

## **Agenda item 140: United Nations pension system**

### **Statement delivered on behalf of Ms. Theresa Panuccio, Chair of the United Nations Joint Staff Pension Board (61<sup>st</sup> session)**

**NEW YORK, 27 OCTOBER 2014**

Mr. Chairman and Distinguished Delegates to the Fifth Committee:

It is my honour to present to the Fifth Committee the report of the 61st session of the Board, which took place at FAO Headquarters from 10 to 18 July, 2014.

The United Nations Joint Staff Pension Fund operates under Regulations promulgated by the General Assembly. Pursuant to those Regulations, the Pension Fund is administered by a Board, composed of representatives of the 23 member organizations of the Pension Fund. The 33-member Board has a tripartite composition, consisting of equal numbers of representatives of the Governing Bodies of such participant organizations, of their participants in service, and of their Executive Heads.

The Report of the Pension Board that is before you, document **A/69/9**, provides an overview of the recommendations made and the decisions taken by the Board during its sixty-first session this summer. The first part of **Chapter II** provides a summary of the recommendations and decisions which require action by the General Assembly, and which your Committee is invited to endorse.

First, the Board recommends the approval of an amendment to Article 4 of the Regulations of the Fund that would reflect the decision of the Board, after recommendation of its Audit Committee, to make a provision for the promulgation of Financial Rules in the future that would govern the financial management of the Fund;

Second, in accordance with the recommendation of the Audit Committee, the Pension Board recommends an addition to article 14 (b) of the Regulations of the Fund to clarify the mandate of the Board of Auditors vis-à-vis the Fund and to establish the terms of reference for the Fund's annual audits;

Third, the Board recommends the approval of technical changes in the Fund's Regulations in accordance with past decisions and amendments adopted by the Pension Board and approved by the General Assembly;

Fourth, the Board recommends an addition to Section E of the Pension Adjustment System to reflect the 10 per cent adjustment to small pension threshold amounts for separations on or after 1 April 2016;

Fifth, the General Assembly is invited to concur with the Board's approval of three new transfer agreements between the Fund and the European Organization for the Exploitation of Meteorological Satellites (EUMETSAT), the European Union Satellite Centre (Sat Cen), and the European Union Institute for Security Studies (ISS), respectively, which will become effective on 1 January 2015;

And finally, the Board recommends that the following assessments be discontinued: (i) Assessment of the costs of the April 1992 modification of the COLD factors as applicable to

Professional and higher categories; (ii) Assessment of actual savings from reduction of "120 per cent cap" provision to 110 per cent, effective for separations on 1 July 1995 or later; and (iii) Assessment of the Costs/Savings of the minimum guarantee at 80 per cent of the US dollar track amount.

The second part of Chapter II of the Report summarizes various other decisions and recommendations of the Board that do not require specific action by the General Assembly but, nonetheless, are of sufficient importance to be of interest to the General Assembly.

### **32nd Actuarial Valuation of the Fund, as of 31 December 2013**

I would like to begin with the 32nd actuarial valuation of the Fund, as of 31 December 2013, which revealed a deficit of 0.72 per cent of pensionable remuneration, a decrease from the deficit of 1.87 per cent revealed by the 2011 actuarial valuation. The Board noted that the decrease in the deficit was largely due to the increase in normal and early retirement ages for new staff whose participation in the Fund commenced, or re-commenced, on or after 1 January 2014. The Board also noted the significance of the reversal of the downward trend observed in the results of the actuarial valuations since 1999, and was pleased to take note of the significant improvement in the actuarial condition of the Fund.

With respect to the Fund's liabilities on a plan termination basis, as of 31 December 2013, the Fund was in a soundly funded position at 127.5 per cent, assuming future expected cost-of-living adjustments are not taken into account. Taking into account future expected cost-of-living increases, the funded ratio drops to 91.2 per cent. In reference to Article 26 of the Fund's Regulations, the Consulting Actuary stated that there is no requirement for deficiency payments by member organizations.

### **Management of the Investments of the Fund**

With regard to the management of the Fund's investments, the Representative of the Secretary-General for Investment of the Assets of the Fund reported that the Fund's market value was USD 51.4 billion as of 31 December 2013, a historically high valuation, up from USD 44.7 billion the prior year.

For 2013, the Fund had a return of 15.5 per cent, which outperformed the Fund's market benchmark by 198 basis points. With respect to the Fund's long-term return objective, the Fund achieved a 4 per cent real rate of return over the last 50 years, exceeding the target of 3.5 per cent by 0.5 per cent.

The Representative of the Secretary-General for Investment of the Assets of the Fund will provide more detailed information on investments in his presentation to this Committee.

I am pleased to note that the Secretary-General recently announced the appointment of Ms. Carol Boykin as the full-time Representative of the Secretary-General for the investment of the assets of the Fund. This very important post was approved by the General Assembly in April 2014 in view of the complexity and size of the investment operations.

### **Administrative Matters**

Regarding administrative matters, I would like to draw the Advisory Committee's attention to the Financial Statements of the Fund, which appear in Annex VIII of the report.

To highlight certain operational and financial information from the biennium that ended on 31 December 2013, I would like to mention that the number of active participants decreased by 0.4 per cent from 120,774 to 120,294, which follows an increase of 2.7 per cent during the previous biennium. This indicates that the Fund continues to mature. Benefits-in-award increased by 7.0 per cent from 65,387 to 69,980, following an increase of 5.7 per cent during the previous biennium. The net assets available for benefits increased from \$39.8 billion to \$51.5 billion. Despite its maturing state, it is important to note that the Fund is facing increasing transactional volumes. During the 2012-2013 biennium, the Fund made 1,357,021 payments, amounting to \$4,547 million USD. This represents an increase of \$459 million USD (or 11%) and 84,835 more payments (or 7%) than in the previous biennium.

The Board also considered the following administrative items:

1. The Board recalled that the Financial Rules of the Fund had been on its agenda since 2004 and had been the subject of recommendations made by the Board of Auditors, the Audit Committee and the Board itself. The Board supported the Fund's efforts to finalize its consultative process with all stakeholders in respect of drafting Fund-specific financial rules, which take into account the governance structure, mandate and funding source of the Fund. It requested that such financial rules be presented for its review at the sixty-second session, in 2015;
2. The Board reviewed the progress report on the Integrated Pension Administration System (IPAS) and noted with appreciation the progress achieved towards its implementation. It requested the Fund to adopt a prudent approach and full testing before go-live since this project is very complex and entails replacing all mission critical systems;
3. The Board considered a report on possible options to further strengthen the client servicing capacity of the Fund. Recalling that the core business of the Fund was paying benefits and servicing its clients, the Board noted that the information provided in the report should be considered in the context of the Fund's budget proposals for the biennium 2016-2017.

### **Audit**

Turning to audit matters, the Board endorsed the Report of the Audit Committee, including its recommendation that article 4 of the Regulations of the Fund be amended to make a provision for the promulgation of financial rules in the future.

The Board of Auditors presented their report on the Financial Statements of the Pension Fund for the year ended 31 December 2013. The Pension Board took note of the Board of Auditors' unqualified audit opinion on the IPSAS-compliant Financial Statements.

### **Governance Matters**

The Fund is committed to further reinforcing its governance and operations, as evidenced by a series of initiatives described below. The Board considered the first report of the Assets and

Liabilities Monitoring Committee established last year and endorsed the conclusions of the Committee. The Board approved a risk appetite statement for the Fund and risk tolerance metrics for solvency and investment risks.

With respect to after-service health insurance benefits, the Board agreed with the conclusion of the ALM Committee that it would not be advisable to broaden the mandate of the Pension Fund to include the administration of after-service health insurance benefits, noting that this option could jeopardize the Fund's operational viability and could also have a negative effect on the long-term sustainability of the Fund. As noted by the Fund's Consulting Actuary, any system-wide solution would first require harmonizing the different medical plan designs in order to allow for a common approach. It is further noted that there is very limited opportunity for true efficiency gains from the option of utilizing the UNJSPF for the administration of ASHI, except possibly in the area of investments.

With respect to contributions made on behalf of participants who separate from the Fund with less than 5 years of contributory service, it is noted that the Fund is a collective arrangement that pools contributions, assets and risks. Any possible decrease in funding would put the Fund's long-term sustainability at risk. The Fund currently enjoys a healthy and robust long term financial position. It is recalled that in its resolution 68/247 last year, the General Assembly stressed "the need to avoid any action that would compromise the fiduciary responsibilities and long-term sustainability of the Fund".

Regarding the position of the full-time Representative of the Secretary-General for the Investments of the Fund, the Board expressed its expectation that the Secretary-General would now, and in the future, engage in consultation with the Pension Board regarding the selection of a candidate for this post.

Under governance, the Board also considered and approved the Fund's 2016 – 2017 Strategic Framework, the revised Accountability Statement for the Fund, and the revised terms of reference for the Staff Pension Committees and their Secretaries.

The Board took note of the updated Internal Control Policy of the Fund and welcomed the preparation of the first version of the Statement of Internal Control of the Fund, which accompanies the financial statements for the year ended 31 December 2013.

With respect to the review of the human resources framework undertaken by the Fund, the Board reaffirmed its earlier decision that the Fund should continue to use the United Nations machinery for its administrative services and that the CEO and the Representative of the Secretary-General conclude the revised memorandum of understanding with the Office of Human Resources Management without further delay. The memorandum of understanding should consider the unique governance of the Fund, its inter-agency status, mandate and funding source, as well as its maturing status and the complexity and scope of its operations. As noted by the Board, the memorandum of understanding between the Fund and OHRM is an internal management exercise. At the same time, the Pension Board considers an updated MOU with appropriate administrative flexibility critical to achieving the mission and the objectives of the Fund which is long overdue.

### **Benefit Provisions of the Fund's Regulations and Rules**

The Board considered certain benefit provisions as contained in the Fund's Regulations

and Rules, as follows:

The Board took note of the application of paragraph 26 of the pension adjustment system regarding the suspension of local currency track benefits. The Board requested the CEO to develop possible economic and administrative parameters and updated language for the pension adjustment system to assist in the administration of paragraph 26;

The Board considered a report on small pensions and decided that the table of small pension threshold amounts should be adjusted by 10 per cent upwards, on a one-time basis, effective 1 April 2016. This would be an interim measure pending a more permanent solution to the question of the linkage between the small pension and minimum benefit provisions, with alternatives being presented to the Board at its session in 2015 for its consideration and information, noting that the decision will be taken in 2016, when the results of the next actuarial valuation will be available.

### **Conclusion**

In summary, the Fund has been significantly strengthened and is in a good financial and operational situation as a result of hard work, clear priorities, coordinated strategies and actions, as well as effective guidance and oversight at all governance levels.

At the same time, the Fund faces structural as well as external challenges. The Fund is working to address these challenges by strengthening its governance and operations as per the strategies, plans and actions mandated by the Pension Board and General Assembly.

A summary of the matters requiring the attention and decisions of the Assembly is reflected in the proposed draft resolution on pension matters, which is submitted for the consideration of the Assembly and included in annex XVIII of the Board's report.

Thank you, Mr. Chairman and distinguished Delegates for your consideration of the Report of the United Nations Joint Staff Pension Board.

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