



## FOR INFORMATION

### FIFTEENTH ITEM ON THE AGENDA

## Pensions questions

### Decisions of the United Nations General Assembly on the report of the Board of the United Nations Joint Staff Pension Fund

1. A summary of the meeting of the Board and its report to the United Nations General Assembly is set out below.

## Investment management

2. The market value of the assets of the Fund stood at US\$40.6 billion on 31 March 2008, up from \$37.6 billion a year earlier, representing an increase of 7.9 per cent. After adjustment for inflation this represented a real rate of return of 4.0 per cent.<sup>1</sup> This performance was considered good as the fiscal year ending 31 March 2008 had witnessed the most volatile equities, fixed-income and real estate markets in the history of the Fund.
3. Investment management follows a relatively cautious strategy of minimizing risk to obtain overall positive returns and preserve the principal of the Fund over the long term. The Fund is actively managed through diversification of investments by asset class, sector, industry, currency and geographic location.<sup>2</sup> It continues to be a widely diversified pension plan that maintains its accounts in US dollars but has liabilities in several other currencies. More than half of the Fund's assets are in non-US dollar currencies.
4. The Board welcomed the initiative for responsible investment and reconfirmed its support for such principles subject to the four criteria applied by the Fund, i.e. safety, liquidity, convertibility and profitability. The Pension Fund is a signatory to the UN Principles for Responsible Investment, which includes a reference to the ILO Declaration on the Fundamental Principles and Rights at Work. It considers environmental, social and

<sup>1</sup> The real rate of return objective that is used in actuarial valuations is 3.5 per cent.

<sup>2</sup> The strategic asset allocation is approximately 60 per cent equities, 31 per cent bonds, 6 per cent real estate and 3 per cent cash/short-term investments. The tactical (short-term) asset allocation range is plus or minus 3 to 7 percentage points from the Fund's strategic asset allocation, depending upon the type of asset class.

governance considerations in its investment decisions, while maintaining an acceptable risk return profile.

5. The investment managers consider indexation to be a fairly standard industry practice and are presently reviewing the proportion of each portfolio that should be allocated to indexation strategies.
6. However, the proposed passive indexation of the North American equities portfolio was deferred due to declining markets, poor performance of the financial sector and general increased market volatility. Under these circumstances, the primary concern had been to preserve the Fund's capital and it was felt that the transitional provisions would have been very costly.

## Actuarial valuation

7. An actuarial valuation is carried out every two years. Its main purpose is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities under the present contribution rate of 23.7 per cent of total pensionable remuneration (7.9 per cent paid by the employee and 15.8 per cent paid by the employer). The valuation at 31 December 2007 indicated a surplus of 0.49 per cent of pensionable remuneration. While this was the sixth consecutive surplus, it was lower than in almost all of the prior valuations.<sup>3</sup> The primary reasons for this were the additional costs associated with the introduction of new mortality tables reflecting increased longevity of beneficiaries, the weakening of the US dollar and higher than expected cost-of-living adjustments. These factors were partially offset by the positive investment income experience.

## Review of the two-track feature of the Pension Adjustment System (PAS)<sup>4</sup>

8. All pension entitlements are based in US dollars. The Board frequently discusses the impact of currency fluctuations on pension benefits and variations in amounts at different dates of separation. As reported in 2008, the Board had agreed to review the PAS following the weakening of the US dollar against European currencies. After extensive discussion, the Board concluded that the existing system should not be modified without a thorough examination of the impact on beneficiaries in all regions of the world. It noted that positive and negative variations in pensions had occurred since 2002, and that the principle of income replacement appeared to be functioning in the correct manner. The Board agreed to carefully monitor income replacement ratios, via quarterly reporting to individual Staff Pension Committees. This will enable the Board to take immediate action next year if the situation worsens in any particular duty station(s).

<sup>3</sup> Results of valuations from 1997 through 2005 were as follows: 0.36, 4.25, 2.92, 1.14 and 1.29 per cent of total pensionable remuneration

<sup>4</sup> The Pension Adjustment System (PAS) is designed to protect the purchasing power of pension benefits. The two-track feature protects purchasing power in those duty stations that are more expensive than the base of the system. Further information is available on the Pension Fund's website [www.unjspf.org](http://www.unjspf.org).

## Other issues

9. The Board examined revised budget estimates and reviewed the United Nations Joint Pension Fund (UNJSPF) Secretariat staffing and organizational structure. It noted that an accountability statement on the activities of the Fund had been prepared and requested that it be expanded to include all other activities of the Fund, such as investment of its assets.
10. The Board also considered the Fund's third management charter, welcoming its focus on performance issues. It was recommended that future Secretariat's reports to the Board be based on results-based management and include strategic objectives and key performance indicators. The Chairman of the Audit Committee presented its second report to the Board, and noted that the Fund's policy with respect to risk management was sound.
11. The Board also noted the information provided on the reform of the UN internal justice system as well as other issues including reports on, the financial statements, the business continuity/disaster plan, the integrated pension administration computer system and other information technology issues. The Board concluded that all requests with budgetary implications would be considered at its next session in July 2009, to conform to the biennial budget cycle.

## Decision of the United Nations General Assembly on the report of the Board

12. In October–December 2008, the United Nations General Assembly considered the report of the Board and related documents. On 18 December 2008, it adopted draft resolution A/C.5/63/L.7, which approved the Board's recommendation.

## Impact of the current financial crisis on the Fund after the meeting of the Board <sup>5</sup>

13. The UNJSPF has maintained its ability to meet pension benefit payments despite the current upheavals in global financial markets. This is due to the various mechanisms and safeguards which are in place to protect the Pension Fund from the potential effects of volatility in these markets.
14. However, the Fund did not escape the immediate impact of the turmoil in the markets, with the market value of its assets falling to \$31.4 billion by December 31, 2008. Nevertheless, in the short-term, the Fund is practically unaffected by the current market conditions. The Fund's income (contributions paid by serving officials) generally covers most of the benefit payments. The small gap between contribution income and benefit payment is easily covered by the liquid portion of the fund's assets and dividend and interest income. This enables the Fund to adopt a very long-term investment horizon since it is not required to sell its equity, bond or real estate investment.
15. In the long run, it should be recalled that throughout the existence of the Fund there have been times when market volatility has impacted negatively on the value of the Fund's assets. However, each time the impact has been temporary and the portfolio then rebounded and continued to grow. This is due in part to the adoption of four main criteria

<sup>5</sup> This assessment is based on the statement issued by the Chief Executive Officer of the United Nations Joint Pensions Fund dated 31 December 2008.

by the United Nations General Assembly to guide the investment of its assets, namely profitability, safety, liquidity and convertibility. It has adopted a global diversification policy of its investments (by asset category, regions, currency, sectors, etc.) The application of these guidelines has, over the years, enabled the Fund to build significant reserves which are invested under the fiduciary responsibility of the United Nations Secretary-General in well-diversified assets with a very long-term horizon. Thus, the Fund's financial position is safe.

Geneva, 19 February 2009.

*Submitted for information.*