of UN data. | GAO-14-546

Notes: The income replacement rate is defined as total retirement income in the first year of retirement divided by net remuneration (take-home pay) in the last year of work.

[a]This column presents UN grade levels at the UN Professional (P1-P5) grade levels. We selected step levels for each grade, ranging from the lowest step for P1 to the highest step for P5, in order to represent the full range of salary levels from P1 to P5. For the other grade levels, we include the step level at the midpoint of each grade.

[b]This column presents UN net remuneration in New York City at the dependency rate of salary. Net remuneration is defined by the UN as net base salary plus post adjustment. This represents take-home pay for a worker with dependents, and is consistent with the UN's method for calculating income replacement rates.

Table 11: U.S. Civil Service Federal Employees Retirement System (FERS) Employee Retirement Income and Income Replacement Rates in the First Year of Retirement for Employees Retiring at 62 with 20 Years of Federal Service

Grade/step[a]	2012 net salary[b] (A)	FERS pension (B)	Social Security (C)	Thrift Savings Plan (TSP) annuity (D)	Total gross retirement income (E = B + C +D)	Income replacement rate (F = E / A)	Income replacement rate (employee) (G)	Income replacement rate (employer) (H = F – G)
9/1	$47,413	$10,215	$14,384	$1,597	$26,195	55%	18%	38%
9/5	$53,022	$11,576	$15,750	$1,713	$29,040	55%	17%	37%
10/5	$57,847	$12,749	$16,928	$1,809	$31,487	54%	17%	37%
11/5	$63,020	$14,006	$18,015	$1,924	$33,946	54%	17%	37%
12/5	$74,465	$16,788	$19,316	$2,153	$38,258	51%	15%	36%
13/5	$86,092	$19,963	$20,767	$2,220	$42,950	50%	14%	36%
14/5	$98,816	$23,591	$22,141	$2,497	$48,229	49%	13%	35%
15/5	$113,472	$27,750	$22,323	$4,361	$54,433	48%	13%	35%
15/10	$120,347	$29,690	$22,323	$5,249	$57,262	48%	12%	35%

Source: GAO analysis of U.S. data. | GAO-14-546

Notes: The income replacement rate is defined as total retirement income in the first year of retirement divided by net salary (take-home pay after taxes) in the last year of work. Employees in this scenario contribute 9.4 percent of net pay toward retirement, which is equivalent to 7.3 to 8.3 percent of gross salary. In 2012, employees in this scenario contribute between 2.7 and 3.5 percent of gross salary to their TSP accounts.

[a]This column presents U.S. government grade levels on the General Schedule scale from grade 9 to grade 15. We selected step levels for each grade, ranging from the lowest step for GS-9 to the highest step for GS-15, in order to represent the full range of salary levels from GS-9 to GS-15. For the other grade levels, we include the step level at the midpoint of each grade.

[b]This column presents U.S. civil service net salary in New York, New York, to ensure comparability with take-home pay at UN headquarters.

Scenario 3—U.S. Federal Civilian Employees with 30 Years of Service Who Contribute the Average Amount of Gross Salary to the TSP

In scenario 3, we estimate income replacement rates for U.S. federal civilian employees who contribute the 2012 U.S. average contribution to the TSP in each year of service, which was 8.5 percent of gross salary for those FERS employees who made any elective contributions. We estimated this scenario for U.S. employees who retire at age 62. As shown in table 12, income replacement rates for employees who retire at age 62 range from 77 to 82 percent, with the portion of income replaced by the U.S. government ranging from 52 to 53 percent.

Table 12: U.S. Civil Service Federal Employees Retirement Service (FERS) Employee Retirement Income and Income Replacement Rates in the First Year of Retirement for Employees Who Retire at Age 62 with 30 Years of Federal Service and Contribute 8.5 Percent of Gross Salary to the Thrift Savings Plan (TSP) Annually

	2012 net salary[b]	FERS pension	Social Security	TSP annuity	Total gross retirement income	Income replacement rate	Income replacement rate (employee)	Income replacement rate (employer)
Grade/step[a]	(A)	(B)	(C)	(D)	(E = B + C +D)	(F = E / A)	(G)	(H = F – G)
9/1	$47,413	$15,322	$14,384	$9,054	$38,760	82%	29%	53%
9/5	$53,022	$17,364	$15,750	$10,261	$43,376	82%	29%	53%
10/5	$57,847	$19,124	$16,928	$11,301	$47,353	82%	29%	53%
11/5	$63,020	$21,010	$18,015	$12,415	$51,440	82%	29%	53%
12/5	$74,465	$25,182	$19,316	$14,881	$59,380	80%	27%	52%
13/5	$86,092	$29,945	$20,767	$17,696	$68,408	79%	27%	52%
14/5	$98,816	$35,386	$22,141	$20,911	$78,438	79%	27%	53%
15/5	$113,472	$41,625	$22,323	$24,598	$88,545	78%	26%	52%
15/10	$120,347	$44,534	$22,323	$26,317	$93,174	77%	25%	52%

Source: GAO analysis of U.S. data. | GAO-14-546

Notes: The income replacement rate is defined as total retirement income in the first year of retirement divided by net salary (take-home pay after taxes) in the last year of work. Employees in this scenario contribute 8.5 percent of gross salary to their TSP accounts each year, in addition to 0.8 percent of salary toward their FERS pensions, and the Social Security tax (4.2 percent of gross salary up to the 2012 income threshold of $110,100). In 2012, employees in this scenario contribute between 12.3 and 13.5 percent of gross salary toward retirement.

[a]This column presents U.S. government grade levels on the General Schedule scale from grade 9 to grade 15. We selected step levels for each grade, ranging from the lowest step for GS-9 to the highest step for GS-15, in order to represent the full range of salary levels from GS-9 to GS-15. For the other grade levels, we include the step level at the midpoint of each grade.

[b]This column presents U.S. civil service net salary in New York to ensure comparability with take-home pay at UN headquarters.

Scenario 4—U.S. Federal Civilian Employees with 30 Years of Service Who Contribute 0 Percent of Gross Salary to the TSP

Under scenario 4, we estimate income replacement rates for U.S. federal civilian employees who did not defer any of their salary to the TSP in any years of service. TSP portfolios for these employees consist entirely of their agencies' automatic 1 percent contribution to the TSP each year. As shown in table 13, the income replacement rates for employees who retire at age 62 range from 57 to 64 percent, with the portion of income replaced by the employer ranging from 46 to 47 percent.

Table 13: U.S. Civil Service Federal Employees Retirement Service (FERS) Employee Retirement Income and Income Replacement Rates, for Employees Who Retire at Age 62 with 30 Years of Service and Contribute 0 Percent of Gross Salary to the Thrift Savings Plan (TSP) Annually

Grade/step[a]	2012 net salary[b] (A)	FERS pension (B)	Social Security (C)	TSP annuity (D)	Total gross retirement income (E = B + C +D)	Income replacement rate (F = E/ A)	Income replacement rate (employee) (G)	Income replacement rate (employer) (H = F – G)
9/1	$47,413	$15,322	$14,384	$671	$30,376	64%	17%	47%
9/5	$53,022	$17,364	$15,750	$760	$33,875	64%	17%	47%
10/5	$57,847	$19,124	$16,928	$837	$36,889	64%	17%	47%
11/5	$63,020	$21,010	$18,015	$920	$39,944	63%	16%	47%
12/5	$74,465	$25,182	$19,316	$1,102	$45,601	61%	15%	46%
13/5	$86,092	$29,945	$20,767	$1,311	$52,023	60%	14%	46%
14/5	$98,816	$35,386	$22,141	$1,549	$59,076	60%	13%	47%
15/5	$113,472	$41,625	$22,323	$1,822	$65,769	58%	12%	46%
15/10	$120,347	$44,534	$22,323	$1,949	$68,806	57%	11%	46%

Source: GAO analysis of U.S. data. | GAO-14-546

Notes: The income replacement rate is defined as total retirement income in the first year of retirement divided by net salary (take-home pay after taxes) in the last year of work. Employees in this scenario contribute 0 percent of gross salary to their TSP accounts. In 2012, employees in this scenario contribute between 3.8 and 5 percent of gross salary toward retirement.

[a]This column presents U.S. government grade levels on the General Schedule scale from grade 9 to grade 15. We selected step levels for each grade, ranging from the lowest step for GS-9 to the highest step for GS-15, in order to represent the full range of salary levels from GS-9 to GS-15. For the other grade levels, we include the step level at the midpoint of each grade.

[b]This column presents U.S. civil service net salary in New York to ensure comparability with take-home pay at UN headquarters.

Scenario 5—UN Staff Who Are U.S. Citizens Employed in the United States with a 20-Year UN Work History

In our final scenario, we provide estimates of income replacement rates for UN staff members who are U.S. citizens employed in the United States. Like other UN staff members, U.S. citizens participate in the UN pension plan. In addition, they must also contribute to Social Security, and therefore are eligible for Social Security benefits.

For the purposes of taxation, the U.S. Internal Revenue Service (IRS) treats UN staff who are U.S. citizens working in the United States as "self-employed" workers. According to IRS rules governing the taxation of such workers, UN staff who are U.S. citizens working in the United States must pay both the employer portion and the employee portion of Social Security taxes. However, the UN normally reimburses its U.S. citizen staff for one half of the Social Security tax. Therefore, UN staff who are U.S. citizens effectively pay the same rate of Social Security taxes as other salaried employees in the United States.

Our estimates show that UN staff who are U.S. citizens have higher income replacement rates than other UN staff who retire with 20 years of service because they contribute to and receive Social Security benefits. As seen in table 14, the income replacement rate for UN employees who are U.S. citizens and retire at age 62 ranges from 56 to 68 percent, and the portion of income replaced by the employer ranges from 38 to 45 percent. However, U.S. citizen employees of the UN who work in the United States have to contribute both to the UN pension plan and to Social Security. A UN official commented that UN staff who are U.S. citizens and who are working in the United States make up only a small percentage of total UN staff, and very few of these staff spend their entire career with the UN working in the United States.[21]

Table 14: Retirement Income and Income Replacement Rates in the First Year of Retirement for United Nations (UN) Staff Who Retire at Age 62 and Who Are U.S. Citizens Employed in the United States with 20-Years of UN Service

Grade/step[a]	2012 net remuneration[b] (A)	UN pension (B)	Social Security (C)	Total gross retirement income (D=B+C)	Income replacement rate (E = D / A)	Income replacement rate (employee) (F)	Income replacement rate (employer) (G = E-F)
P1/1	$65,272	$26,333	$17,914	$44,247	68%	23%	45%
P1/5	$73,575	$29,951	$18,755	$48,706	66%	22%	44%
P2/6	$93,254	$38,522	$20,756	$59,278	64%	21%	42%
P3/8	$116,358	$48,585	$22,322	$70,907	61%	20%	41%
P4/8	$138,197	$58,833	$22,323	$81,156	59%	20%	39%
P5/7	$160,050	$69,166	$22,323	$91,489	57%	19%	38%
P5/13	$176,274	$76,990	$22,323	$99,313	56%	19%	38%

Source: GAO analysis of UN data. | GAO-14-546

[a]This column presents UN grade levels at the UN Professional (P1-P5) grade levels. We selected step levels for each grade, ranging from the lowest step for P1 to the highest step for P5, in order to represent the full range of salary levels from P1 to P5. For the other grade levels, we include the step level at the midpoint of each grade.

[b]This column presents UN net remuneration in New York City at the dependency rate of salary. Net remuneration is defined by the UN as net base salary plus post adjustment. This represents take-home pay for a worker with dependents, and is consistent with the UN's method for calculating pension amounts.

[21]According to a UN official, approximately 1,000 UN professional staff who are U.S. citizens are working in the United States. UN staff who are U.S. citizens and spend a portion of their career in another country are generally subject to the Social Security windfall elimination provision, which reduces the Social Security benefit formula for these staff.

Appendix III: Comparison of Allowances for United Nations Secretariat Staff and U.S. Civil Service Staff Overseas and Foreign Service employees

	United Nations (UN)	U.S. Civil Service Staff Serving Overseas and Foreign Service Employees
Allowances offered to eligible UN staff and U.S. Foreign Service employees and U.S. civil service employees		
Serving in a dangerous duty station	Danger pay is a special allowance that has been established for internationally and locally recruited staff members who are required to work in a duty station where very dangerous conditions prevail, including those where staff face high risk of becoming collateral damage in a war or active armed conflict or where medical staff risk their lives when deployed to deal with a public health emergency. The Chairman of the International Civil Service Commission is responsible for authorizing the application of danger pay to a duty station based on the recommendations of the UN Department of Safety and Security or the World Health Organization. Danger pay is granted for up to 3 months at a time, subject to ongoing review. As of the publication of this report, the UN offered danger pay to staff in 15 duty stations. For internationally recruited staff, the allowance is $1,600 per month. For locally recruited staff, the allowance is based on the local salary scale.	The U.S. government provides danger pay to all civilian employees serving in places where conditions of civil insurrection, civil war, terrorism, or wartime conditions that threaten physical harm or imminent danger to the health or well-being of an employee exist. Danger pay is additional compensation of up to 35 percent over basic compensation to staff, for service at places in foreign areas where dangerous conditions that could threaten the health or well being of an employee exist. As of the publication of this report, the U.S. government offered danger pay to employees in 29 locations.
Allowances, based on duty station, for cost of living	The UN pays a post adjustment to staff to ensure equity in purchasing power of staff members across duty stations. The post adjustment is a part of the staff's salary and is not considered an allowance. The post adjustment is higher for staff with dependents.	The U.S. government grants a post allowance to staff officially stationed at a post in a foreign area where the cost of living is substantially higher than in Washington, DC. The post allowance is designed to permit staff to spend the same portion of their salaries for their standard living expenses as they would if they were residing in Washington, D.C. The amount paid is a flat rate that varies by basic salary, size of family, and post.

	United Nations (UN)	U.S. Civil Service Staff Serving Overseas and Foreign Service Employees
Travel for education, security and medical evacuation, rest and recuperation, home leave, and family visit	The UN pays travel expenses for staff when they are initially appointed; when they change their duty station; when they separate from service; when they travel on official business; when they travel for home leave; when they travel to visit family members, and for rest and recuperation. In special circumstances requiring evacuation of staff members and their families for medical or security reasons, the UN also covers certain travel and travel-related costs. The UN pays travel expenses for staff dependents on the initial appointment; on separation from service, and on education grant travel and home leave. Staff also receive a daily allowance while on travel for official business. UN staff are also entitled to travel expenses for their child for one return journey from the educational institution to their duty station, if the educational institution is outside the country of the duty station. At some duty stations, the UN allows an additional round-trip journey in a non-home leave year.	The U.S. government pays travel and related expenses for members of the Foreign Service and their families under a number of circumstances, including when they are proceeding to and returning from assigned posts of duty; for authorized or required home leave; for family members to accompany, precede, or follow a foreign service member to a place of temporary duty; for representation travel; medical travel; rest and recuperation travel; evacuation travel; or other travel as authorized.[a] In addition, the U.S. government pays the expenses for a child to travel to and from a secondary school or post-secondary school, once each way annually. The age limitation for secondary education travel is 20 (before the 21st birthday) and for post-secondary education the age limitation is 22 (before the 23rd birthday.) The U.S. may also grant Foreign Service staff and their eligible family members rest and recuperation travel to the United States, its territories, or other locations abroad.
Maintaining a family at a separate location from a duty station	The UN provides an Additional Hardship Allowance for staff serving in certain duty stations where they are involuntary separated from their families. The Additional Hardship Allowance is paid in addition to the normal hardship allowance. The amount of the allowance varies according to grade and dependency status, and ranged from $6,540 to $23,250 as of 2013. In addition, for a UN staff member located in a duty station that lacks appropriate schools and medical facilities to meet family members' needs, and who is obliged to pay rent in another city for their family, the staff member's rent at the duty station and the rent for the family in the capital city can be considered one combined rent for the purposes of determining the rental subsidy.	The U.S. government offers a separate maintenance allowance to assist staff who are required to maintain family members at locations other than their overseas post of assignment either due to (a) dangerous, notably unhealthful, or excessively adverse living conditions at the post, (b) because of special needs or hardship involving the employee or family member, c) if the family needs to stay temporarily in commercial quarters, such as a hotel.

	United Nations (UN)	**U.S. Civil Service Staff Serving Overseas and Foreign Service Employees**
Serving in a hardship duty station	The UN provides an annual hardship allowance to staff on assignment in duty stations where living and working conditions are difficult. In determining the hardship allowance, the UN considers a duty station's conditions of safety and security, health care, housing, climate, isolation, and conveniences of life. The hardship allowance varies depending on the duty station, salary level, and whether the staff member has dependents. Duty stations are categorized on a scale of difficulty from A to E, based on security conditions and quality of life at the duty station. Staff serving in more difficult duty stations receive higher allowance amounts. As of May 2013, the hardship allowance ranged from $4,360 to $23,250.	The U.S. government provides a post hardship differential, which is additional compensation of 25, 30 or 35 percent of salary to staff for service at places in foreign areas where conditions of environment differ substantially from conditions of environment in the continental United States and warrant additional compensation as a recruitment and retention incentive. A hardship differential is established for locations where the living conditions are extraordinarily difficult, involve excessive physical hardship, or are notably unhealthy. A U.S. government agency may also grant a difficult-to-staff incentive differential to staff assigned to a hardship post upon a determination that additional pay is warranted to recruit and retain staff at that post. The allowance is an additional 15 percent of salary.
Relocation and Moving Expenses	UN staff are eligible for an assignment grant that is intended to provide staff with a reasonable cash amount at the beginning of the assignment for the costs incurred as a result of appointment or reassignment. The amount of the grant varies by duty station and whether the staff has dependents. For example, a staff member with two dependents assigned to headquarters for a period of two years might earn an assignment grant of $7200, to compensate for 30 days at the beginning of the assignment. The UN also pays removal and shipment costs for staff. Staff may ship personal effects only, or household goods and personal effects in some cases. The UN has established weight limits for this allowance, which depend on the staff's number of dependents.	The U.S. government grants a foreign transfer allowance to staff for extraordinary, necessary and reasonable expenses, incurred by staff transferring to any post of assignment in a foreign area, prior to departure. This allowance includes a miscellaneous expense portion, a wardrobe expense portion, a pre-departure subsistence expense portion, and a lease penalty expense portion. The U.S. government offers a home service transfer allowance for extraordinary, necessary and reasonable expenses, for staff prior to transferring back to a post in the United States. This allowance includes a miscellaneous expense portion, a wardrobe expense portion, a subsistence expense portion, and a lease penalty expense portion.
Representation expenses	Some UN staff receive a small representation allowance, which permits them to extend official hospitality to individuals outside of the UN. For the purpose of official hospitality, heads of departments or offices may also authorize the reimbursement of reasonable expenditures incurred by staff who do not receive a representation allowance.	The U.S. government provides representation allowances intended to cover allowable items of expenditure by staff whose official positions entail responsibility for establishing and maintaining relationships of value to the United States in foreign countries. Staff may submit vouchers to be reimbursed for allowable expenses or payments may be made on their behalf.

	United Nations (UN)	U.S. Civil Service Staff Serving Overseas and Foreign Service Employees
Compensation for termination	The UN may pay a termination indemnity to a staff member whose appointment is terminated by the employing organization for any of the following reasons: abolition of post or reduction of staff, health, unsatisfactory service or agreed termination. In cases of unsatisfactory performance, the termination indemnity is at the discretion of the Secretary-General and up to half of what is otherwise payable.	The U.S. government authorizes severance pay for full-time and part-time staff who are involuntarily separated from Federal service and who meet other conditions of eligibility. To be eligible for severance pay, staff must be serving under a qualifying appointment, have a regularly scheduled tour of duty, have completed at least 12 months of continuous service, and be removed from Federal service by involuntary separation for reasons other than inefficiency (i.e., unacceptable performance or conduct).
Education Subsidy	UN staff serving outside their home country are eligible for an education grant to cover part of the cost of educating children in full-time attendance at an educational institution. The amount of the grant is equivalent to 75 percent of allowable costs, subject to a maximum that varies from country to country. Staff are eligible for the grant up to the fourth year of their child's postsecondary education, or age 25. For U.N. staff in the U.S., the maximum education grant in May 2013 was $43,589. The UN also covers up to 100 percent of boarding costs, up to a maximum amount, for children at the primary or secondary level if educational facilities are inadequate in the staff's duty station.	The U.S. government provides an allowance to assist staff in meeting the extraordinary and necessary expenses in providing adequate elementary and secondary education for dependent children at an overseas post of assignment. The amount of the grant depends on whether the child is in a school at post, a school away from the post, or in home study or at a private institution.
Housing Subsidy	UN staff are eligible for a rental subsidy intended to provide equity in accommodation expenses among UN staff in duty stations where rents vary considerably; and to alleviate hardships staff may face if their rent is higher than average for reasonable standard accommodations. For duty stations in Europe and North America, the UN determines a reasonable maximum rent level (or threshold) that is used to determine how much an staff should pay, taking into account their rent, their income, and whether they have dependents. Newly hired staff are eligible to receive a subsidy for the portion of their rent that exceeds the threshold up to a maximum of 40 percent of rent. They can receive the subsidy for up to seven years, and it declines over time. In years 1-4, the subsidy is 80 percent, in year 5 the subsidy is 60 percent, in year 6 it is 40 percent, and in year 7 it is 20 percent. For duty stations outside Europe and North America, the standard rental subsidy is 80 percent of the rent exceeding the threshold, up to a maximum of forty percent of rent.	U.S. civilian staff are eligible for housing subsidies, called quarters allowances, that are designed to reimburse staff for substantially all costs of residing in either temporary or permanent living quarters. A quarters allowance is not granted when Government housing is provided. A temporary quarters subsistence allowance is granted to staff for the reasonable cost of temporary quarters, meals and laundry expenses incurred by staff and/or family member at the foreign post upon initial arrival or preceding final departure. A living quarters allowance is granted to staff for the annual cost of suitable, adequate, living quarters for the staff and his or her family. An extraordinary quarters allowance is granted to staff who must vacate permanent quarters due to renovations, or unhealthy or dangerous conditions.

	United Nations (UN)	U.S. Civil Service Staff Serving Overseas and Foreign Service Employees
UN Allowances Not Offered to U.S. Employees		
Support of dependents	The UN provides eligible staff members an annual children's allowance of $2,929 per child under age 18 (or under 21 if a full-time student), and this amount is doubled for staff with disabled children. The UN also pays employees with dependents at a higher salary rate than those without dependents. According to the UN, this is similar to the practice of member states that provide a tax advantage for having dependents. Many UN employees are not eligible for these tax advantages, as they might be if they were employed in their national civil service, because most UN employees are not required to pay income taxes on their UN earnings in their home countries. To qualify for the dependents salary rate, UN staff must have a primary dependent (i.e., one dependent spouse or a first dependent child, if there is no dependent spouse). For staff with no primary dependent, the UN also provides a secondary dependent's allowance for eligible staff members caring for a dependent parent or sibling.	No comparable allowance.
Incentive to change duty stations	To encourage movement from one duty station to another, the UN provides an annual mobility allowance to staff on an assignment of one year or more who have had 5 consecutive years of service in the UN system. The amount of this allowance varies by the staff's number of assignments, duty station, and whether the staff has dependents. As of August 2012, this allowance ranged from $2,020 to $16,900.	No comparable allowance, though the U.S. government offers a difficult-to-staff incentive. See "Serving in a hardship duty station" above.
Repatriation after service	UN provides, upon separation, a repatriation grant to staff members whom the organization is obligated to repatriate and who at the time of separation are residing, by virtue of their service with the United Nations, outside their home country. The UN determines the amount based on salary scale and varies according to family status and length of service outside the home country.	No comparable allowance.

	United Nations (UN)	U.S. Civil Service Staff Serving Overseas and Foreign Service Employees
U.S. Allowances Not Offered to UN Staff		
Student Loan Repayment	No comparable allowance.	Some U.S. government agencies have a program to repay certain types of Federally made, insured, or guaranteed student loans as an incentive to recruit or retain highly qualified personnel. Agencies may make payments to a loan holder of up to $10,000 in a calendar year, up to an aggregate maximum of $60,000 for any one staff. In return, staff must sign an agreement to remain in the service of the paying agency for at least 3 years. If the staff separates voluntarily or is separated involuntarily for misconduct, unacceptable performance, or a negative suitability determination under 5 CFR part 731 before fulfilling the service agreement, he or she must reimburse the paying agency for all student loan repayment benefits received.

Source: GAO analysis of UN and Office of Personnel Management data. | GAO-14-546

[a]The information for this allowance is relevant to Foreign Service Officers only.

Appendix IV: Leave Benefits

As we previously reported, UN staff are eligible for more generous leave benefits than U.S. civil service employees.[1] For example, UN staff on fixed-term contracts earn more annual leave than U.S. civil service employees. UN staff earn 30 days of annual leave per year, while U.S. civil service employees earn 26 days a year once they have 15 or more years of service. U.S. civil service employees with less than 3 years of service earn 13 days per year, and those with 3 but less than 15 years of service earn 20 days per year. In addition, UN staff can be eligible for more sick leave than U.S. civil service employees, depending on the length of service. UN Secretariat staff do not earn sick leave the way they earn annual leave. Those with a sick leave need, who have worked for the UN for less than 3 years, are entitled to sick leave of up to 3 months on full salary and 3 months of half salary. UN staff who have completed 3 or more years of service are entitled to up to 9 months of sick leave. In contrast, U.S. civil service employees earn 4 hours of sick leave per pay period, or 1 day per month and may carry over unlimited amounts of sick leave into subsequent years. In addition, UN staff are entitled to paid maternity and paternity leave, as well as eligible for paid leave if they adopt a child, which is not offered to U.S. civil service employees. U.S. civil service employees are entitled to take certain amounts of time away from work for these purposes, but must use either their paid leave or unpaid leave under the Family and Medical Leave Act to account for their absences. Both UN staff and U.S. civil service employees have 10 holidays per year, though the dates may vary for UN staff depending on their duty station. Table 15 compares leave benefits for UN staff and U.S. civil service employees.

[1] GAO-13-526.

Table 15: Comparison of Leave Benefits for United Nations (UN) Secretariat Staff and U.S. Civil Service Employees

	UN staff	U.S. civil service employees
Annual leave	UN staff on fixed term contracts earn 2.5 working days per month (30 days per year), and may carry over up to 60 days per year.	Full-time employees with less than 3 years of service earn 4 hours annual leave per bi-weekly pay period (13 days per year). Those with 3 but less than 15 years of service earn 6 hours of annual leave per bi-weekly pay period and 10 hours of annual leave in the last pay period of the year (20 days per year).Those with 15 or more years of service earn 8 hours per bi-weekly pay period (26 days per year). Senior Executive Service, Senior Level, Scientific or Professional employees and employees in equivalent pay systems earn 8 hours of leave per bi-weekly pay period, regardless of years of service. At its discretion, an agency may advance annual leave to an employee in an amount not to exceed the amount the employee would accrue within the year. Employees stationed in the United States may carry over 30 days of annual leave. Those stationed overseas may carry over 45 days, and Senior Executive Service employees may carry over 90 days.
Sick leave	UN staff members with less than 3 years of service are entitled to use up to 3 months of full salary and 3 months on half salary of certified sick leave. Staff members with more than 3 years of service are entitled to up to 9 months of full salary and 9 months of half salary of certified sick leave. Within the maximum entitlement referenced above, staff members are entitled to up to 7 days of uncertified sick leave, which can be used for purposes such as family emergencies. Since UN staff do not earn sick leave, sick leave does not accumulate.	Full-time employees accrue 4 hours of sick leave for each bi-weekly pay period (13 days per year). There is no limitation on the amount of sick leave that can be accumulated or the amount an employee may use for his or her own personal medical needs. A full-time employee may use only up to 13 days of sick leave for general family care and bereavement purposes and up to 12 weeks of sick leave to care for a family member with a serious health condition each year. An employee is entitled to no more than a combined total of 12 weeks of sick leave each year for all family care purposes. At its discretion, an agency may advance up to 13 or 30 days of sick leave (depending on the reason for which sick leave is advanced) to an employee, when required by the exigencies of the situation, for the same reasons it grants sick leave to an employee.
Maternity leave	Leave with full pay for a total period of 16 weeks (usually 6 weeks prior to anticipated date of delivery and 10 weeks after birth.) Annual leave accrues during maternity leave if the staff member returns to work after a maximum of 6 months.	A birth mother may use her sick leave for prenatal care, any period of incapacity due to her pregnancy, childbirth, or recovery from childbirth. The Family and Medical Leave Act (FMLA) of 1993 entitles the birth mother to use up to 12 weeks of unpaid leave for prenatal care, any period of incapacity due to her pregnancy, childbirth, or recovery from childbirth or to care for or bond with her newborn within the 12 months following the birth of the baby. The employee may substitute annual leave or sick leave, as appropriate, for any unpaid leave under the FMLA. Also, if the birth mother has exhausted her available paid leave, she can apply to receive donated leave under the Voluntary Leave Transfer or Voluntary Leave Bank Programs (see “Special leave” below), for her incapacitation because of childbirth and recovery from childbirth.

	UN staff	U.S. civil service employees
Paternity leave	A birth father is entitled to leave with full pay for up to 4 weeks (up to 8 weeks when serving in a non-family duty station) within the 12 months following the child's birth.	A birth father, and certain other family members, including same-sex domestic partners, may use sick leave to care for the birth mother for prenatal care and for any period of incapacity due to her pregnancy, childbirth, or recovery from childbirth. The FMLA entitles a husband to use up to 12 weeks of unpaid leave to care for his wife for prenatal care, and for any period of incapacity due to her pregnancy, childbirth, or recovery from childbirth. The act also entitles the birth father or anyone who will stand in loco parentis to the child, including same-sex domestic partners, to 12 weeks of unpaid FMLA leave to care for or bond with the newborn within the 12 months following the baby's birth. An employee entitled to FMLA leave for these purposes may substitute annual leave or sick leave, as appropriate, for any unpaid leave under FMLA. Also, if the birth father or certain other family members, have exhausted their available paid leave, they can apply to receive donated leave under the Voluntary Leave Transfer or Voluntary Leave Bank Programs (see "Special leave" below), to care for the birth mother during her incapacitation because of childbirth and recovery from childbirth.
Adoption leave	Special leave with full pay may be granted for the adoption of a child.	The FMLA allows parents to use up to 12 weeks of unpaid leave to adopt a child. Parents may also use accrued sick and annual leave for purposes related to the adoption of a child.
Special leave	Full, partial or no pay may be granted for advanced study or research in the interest of the organization.	U.S. civil service employees have some additional categories of paid leave, including leave to serve as a juror or a witness, leave for bone marrow and organ donation, limited amounts of leave for certain types of military service, and leave sharing programs that allow employees to donate annual leave to colleagues who have certain emergency needs.
Official holidays	Ten holidays per year, the dates of which vary by duty station.	Ten federal holidays per year. In addition, employees located in the Washington, D.C., area may receive a federal holiday for Inauguration Day, which occurs every 4 years.

Source: GAO analysis of UN and Office of Personnel Management data. | GAO-14-546

Appendix V: Comments from the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix

United States Department of State
Comptroller
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Charleston, SC 29415-5008

JUN 1 1 2014

Dr. Loren Yager
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

Dear Dr. Yager:

We appreciate the opportunity to review your draft report, "UNITED NATIONS: Key Compensation Elements Should Be Reviewed to Address Costs and Sustainability" GAO Job Code 320984.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Stephanie McFadden, Program Analyst, Bureau of International Organization Affairs at (202) 647-6279.

Sincerely,

Christ H Flaggs

Christopher H. Flaggs, Acting

Enclosure: as stated.

cc: GAO – Thomas Melito
IO – H. Dean Pittman, Acting
State/OIG – Norman Brown

Department of State Comments on GAO Draft Report

United Nations: Key Compensation Elements Should Be Reviewed to Address Costs and Sustainability
(GAO-14-546, GAO Code 320984)

Thank you for the opportunity to comment on your draft report entitled *United Nations: Key Compensation Elements Should Be Reviewed to Address Costs and Sustainability*. The Department of State notes that GAO was requested to review the structure of UN total compensation, including benefits and allowances, and determine how it compares to that of U.S. government employees. In fulfilling this mandate, GAO examined the similarities between UN and U.S. government benefits and compared their monetary values where data was available and examined UN efforts to address concerns about the sustainability of total compensation. The Department believes that the GAO report provides some useful and timely information, particularly given ongoing Department efforts to stem growth of staff compensation costs across the UN system.

The Department accepts the GAO recommendation that the Department of State should work with other member states to ensure that the costs of key elements of UN total compensation are reviewed to address rising staff costs and sustainability. At the instruction of member states, the International Civil Service Commission (ICSC) is conducting a comprehensive compensation review, which should include all monetary and non-monetary elements of the UN compensation package, the results of which will be delivered to the UN General Assembly in 2015. The GAO report helpfully reveals that several elements of compensation, including pension benefits and after-service health benefits, are not under the purview of the ICSC and are not included in the comprehensive review. The Department will continue to work with other member states to ensure that the UN General Assembly receives the most comprehensive information available, including elements of compensation not under the purview of the ICSC.

The Department of State recognizes the inherent challenges in conducting such a complex comparative review and generally accepts and endorses the GAO's findings. That said, its findings are limited by one of the fundamental complexities of this task: the Noblemaire Principle. In the preceding GAO report, *UN COMPENSATION: United Nations Should Clarify the Process and Assumptions Underlying Secretariat Professional Salaries,* GAO noted that the UN sets salaries in accordance with the Noblemaire Principle. The Noblemaire Principle requires compensation for UN professional staff to be set in comparison to the highest compensated national civil service, and since 1945, the UN has considered this to be the U.S. federal civil service.

See comment 1.

The Noblemaire Principle has several ambiguities, but two are particularly consequential in relation to comparability of compensation for UN professionals and U.S. federal civil service employees. The first ambiguity relates to whether international civil servants in the UN system should be compared to U.S. federal civil service employees working abroad or domestically, with the latter not entitled to the same wide range of benefits and allowances afforded to the former. The second ambiguity relates to how the scope of the Noblemaire Principle is defined. Past UN General Assembly resolutions required that only the salaries of the highest paid civil service be considered in comparing compensation. The Department has maintained that all components of compensation – salaries, benefits, and allowances – should be considered. While GAO was not mandated to resolve these ambiguities in this report, we believe that highlighting this component of UN compensation provides additional insight into the complexities of comparing UN compensation to compensation of U.S. federal civil service employees as required by the Noblemaire Principle.

We are grateful for the attention GAO has paid to the issue of UN staff compensation costs, as it is directly related to one of the Department's top UN reform priorities, which is to limit budget growth at the United Nations. The Department has been actively engaging other member states and executive heads of organizations throughout the UN common system to stimulate more responsible and productive dialogue in UN General Assembly and to help alleviate the budgetary pressures faced by UN organizations due to the growth in staff compensation costs over the past ten years. The Department of State remains committed to working with other member states to ensure that decisions related to UN staff compensation are based on all available information related to salaries, benefits, allowances, as well as non-monetary components of compensation.

The following are GAO's comments on the State Department's letter dated June 11, 2014.

GAO Comment

State commented that the ICSC review faces inherent challenges, including complexities associated with the Noblemaire Principle, which requires that compensation for UN professional staff be set in comparison to the highest compensated national service, which the UN has considered to be the U.S. federal civil service. State further commented on ambiguities with the Noblemaire Principle, including ambiguities over the comparison group and which elements of compensation should be included in the comparison. We agree that there are ambiguities associated with the Noblemaire Principle and therefore we did not use it as the basis for our comparison of UN and U.S. government benefits and allowances. As we discuss in the report, the UN General Assembly has directed that only salaries be used as part of the its margin calculation, rather than total compensation, which would include benefits and allowances in addition to salaries. It was beyond the scope of our review to comment on how the Noblemaire Principle should be applied, and our comparisons of UN and U.S. government benefits and allowances should not be interpreted as a statement or opinion on how Noblemaire comparisons should be conducted.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the staff named above, Elizabeth Repko (Assistant Director), Debbie Chung, Leah DeWolf, Mark Dowling, Jeremy Latimer, Valérie Nowak, John O’Trakoun, Rhiannon Patterson, Steven Putansu, Jerry Sandau, David Schneider, Frank Todisco, and Ozzy Trevino made significant contributions to this report.

(320984)

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