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Programme, Financial and Administrative Section
Personnel Segment

PFA

FOR INFORMATION

Pensions questions: Decisions of the United Nations General Assembly on the report of the United Nations Joint Staff Pension Board

Summary: This annual information report summarizes the major issues discussed by the United Nations Joint Staff Pension Board at its 59th Session (July 2012) and the decisions taken by the United Nations General Assembly on the Board's recommendations. No decision taken in 2012 affects the pension entitlements of ILO staff members.

Author unit: Human Resources Development Department (HRD).

Related documents: GB.313/PFA/INF/6/1.

1. A summary of the 59th Session of the United Nations Joint Staff Pension Board and its 2012 report to the United Nations (UN) General Assembly is set out below.

Investment management

2. The market value of the assets of the United Nations Joint Staff Pension Fund had decreased by 4.1 per cent, from US\$41.4 billion as at 31 December 2010 to US\$39.7 billion as at 31 December 2011. After adjustment by the United States consumer price index, this represents a 3.92 per cent negative real rate of return.
3. Investment income is critical to the Fund's ability to meet its long-term obligations. The assumed long-term real rate of return for actuarial purposes is 3.5 per cent. Whereas this rate of return has, on average, been exceeded over the ten-year period ending 31 December 2011, the Fund has recorded a marked drop in average rate of return over the four-year period beginning 1 January 2008. This reflects the generally weak financial market performance since the 2008 subprime crisis.
4. The management of investments follows a prudential strategy aimed at obtaining overall positive returns while, at the same time, preserving the principal of the Fund over the long-term. The Fund actively manages a diverse portfolio of investments, in which a broad spectrum of asset classes, industries, business sectors, currencies and geographic locations are represented. Approximately 90.0 per cent of the assets are managed in-house.¹

Actuarial valuation

5. An actuarial valuation of the Fund 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 at 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 as at 31 December 2011 showed a deficit of 1.87 per cent of pensionable remuneration.² This deficit was mainly attributable to the lower than expected investment performance, as compared to the long-term actuarial assumption of a 3.5 per cent real rate of return. Nevertheless, the actuaries confirmed that the Fund remains, in their view, financially stable.
6. Although investment experience over the last ten actuarial valuations has had little impact on actuarial outcome, a downward trend in the valuation results has been recorded, attributable primarily to financial market volatility. The actuaries therefore recommended that the Board consider measures to prevent an increase in the deficit. The Board established a tripartite working group to consult with the actuaries and examine measures

¹ The strategic asset allocation is as follows: 60.0 per cent equities, 31.0 per cent fixed-income, 6.0 per cent real estate and 3.0 per cent cash/short-term investments. These weightings are periodically rebalanced in consideration of risk levels and market conditions. The tactical (short-term) asset allocation range is plus or minus three to ten percentage points from the strategic asset allocation, depending upon the type of asset class. The asset allocations and the market value of the Pension Fund are also affected by currency fluctuations, as more than half of the investments are in non-US dollar currencies and the US dollar is used for reporting purposes. The Pension Fund's website (www.unjspf.org) provides further information about the investments, including more recent investment performance indicators.

² Actuarial valuations from 1997 through 2009 showed the following surpluses (deficits): 0.36, 4.25, 2.92, 1.14, 1.29, 0.49 and (0.38) per cent of total pensionable remuneration.

to ensure the Fund's long-term financial sustainability. The Board asked the group to focus on overall sustainability, governance, investment management and asset-liability management, rather than limiting itself to cost-cutting measures. Proposals that had been submitted by the working group on plan design in 2010 remain relevant and will serve as a reference for the newly formed working group.

Retirement age

7. Without prejudice to the measures that the newly formed working group might propose, as a matter of priority, the Board recommended that the Fund's normal retirement age be raised to 65 for new entrants only, with effect no later than 1 January 2014.
8. The Fund's "normal retirement age" is defined in article 1 of the Regulations, Rules and Pension Adjustment System of the United Nations Joint Staff Pension Fund. It is age 62 for staff who joined or re-joined the Fund on or after 1 January 1990 and age 60 for staff who joined before 1990.
9. The mandatory age of retirement/separation from the member organizations is governed by the staff regulations of each of those organizations. Article 11.3 of the ILO Staff Regulations defines the age of retirement from the ILO and is aligned with the current provisions of the Fund's Regulations.
10. In recommending an increase of the Fund's age of retirement, the Board also urged the International Civil Service Commission and member organizations to increase the mandatory age of separation to 65 in time for the proposed change in the Fund's Regulations.
11. The UN General Assembly considered the report of the Board and related documents³ at its 67th Session and, on 24 December 2012, adopted Resolution A/RES/67/240, in which it approved all the Board's recommendations. With respect to the retirement age, the General Assembly "authorize[d] the United Nations Joint Staff Pension Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from 1 January 2014, unless the General Assembly has not decided on a corresponding increase in the mandatory age of separation". The General Assembly will consider an increase in the age of separation for the staff of the United Nations Secretariat, funds and programmes in the context of the review of the 2012 report of the International Civil Service Commission.⁴
12. The Office will submit to the Governing Body proposed modifications to the provisions in the ILO Staff Regulations concerning the age of retirement and the mandatory age of separation for ILO staff once the outcome of the UN General Assembly deliberations on the matter are known later in 2013.

Benefit issues

13. The UN General Assembly had previously stated that it would not approve any benefit improvements until the Fund had experienced a consecutive trend of actuarial surpluses.

³ Official records of the General Assembly, 67th Session, UN General Assembly documents A/67/9, A/67/525, A/C5/67/2 and related documents.

⁴ See GB.317/PFA/INF/3.

The actuaries had recommended a surplus of 1 to 2 per cent of pensionable remuneration as an advisable buffer enabling the Fund to withstand the effects of future financial volatility. As the current deficit is approaching 2 per cent, the Board was not able to recommend any benefit improvements.

The two-track feature of the Pension Adjustment System⁵

14. Pension entitlements are in US dollars. The basic principle of the Pension Adjustment System is that all duty stations should have equitable income replacement ratios (initial pension expressed as a percentage of final average salary at the date of separation). The Board reviews the impact of currency fluctuations on pension benefits on an annual basis. Studies to date indicate that the system continues to function as it should, in spite of some individual variations at different dates of separation. After reviewing an updated study on the functioning of the Pension Adjustment System and current actuarial assessments of its ongoing cost, the Board noted that it is not necessary to change the system. In the light of concerns expressed by some participants about US dollar exchange rates, the member organizations continue to receive quarterly reports enabling them to monitor the functioning of the system between annual Board sessions.

Selection of the new Chief Executive Officer

15. In consideration of evolving governance practices in member organizations, the Board had decided to limit the terms of office of the Chief Executive Officer and the Deputy Chief Executive Officer to two consecutive five-year appointments. The Chief Executive Officer, Mr Bernard Cochemé, retired in December 2012 on the expiration of his second term of office. The Board interviewed and examined the qualifications of the three candidates shortlisted by its tripartite search group. It unanimously selected Mr Sergio Arvizú.
16. Mr Arvizú has served as Deputy Chief Executive Officer of the Fund for more than six years. He has extensive experience in planning, finance, treasury and administration in the field of social security. He has also represented his country, Mexico, at the International Social Security Association.

Other matters

17. The UN General Assembly approved the Board's recommendation to add a new article 45bis to the Fund's Regulations allowing the Fund to pay a portion of a participant's pension benefit directly to his or her former employing organization as a means of making restitution to the organization in cases where the participant has been convicted of fraud against it.
18. The Board also examined the following: the report of the medical consultant; modifications to the rules governing the periodicity of reviews of invalidity benefits; the financial statements and reporting changes associated with the implementation of International Public Sector Accounting Standards in 2012; the reports of the external

⁵ The Pension Adjustment System is designed to protect the purchasing power of pension benefits. Further information is on the Pension Fund's website at www.unjspf.org.

auditors and the Audit Committee; the recovery of pension entitlements in cases of fraud in member organizations; new transfer agreements; the report on the Emergency Fund (financial assistance for beneficiaries); the United Nations Appeals Tribunal judgments applicable to the Fund; information technology arrangements; the management strategy; the replacement of various committee members; governance; risk management; and business continuity. The Standing Committee of the Board met once to examine individual legal appeals.

19. Because of an objection raised by the Board's Governing Body group, the Board could not agree to resubmit to the UN General Assembly its earlier proposal to permit voluntary contributions during a limited period of part-time employment. The three groups will continue exploring ways to permit such voluntary contributions, taking into account their different positions and concerns.

Geneva, 8 January 2013