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Pension questions

Decisions of the United Nations General Assembly on the report of the 65th Session of the United Nations Joint Staff Pension Board (2018)

Summary: This report summarizes the major issues discussed by the United Nations Joint Staff Pension Board and the decisions of the UN General Assembly on the Board's report.

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Related documents: Official records of the UN General Assembly, 73rd session: A/73/9 (Pension Board report) A/C.5/73/3, A/73/5/Add.16, A/73/341, A/73/342, A/73/489, A/73/673 and A/RES/73/274. Further information about the Pension Fund and its investments are available on the Internet websites www.unjspf.org and oim.unjspf.org.

1. A summary of the 65th Session of the United Nations Joint Staff Pension Board and of the decisions of the United Nations (UN) General Assembly on the Board's 2018 report is set out below.

Investment management

2. The market value of the assets of the Fund had increased from US\$52.1 billion on 1 January 2016 to US\$54.4 billion on 31 December 2016, representing a real (inflation-adjusted) return of 3.1 per cent for the calendar year of 2016. The market value had increased to US\$64.1 billion on 31 December 2017, representing a real rate of return of 16.5 per cent for the calendar year of 2017. The long-term real rate of return assumption for actuarial purposes is 3.5 per cent. Annualized real returns on the Fund's assets have comfortably exceeded the long-term objective of 3.5 per cent in US dollar terms for the past 3, 5, 15, 20, 25 and 50-year periods; the only exception being the 10-year period due to the global financial crisis of 2008.
3. The majority of the Fund's assets are actively managed internally and are diversified by country, currency, asset type and sector. Upon the recommendation of the last asset liability management study, the strategic asset allocation is: 58 per cent for equities, 26.5 per cent for fixed income, 9 per cent for real assets, 5 per cent for alternative investments and 1.5 per cent for cash and short-term instruments. These allocations will be reviewed in the next asset liability management study of 2019.
4. Investments must meet the criteria of safety, liquidity, convertibility and profitability, as set forth by the UN General Assembly. The Fund's Investment Policy Statement addresses Environmental, Social and Governance concerns by explicitly prohibiting investments in the tobacco and armaments sectors. The Fund is a founding signatory to the Principles for Responsible Investment (PRI A+ rating) that is associated with the UN Global Compact and the UN Environment Programme Finance Initiative, and has been positively recognized by other independent rating services in this area. The Office of Investment Management is conducting research to develop quantifiable measurements for Sustainable Development Goals and believes that portfolios which have integrated sustainable investment metrics in their investment decision-making process have the potential to provide returns that are superior to those of conventional portfolios, while exhibiting lower risk over the long term.¹

Actuarial valuation

5. The Fund is well funded and the current contribution rate is sufficient. 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 projected liabilities at the present contribution rate. The valuation results reported a slight deficit of -0.05 per cent of total pensionable remuneration as at 31 December 2017. This is the second valuation where the Fund was shown to be close to actuarial balance and the eighth consecutive valuation that was within the safety margin of +/-2 per cent recommended by the actuaries to withstand the effects of short-term volatility. The stability of the current contribution rate is dependent upon the ability to maintain the 3.5 per cent long-term real rate of return on the assets of the Fund.

¹ In accordance with article 19 of the Regulations, the UN Secretary-General has fiduciary responsibility for the investments of the assets of the Fund and his full-time Representative directs the Office of Investment Management.

Governance

6. The Board's Audit Committee noted that the Fund is in a stable financial and operational position. It cited the need to further reduce separation payment delays and to improve succession planning for senior level posts. This was the sixth year in which the Fund presented annual financial statements under the globally recognized International Public Sector Accounting Standards. The United Nations Board of Auditors, which serves as external auditor of the Fund, issued an unqualified (clean) audit opinion on these financial statements. All of their recommendations are under implementation or have already been implemented.
7. The Board welcomed the reduction in separation payment delays observed by the Board of Auditors, as well as initiatives to strengthen benefit processing and client service. Delays for separating ILO staff improved substantially in 2017 and, with few exceptions, payments are processed promptly. The ILO monitors all separation payments and follow-ups with the Fund as necessary.
8. The United Nations Office of Internal Oversight Services (OIOS) serves as internal auditor of the Fund. In addition to usual governance matters, the Board reviewed a report from the OIOS on the governance structure and related processes of the Board that had been requested by the General Assembly. Despite reservations about the audit process, the Board considered the report in-depth and convened an in-session tripartite working group with retiree representatives to respond comprehensively to each of the OIOS recommendations. This permitted the OIOS to consider the Board's views in its report to the General Assembly. The Board will continue to consider all issues raised by the OIOS going forward and created a governance working group for this purpose.
9. The Board recommended that the General Assembly amend articles 4, 6, 30, 32, 46 and 48 of the Regulations of the Fund to clarify their scope of application and to refine some internal procedures of the Board. It recommended an exception to article 15(b) to change from a biennial to an annual budget on a trial basis, to align the Fund's budget cycle with that of the UN Secretariat.
10. Due to the expected retirement of the Deputy Chief Executive Officer/Deputy Secretary of the Fund, the Board conducted interviews and recommended a candidate for the Deputy position. The selected candidate later withdrew. As the Chief Executive Officer/Secretary (CEO) retired on medical grounds on 31 January 2019, the Board's Succession Planning Committee identified an Acting CEO, effective 1 January 2019. In December 2018, the General Assembly decided to separate the CEO position into two posts to formally segregate the main functions. The formal competition process for these senior vacancies is under way.

Other matters

11. The Board recommended that the Preparatory Commission for the Comprehensive Nuclear-Test Ban Treaty Organization be admitted to the Fund as a member organization, effective 1 January 2019. The Board recommended the approval of the African Development Bank Transfer Agreement, which provides for the cost neutral continuity of pension rights.
12. The Board considered reports of and appointments to its advisory committees, which are able to devote more time to the detailed subject matter and to interact with the Fund's management at greater length than the Board would be able to do during its sessions. Final responsibility for the work of these committees rests with the Board. The Board examined the declaration on confidentiality and conflicts of interest, medical matters, information and communications technology, the Emergency Fund for beneficiaries suffering financial

hardship, the impact of currency fluctuations and the pension benefits adjustment system, a study on the separation process, the Fund's strategic framework, the report of the Standing Committee and other benefit or administrative matters.

13. The Standing Committee met once to examine individual legal appeals.

UN General Assembly action

14. In October–December 2018, the UN General Assembly considered the report of the Board and related documents. On 22 December 2018, it adopted Resolution A/RES/73/274 without a vote, accepting most of the recommendations of the Board and the amendments to the Regulations, with the exception of proposed amendments to articles 6 and 48. The General Assembly added a new subparagraph to article 4(c) to clarify that the Board adopts its own rules of procedure and reports them to the General Assembly and the member organizations, reflecting established practice.
15. The General Assembly noted that the Board's dedicated governance working group would continue to consider open OIOS recommendations. The General Assembly accepted an OIOS recommendation to split the function of the CEO/Executive Secretary into two distinct and independent posts, entitled "Pension Benefits Administrator" and "Secretary of the Pension Board". The Board had been concerned about the additional budget and operational implications of this proposal.