International Labour Organization

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Governing Body

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Programme, Financial and Administrative Section

PFA

Programme, Financial and Administrative Segment

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Dissolution of the Voluntary Thrift Benefit Fund for ILO staff members

Purpose of the document

This document provides information on the dissolution of the Voluntary Thrift Benefit Fund for ILO staff members. In accordance with Article 8 of the Fund's Statute, the Governing Body is requested to approve the Director-General's decision on the dissolution of the Fund based on the proposal of its Management Committee. It is also requested to note the modalities for the distribution of the assets of the Fund and to transmit a draft resolution to the International Labour Conference at its 109th Session (2021) for possible adoption (see the draft decision in paragraph 16).

Relevant strategic objective: None.

Main relevant outcome: None.

Policy implications: None.

Legal implications: Possible adoption by the International Labour Conference of a resolution on the dissolution of the Voluntary Thrift Benefit Fund for ILO staff members.

Financial implications: Return of the funds in Plan B to the ILO's Terminal Benefits Fund (subject to the modalities detailed in the document and Conference approval).

Follow-up action required: Subject to the decision of the Governing Body, implementation of the dissolution process by the Office and transmission of the corresponding draft resolution to the Conference at its 109th Session (2021).

Author unit: Human Resources Development Department (HRD); Financial Management Department (FINANCE).

Related documents: GB.249/PFA/14/24, GB.249/9/24, ILC.78/Record of Proceedings.

Background

1. At its 249th Session (March 1991) [1] the Governing Body approved the establishment of a Voluntary Thrift Benefit Fund for ILO staff members. It was established to enable ILO staff to participate in a voluntary savings scheme, providing them with a lump-sum payment upon their retirement or other cessation of service, to mitigate the impact of the reduction in their pensions resulting from the decision taken by the Governing Body at its 248th Session (November 1990) to amend article 3.1.1 of the Staff Regulations. [2] That decision had been taken to align the calculation of the pensionable remuneration of ILO officials directly with the Regulations of the United Nations Joint Staff Pension Fund.

2. Also in March 1991, the Governing Body adopted the Statute of the Fund, covering the terms under which the Fund would operate, and agreed to a single ILO endowment to the Fund of an amount not exceeding US$4.875 million, to be financed from interest accruing to the Terminal Benefits Fund. This was approved by the International Labour Conference at its 78th Session (June 1991). [3]

3. As foreseen in the Statute, the Provisional Management Committee, with the authority, inter alia, to make decisions on the use of the ILO endowment, was established. That Committee adopted the Fund's regulations, facilitated the selection of the investment bank for the management of the Fund's investment and of the third-party administration agency, and organized the initial election of the Management Committee, which had its first meeting in May 1992.

4. The Provisional Management Committee decided, in line with the Statute, that:

(a) the ILO endowment would be used to assist eligible staff, in other words staff members with more than one year of service as of 27 February 1991, to purchase initial credits by matching their contributions to the Fund up to a maximum of CHF36,000 per official. By 30 November 1992, US$1.8 million (CHF2.6 million) had actually been paid into the Fund to match the contributions made by over 300 eligible members; and

(b) US$1.95 million (equal to CHF2.7 million), or 40 per cent of the maximum endowment amount, would be transferred to the Fund to establish a reserve for interest enhancement, that is, to earn interest to be paid to eligible staff members.

5. According to the Fund's regulations drawn up by the Provisional Management Committee, non-qualifying staff members were allowed to make contributions to the Fund for the purpose of generating savings, but they were not eligible to receive matching funds or interest enhancement from the ILO endowment.

[1] GB.249/PFA/14/24; GB.249/9/24, para. 64; GB.249/PV(Rev.), VIII/5.

[2] GB.248/8/29, para. 63; GB.248/PV(Rev.), IX/2.

[3] ILC.78 Record of Proceedings.

▶ Operational and financial situation of the Fund in recent years

6. The fund consists of two distinct plans:

(a) Plan A comprises funds contributed by participants, funds distributed to eligible participants from the ILO endowment and investment returns; and

(b) Plan B comprises the funds advanced by the ILO as an endowment to provide for the enhancement of interest earnings by eligible fund participants.

7. Plan A operates in a manner similar to a mutual fund or unit trust account. Each participant's contributions (including any matching funds or interest enhancement funds distributed from the ILO endowment) are considered shares in the total asset value held for Plan A by the investment bank and valued on a monthly basis. Funds are paid to participants that withdraw their shares from the Fund. In addition, the administration costs are reimbursed to the ILO and the custody and management fees are paid to the investment bank.

8. All funds held for Plan B and half of the funds held for Plan A were invested in short-term debt obligations such as bond funds, in order to limit risk and protect the contributions of the participants. The remaining half of the Plan A assets were invested in a medium-term fixed income fund.

9. In its initial years, Plan A grew each year as new participants and deposits from new and existing participants exceeded withdrawals. At its peak in 2009, Plan A had a total value reaching CHF17.4 million and over 300 participants. However, the situation started to change after 2009, as described below.

(a) **Declining performance on investment:** The value of the investments has reduced in recent years due to a low or negative rate of investment returns. Over the 13-year period from 2008 to 2020 (inclusive), Plan A had negative returns in six years, ranging from -0.13 per cent to -1.26 per cent per year, while Plan B had negative returns in 11 years, ranging from -0.07 per cent to -0.90 per cent. During this period, the earnings on Plan B were not sufficient to cover the costs of Plan B's administration and interest was no longer distributed to the remaining participants.

(b) **Reduced level of participation:** In 2016, given the investment performance, it was decided that the Fund should not be open to any new participants. Since 2015, there have been no new participants joining the Fund. The number of active participants at the end of February 2021 had decreased to 86 and the excess of withdrawals over new deposits from existing participants is substantial.

10. As a result of the net cash outflow caused by the reduction in the level of participation and the negative return on investments, the total value of the holdings in Plan A was reduced from CHF17.4 million in 2009 to CHF6.9 million in 2021, while the total value of Plan B was reduced from the original contribution of CHF2.7 million to CHF2.5 million with no further effect on interest enhancement.

Dissolution of the Fund

11. In 2018, through its Business Process Review, the Office noted that the reduced level of total holdings was limiting the investment opportunities available to the Fund to produce a higher rate of return. The Office commissioned an external study to review the possible options in 2019, focusing on the recent investment performance and the level of Fund participation. This external study concluded that the Fund had long since served its original primary purpose of offsetting any reduction in the pension benefits of eligible staff. The recommendation to the Fund's Management Committee was that the Fund be dissolved.

12. In June 2019, the Management Committee reviewed the external consultant's recommendations and considered possible alternatives for the Fund. The Office of Internal Audit and Oversight (IAO) was assigned to undertake a specific audit of the Fund's operations, notably in preparation for a possible dissolution of the Fund. The IAO's review was carried out in 2020 and covered the legal status, governance and performance of the Fund, the associated administrative procedures, the question of information storage, the role of other ILO departments involved in the administration of the Fund, and the cost effectiveness of the Fund's administration. The IAO's findings supported the conclusions of the external consultant and the IAO recommended that the Fund be wound up in accordance with the applicable procedures.

13. In line with Article 8 of the Fund's Statute,[4] the Management Committee decided to propose to the Director-General the dissolution of the Fund and to inform all Fund participants accordingly. It also proposed that, after covering all costs and charges, any remaining assets in Part B (in other words, the initial endowment paid by the ILO for interest enhancement), should be returned to the ILO.

14. The Director-General accepted the proposal of the Fund's Management Committee to dissolve the Fund and decided that:

(a) the dissolution of the Fund shall be implemented in an expeditious and orderly manner;

(b) the Fund's assets should be frozen with effect from 1 March 2021. No further contributions or withdrawals should be accepted until the dissolution decision is endorsed by the Governing Body, and all Fund participants should be informed accordingly;

(c) the funds held in Plan A (amounting to CHF6,943,050 as at 18 March 2021) shall be distributed to the participants based upon the number of shares in the fund held by each participant, including any matching funds or interest enhancement funds held by the eligible participants;

(d) the remaining funds in Plan B (amounting to CHF2,533,571 as at 18 March 2021) shall be returned to the Office after having covered all expenses and charges related to the dissolution process and, subject to Conference approval, credited to the Terminal Benefits Fund (from which they were originally taken).

[4] Article 8 of the Fund's Statute provides: "The dissolution of the Fund may be proposed by the Management Committee and decided by the Director-General subject to the agreement of the Governing Body of the ILO. The assets of the Fund shall be distributed in accordance with the modalities approved by the Director-General on the proposal of the Management Committee."

15. So that the funds returned from the Fund to the Office can be credited to the Terminal Benefits Fund notwithstanding article 11 of the Financial Regulations, the Governing Body is invited to transmit a draft resolution to the Conference for possible adoption.

▶ Draft decision

16. **The Governing Body**

(a) **approved the dissolution of the Voluntary Thrift Benefit Fund for ILO staff members in accordance with Article 8 of the Statute of the Fund;**

(b) **noted the modalities for the distribution of the assets of the Fund as set out in document GB.341bis/PFA/2; and**

(c) **decided to transmit the following draft resolution to the International Labour Conference at its 109th Session (2021) for possible adoption:**

The General Conference of the International Labour Organization, meeting at its 109th Session, 2021,

Recalling its resolution concerning the establishment of a Voluntary Thrift Benefit Fund for ILO officials, adopted at its 78th Session, 1991, in which it decided that the interest earned on the Terminal Benefits Fund beginning with the year 1991 and up to a total amount of US$4,875,000 would be paid into the Voluntary Thrift Benefit Fund, established to provide a capital sum to officials upon retirement,

Noting that the Governing Body of the International Labour Office has approved the dissolution of the Voluntary Thrift Benefit Fund, in accordance with Article 8 of the Statute of that Fund,

Noting the modalities for the distribution of the Fund's assets decided by the Director-General,

Decides that the remaining funds in Plan B of the Fund (amounting to CHF2,533,571 as at 18 March 2021), which will be returned to the Office after having covered all expenses and charges related to the dissolution process, shall be credited, notwithstanding article 11 of the Financial Regulations, to the Terminal Benefits Fund.