Warren Sach, Chair Pension Committee, AFICS/NY:
Statement to AFICS/NY Annual Assembly, 27 June 2017

Madam Chef de Cabinet,
Mr President,
Good afternoon;

As our programme this afternoon includes two other presentations on pension matters l am going to address just a few key topics of the greatest interest to AFICS/NY members. These include investments, client services, the next budget 2018-2019 and actuarial valuations. All of these will be addressed by the Pension Board at its upcoming July session where your interests will be pursued by FAFICS on behalf of all retirees, both US based and worldwide.

I am happy to begin by confirming to you that, currently the pension fund is in good financial shape with a slight actuarial surplus and a positive funding ratio. Nevertheless, the Pension Board, at its last session in July 2016, while pleased with the Fund's state at that time expressed concerns as regards investment performance and delays in the payment of new pensions. In response to these concerns the board will receive at its upcoming July session a report on an independent review of investments as well as the results of an end-to-end review of the separation to benefits process. Clearly the upcoming Pension Board will spend considerable time on these two major issues while also transacting on the budget for 2018-2019 and on the assumptions to be used in the next actuarial valuation as of 31 December 2017. The Board will also make a decision with regard to the incumbency of the CEO post. Retiree concerns on all these matters will be pursued by the FAFICS delegation to the board where retirees are present as full-time participants, though non-voting members of the Board.

On actuarial valuation issues the board will consider proposals of the consulting actuary and the Committee of actuaries as regards economic and demographic assumptions to be utilized in the upcoming valuation. Current Indications are that some adjustment of mortality tables will be recommended to take further into account increasing longevity of our participants and beneficiaries. While this is good news for those directly concerned it is likely to have a negative but manageable effect on the actuarial balance. Nevertheless, it is clearly in our interests as retirees that all liabilities are fully reflected in the valuation and accordingly we would expect to support the actuaries recommendation. A change in inflation assumptions is also possible but this is likely to be more or less neutral as it affects both contributions and benefits jointly.

The proposed budget 2018-2019 of the fund secretariat and of the IMD will be before the board this July. While the independent review of investments is not anticipated to impact the IMD budget it may reasonably be assumed that the end-to-end review will require new resources to ensure adequate client service in the future and an end to delays. AFICS/NY finds delay in payment of new pensions unacceptable. Prompt payment of pensions is a tripartite responsibility which depends on timely action in the first instance by the retiree, then by the separating organization and lastly, the Pension Fund. AFICS/NY trusts that the end to end review currently underway will overcome most problems, because any delay in payment of new pensions, wherever the hold-up occurs, is clearly unacceptable. While we understand the past pressures created by the development and largely successful introduction of IPAS , there can be little tolerance for payment delays in the future. For several years AFICS has been advocating for improved client services and communications. We have now reached a point where we expect the Fund Secretariat to accord them the highest priority. We expect the new budget to provide for world class client services and accordingly will energetically support related budget proposals in the Board.

As regards investments the pension Board will need to continue to pay close attention to performance levels vis a vis benchmarks. The Board at its 2016 session expressed concern at under performance of the investments and the Asset Liability Monitoring Committee (ALMC) drew the issue to the attention of the Secretary-General on several occasions. Now that the Fund is mature, and approaching 70 years existence , it is of increasing importance that returns meet benchmarks over the long term. Any long term failure to meet benchmarks would have serious consequences for the health of the Fund. It is for the above reasons that AFICS/NY was disappointed with 2016 returns of 510 basis points (5.1%) which were 180 basis points (1.8%) below the policy benchmark of 690 basis points (6.9%). This short fall in 2016 performance means that the value of assets in the fund as at year end 2016 were nearly $1 billion ($937 million) below what they would have been if the pension fund portfolio performed as well as the market as measured by the policy benchmark. Do not be misled into thinking that a mere growth in assets of the fund to new highs in billions of dollars means that investments are performing adequately; it is performance relative to the market that matters. The Board will receive in July an independent review conducted by Deloitte and Touché under the guidance of the ALM Committee of the UNJSPB. The report will hopefully lead to solutions to remediate under performance of fund investment operations. Elements of this include formal strategies, risk management practices, Investment Committee arrangements and staff vacancies. AFICS/NY through its nominees to FAFICS has strongly supported the review process and will continue to press for improvements in investments until better results show up in the bottom line.

To close let me summarize. AFICS/NY is working now, and has worked over the last year, to improve UNJSPF operations for the benefits of retirees. Concrete actions have been supported for strengthened Client Services, a more realistic budget, sound actuarial practices and effective investment processes.