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Programme, Financial and Administrative Section

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 58th Session (July 2011) and the decisions taken by the United Nations General Assembly on the Board's recommendations. The decisions affect the pension entitlements of ILO staff members. The Board deferred the discussion of the proposal to permit voluntary pension contributions during limited periods of part-time employment, as contained in the March 2011 report (GB.310/PFA/13/1), to its 59th Session (July 2012). The General Assembly considers benefit-related issues in even-numbered years only.

Author unit: Human Resources Development Department (HRD).

Related documents: GB.310/PFA/13/1.

1. A summary of the 58th Session of the United Nations Joint Staff Pension Board and its report to the United Nations General Assembly is set out below.

Investment management

2. The market value of the Fund's assets increased from US\$38.3 billion on 31 March 2010 to US\$42.9 billion on 31 March 2011. After adjustment for inflation, this represented a real rate of return of approximately 9 per cent. The assumed long-term real rate of return for actuarial purposes is 3.5 per cent. In the last seven-year period and in previous years, the Fund has exceeded this return.
3. Investment management follows a relatively cautious strategy of minimizing risk to obtain overall positive returns and preserve the Fund's principal over the long term. The Fund is actively managed through diversification of investments by asset class, sector, industry, currency and geographic location. The Fund is broadening its diversification by investing in emerging markets and alternative assets on an incremental basis. Alternative assets are limited to a small percentage of total assets and will contribute positively to overall risk reduction.¹

Asset-liability management study

4. The Board reviewed the results of the Fund's second asset-liability management study, which examined the possible impact of various investment and economic scenarios on the long-term financial condition of the Fund. The study concluded that the Fund's current financial health is stable. It independently validated the accuracy of the Fund's actuarial methodologies and the appropriateness of current investment allocation guidelines. Although it did not recommend the introduction of a currency risk-hedging mechanism, the study indicated that the long-term cost of the two-track feature of the pension adjustment system might be higher than historical experience suggests.

Review of the two-track feature of the Pension Adjustment System²

5. All 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. In view of the concerns of certain

¹ The strategic asset allocation is as follows: 60 per cent equities; 31 per cent fixed income; 6 per cent real estate; and 3 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 3–10 percentage points from the Fund's strategic asset allocation, depending upon the type of asset class. The asset allocations and the market value of the Fund are also affected by currency fluctuations, as more than half of the investments are in currencies other than US dollars and the US dollar is used for reporting purposes. Further information is available on the Fund's website at www.unjspf.org.

² The Pension Adjustment System is designed to protect the purchasing power of pension benefits. Further information is available on the Fund's website at www.unjspf.org.

participants about US dollar exchange rates, the Board reinstated the quarterly monitoring and reporting to member organizations, between Board sessions, of income replacement ratios.

Other issues

6. The Board discussed the proposed budget for the biennium 2012–13 and related reports. Considering the financial situations faced by organizations and Member States, the Board recommended only limited increases in resources. The Board also examined the following: the assumptions for the next actuarial valuation; the financial statements; the implementation of new international accounting standards that conform to similar initiatives in member organizations; the report on the Emergency Fund (financial assistance for beneficiaries); the United Nations Appeals Tribunal judgments that are applicable to the Fund; information technology arrangements; and governance and auditing issues.

Decisions of the United Nations General Assembly on the report of the Board

7. In October–December 2011, the United Nations General Assembly considered the report of the Board and related documents.³ On 23 December 2011, it adopted draft Resolution A/C.5/66/L.19,⁴ approving all the Board's recommendations.

Geneva, 25 January 2012

³ General Assembly, Official Records, 66th Session; General Assembly document A/66/266 and related documents.

⁴ To be published as General Assembly Resolution A/RES/66/247 (forthcoming).