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Programme, Financial and Administrative Section

PFA

FOR INFORMATION

Pension questions

Decisions of the United Nations General Assembly on the report of the 63rd Session of the United Nations Joint Staff Pension Board (2016)

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: GB.326/PFA/INF/7/1; UN General Assembly documents A/71/9 (report of the Pension Board), A/71/701, A/C.5/71/2, A/71/5/Add.16, A/71/397, A/71/621, and Resolution A/C.5/71/L.6. The United Nations Joint Staff Pension Fund public website www.unjspf.org references these documents and provides further information.

1. A summary of the 63rd Session of the United Nations Joint Staff Pension Board and of the decisions of the United Nations (UN) General Assembly on the Board's 2016 report is set out below. The Report of the Board and further information about investments are available on the Fund's public website www.unjspf.org.

Investment management

2. The market value of the assets of the Fund had increased from US\$51.4 billion on 1 January 2014 to US\$52.1 billion on 31 December 2015, representing an annualized nominal rate of return of 1.1 per cent for the biennium, underperforming the investment policy benchmark of 1.3 per cent.¹ After adjustment for the US Consumer Price Index, this represented an annualized real (inflation-adjusted) rate of return of 0.3 per cent. The long-term real rate of return assumption for actuarial purposes is 3.5 per cent. The Fund had successfully met or exceeded the 3.5 per cent objective over the past three, 15, 20, 25 and 50-year periods.
3. The majority of the Fund's assets are actively managed internally and are diversified by country, currency, asset type and sector. Investments must meet the criteria of safety, liquidity, convertibility and profitability, as set forth by the UN General Assembly. Upon the recommendation of the most recent asset liability management study of 2015, the current 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 strategies and 1.5 per cent for cash and short-term instruments.

Actuarial valuation

4. 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 its liabilities at the present contribution rate. The valuation results reported a surplus of 0.16 per cent as at 31 December 2015. This surplus, which followed three consecutive bienniums characterized by deficit, was mainly due to the increase in the normal and early retirement ages for new staff whose participation in the Fund commences, or recommences, on or after 1 January 2014. The Board emphasized the importance of the required 3.5 per cent annual real rate of return, both on a long-term basis for the future solvency of the Fund as well as on a short-term basis so as to not reverse the upward trend in valuation results. As the actuaries had previously recommended that a surplus of 2 per cent might be retained as a safety margin to withstand the effects of future volatility, the Board was not able to recommend any benefit improvements.

Financial statements and report of the Board of Auditors

5. The Fund is subject to annual internal and external audits. The United Nations Board of Auditors serves as external auditor. The United Nations Office of Internal Oversight Services serves as internal auditor. The Board of Auditors issued an unqualified audit opinion on the financial statements of the Fund for the year ended 31 December 2015. They identified weaknesses related to the filling of vacancies in key positions, investment management, risk management, management of external fund managers, benefit payment

¹ As at 30 December 2016, the estimated market value of the Fund amounted to US\$54.4 billion.

management and other administrative processes. The Assets and Liabilities Monitoring Committee of the Board had raised similar concerns.

Governance and administration

6. The UN General Assembly had approved an amendment to article 4 of the Fund's Regulations in 2014, to make reference to Fund-specific financial rules that are part of the Administrative Rules of the Fund. It was noted that nothing in the financial rules changed the governance or operations of the Fund; they merely codified the existing practice and provided a proper legal framework for financial management, thereby reinforcing the Fund's internal control mechanism. The Administrative Rules of the Fund and the United Nations Financial Regulations and Rules continue to govern the administrative services provided by the UN Secretariat to the Fund, including procurement, property management and auditing.
7. The Board approved amendments to article 41 (recognizing the medical standard of "fit for employment" for participation in the Fund) and article 24 (clarifying the language in the text). It amended paragraph 26 of the pension adjustment system to reflect that, in cases of reinstatement, a new local currency track benefit would be established as from the date of reinstatement using the 36-month average of exchange rates ending as at that date. These amendments do not have any negative impact on participants.
8. In welcoming the implementation of the Fund's new pension administration computer system, the Board stressed the need for continued efforts to address challenges related to the transition and associated payment delays for new beneficiaries. The Board took several steps to urgently address the payment delays and exceptionally proposed an additional 18 temporary assistance posts for this purpose. The member organizations and individual participants may also bear some responsibility for separation delays. The Fund Secretariat had informed an interagency meeting on this subject that the ILO exhibited best practice for the submission of separation documents. As of January 2017, the Fund's processing time for new ILO separations had substantially improved and, on average, is close to normal processing times. The Fund is conducting an end-to-end business process review in partnership with the member organizations to further reduce processing times in the future.

Other matters

9. The Board also considered the reports of and appointments to its advisory committees, the revised budget estimates for the 2016–17 biennium, medical matters, the monitoring of the impact of currency fluctuations on pension benefits, the Emergency Fund for beneficiaries suffering financial hardship, legal procedural matters, guidelines for the recognition of spousal benefits, the whole office review and client service activities, the Fund's strategic framework and its performance indicators, and the evaluation of the Chief Operating Officer of the Fund. The Standing Committee met once to examine individual legal appeals.

UN General Assembly action

10. In October–December 2016, the UN General Assembly considered the report of the Board and related documents. On 23 December 2016, it adopted Resolution A/C.5/71/L.6 without a vote, endorsing the recommendations set out in the report of the Board and the proposed amendments to the Regulations. However, the General Assembly only approved nine of the 18 temporary posts that the Board had recommended to facilitate the transition to the new computer system and requested the Board to provide an update in 2017.