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UNITED NATIONS JOINT STAFF PENSION FUND

Use of Pension Fund Capital for Housing Loans to Staff

Report by the Secretary-General

1. One very real difficulty that has confronted many members of the United Nations Secretariat in New York, particularly those from overseas who have dependents, arises from the fact that even after several years of employment by the United Nations, they have been unable to accumulate sufficient capital in the necessary currency to make the down-payments required for the purchase of permanent housing. In consequence, and bearing in mind the fact that exchange restrictions severely limit the extent to which funds can be transferred to New York from abroad, most expatriated staff members are compelled to rent living accommodations at a cost which too frequently represents an excessively high proportion of their income. While this state of affairs is especially typical of the New York area, the Secretary-General believes that somewhat similar conditions may also prevail at other permanent duty stations, both of the United Nations and of the specialized agencies. For some time past, therefore, the possibility has been under consideration of utilizing pension fund monies, subject to fully adequate guarantees of repayment, for the purpose of making personal loans to staff who are faced with these difficulties. The fact is that for many of the staff thus affected, the only "asset" they have to offer as security for any such loan is their participants' equity in the Pension Fund.

2. When the matter was examined by the Investments Committee in 1955, that Committee expressed the view that while direct loans to staff members by the Pension Fund were undesirable, it should be possible to make arrangements by which part of the investment capital of the Fund might be lent to a "separate organization" which would in turn make loans to staff members, subject to certain

conditions. The Joint Staff Pension Board, at its sixth session, adopted a resolution approving the views of the Investments Committee but recognizing that alternative schemes might be submitted by participating organizations which would contain adequate guarantees for the security of the Fund.^{1/}

3. In the light of these observations, the Secretary-General submitted for the further consideration of the Board, at its seventh session, in March 1956, certain specific proposals on the understanding that should the Board find them acceptable from the point of view of the Pension Fund, he would then make appropriate recommendations to the General Assembly at its eleventh session. The views of the Board are presented in paragraph 15 of its Annual Report.^{2/} The Board agreed that from the Fund's point of view the safeguards provided for were adequate and decided in principle that the Secretary-General's proposals should be accepted, subject, however, to the matter being transmitted to the Investments Committee for its agreement. The Investments Committee was also asked to indicate the extent to which funds might be made available for this purpose.

4. The Investments Committee, at its session held in April 1956, noted that the recommendations which the Secretary-General had made to the Joint Staff Pension Board followed in considerable degree the suggestions which the Committee had made a year before, the principal difference being that it was now proposed that Pension Fund loans be made directly to the United Nations and the specialized agencies, each of whom would make the separate loans to staff members and perform all services necessary in the administration of such loans, which would also be guaranteed by the United Nations and by the agencies. The Committee expressed the belief that this difference was not of great importance and that a satisfactory plan could be worked out under which pension funds could be made available for the purpose in question, provided that such loans to the United Nations and the specialized agencies be made and repayable in United States dollars. After suggesting that the plan be further developed in order that all details of administration should be provided for, the Investments Committee recommended, in response to the specific request of the Board, that the aggregate total of

^{1/} Official Records of the General Assembly, Tenth Session, Supplement No. 8, A/2914.

^{2/} Official Records of the General Assembly, Eleventh Session, Supplement No. 8, A/3146

such loans might, in the first instance, be limited to \$1 million, on the understanding that the Committee would be willing to consider increasing this amount if it should be found desirable. The Committee further expressed itself as favouring a relatively low rate of interest to be paid to the Pension Fund, say 3 per cent, so as to permit a reasonable spread between the interest paid by the United Nations and the specialized agencies and the interest which they, in turn, would charge the borrower, to cover not only expenses, but also to provide some small reserve against possible contingencies. Finally, the Committee, while appreciating the fact that a substantial amount of work would need to be done before such a plan could be put fully into operation, expressed the view that should such a plan be made effective before the next meeting of the Committee, it would see no objection to such loans being made to the United Nations and to the specialized agencies during the interim period, any such loan to be considered as part of the bond section of the Fund.

5. Accordingly, the Secretary-General now seeks the concurrence of the General Assembly in the measures specified in paragraph 9 below, in order that effect may be given to a plan under which Pension Fund capital could be invested in loans to the United Nations and the specialized agencies who, in turn, would undertake the administration of loans to individual staff members for the purchase of housing. The salient features of such a plan would be as follows:

- (i) The Pension Fund would lend money to the participating organizations against application by them for re-loan to their staff members, participants in the Pension Fund, for the specific purpose of assisting those who do not have permanent housing to buy it for themselves;
- (ii) Loans would be made from the Pension Fund only against guaranteed repayment of the loan and interest thereon by the organization itself;
- (iii) The participating organizations would pay interest on outstanding loans to them at the current average yield on the Pension Fund's investments, or 3 per cent, whichever is higher;
- (iv) All loans from the Pension Fund would be made in, and repayable in, United States dollars;
- (v) No loan to an individual borrower would be made in an amount higher than the current value at the date the loan is granted of the participant's prospective withdrawal benefit;

- (vi) Each borrower would be required to secure his loan by an irrevocable assignment of his withdrawal benefit from the Pension Fund, this condition requiring amendment of article XXXII of the Regulations of the Joint Staff Pension Fund to permit such an assignment for this purpose to the staff member's organization;
- (vii) Each borrower would be required to purchase a single premium, declining term life and disability insurance policy (or a policy of equivalent coverage) to cover the unpaid balance of the loan and thereby guarantee its repayment so that pension payments in the form of widows' and children's benefits would not be affected.
- (viii) Each borrower would moreover be required irrevocably to assign a portion of his monthly salary for repayment of the loan and the interest thereon. However, prepayments or additional payments would be permissible.
- (ix) Interest would be charged to the borrower by the participating organization at the rate required to cover the interest payable by it to the Pension Fund and the administrative costs involved, any "profit" which might accrue being maintained by the participating organization as a reserve against losses. The ultimate disposition of any surpluses, should such reserves become larger than are considered necessary, would be left for later decision in consultation between participating organizations and the Fund. While there might conceivably be some slight variation in the rate charged by different organizations by virtue of differing circumstances, consideration should be given to the desirability of maintaining as much uniformity, as possible through inter-agency consultation.
- (x) "Administrative Costs" as used in sub-paragraph (viii) above would be defined as the cost of any additional personnel, outside consultants, travel costs, or other "out-of-pocket" additional costs involved in the administration of the loans.
- (xi) The participating organizations would maintain separate accounts for the loan operation.

6. In developing the above proposal, the Secretary-General has had in mind that the first consideration in any scheme for such loans must be the security of the capital and income of the Pension Fund. To afford the fullest possible security,

the scheme therefore provides, in addition to other protective measures, which in themselves would seem to assure an absolute minimum of risks, that loans will be made from the Pension Fund to the participating organizations only against guaranteed repayment of the loan and the interest thereon by the organization itself. The legislative requirements for the giving of such a guarantee by the various participating organizations might vary somewhat, but in any case, a formal guarantee would be a condition precedent to the advancing of any monies from the Pension Fund to any organization. For the United Nations, the guarantee will have to be given by the General Assembly.

The other protective measures referred to, which provide security to the organization furnishing the guarantee as well as to the Pension Fund itself, result from the following undertakings that would be required of the individual borrower:

- (a) the assignment of his withdrawal benefit, the value of which sets the maximum of his loan (paragraphs 5 (v) and 5 (vi));
- (b) the assignment of a fixed amount from his salary for the repayment of the loan and the interest thereon (paragraph 5 (viii)), and
- (c) the purchase by the borrower of a single premium, declining, term life and disability insurance policy (or a policy of equivalent coverage) to cover the unpaid balance of the loan (paragraph 5 (vii)).

7. It will be noted that the scheme has been designed for possible application to all participating organizations. There are, however, in addition to the basic requirements stated in paragraph 5 above, certain other specific conditions that would need to be applied by the participating organizations. These additional conditions might vary from organization to organization, but it would seem desirable that wide divergencies should be avoided through inter-agency consultation. The most important of these additional conditions would concern:

- (i) the actual interest rate to be charged to the individual borrower (paragraphs 5 (iii) and 5 (ix)). The current average yield of the investments of the Pension Fund is about 3.25 per cent at cost. The Secretary-General believes that for loans to United Nations staff an interest rate of 5 per cent on the unpaid balance would be appropriate, subject, of course, to the rate initially determined having to be adjusted from time to time in respect of new loans, in the light of actual experience;

- (ii) fixed minimum and maximum amounts for the individual loan within the maximum limitation set in the scheme (paragraph 5 (v)). The Secretary-General would not wish to make loans for less than \$1,000, and under conditions in New York, a maximum of \$7,500 would appear to be appropriate;
- (iii) minimum and maximum periods for repayment of the loans. The Secretary-General would not wish to make loans for less than three years (although prepayments would be permitted), nor for more than ten years. As a normal rule loans would have to be repaid in full five years before the statutory retirement age. This last condition might be somewhat relaxed in exceptional cases, provided that repayment in full becomes mandatory at least two years before statutory retirement age is reached.

8. In addition to compliance with the conditions set forth above, successful implementation of the scheme will require necessary administrative judgement and discretion to be exercised by a lending organization in its consideration of individual loan applications. Thus it would be the Secretary-General's intention, in the case of the United Nations, to limit loans to staff members with permanent contracts for purchase of houses at duty stations where there is reason to believe that the staff member will remain for a substantial period of time. Similarly, approving authorities would need to be assured that any loan granted for housing purposes is reasonably within a borrower's capacity to repay. Though it is difficult to estimate, even approximately, the Secretary-General would not expect that loans granted to United Nations staff members would exceed in the aggregate some \$500,000, during the first year or two of the scheme's operation.

9. Since, for many staff members in New York, and some other places, the problem of acquiring adequate housing accommodations continues to be a pressing one, the Secretary-General, following the endorsement given them both by the United Nations Joint Staff Pension Board and by the Investments Committee, commends the proposals presented in this report to the General Assembly for its favourable consideration. In order that they may be given effect to, the following specific actions by the General Assembly are needed:

(a) Authorization to the Secretary-General to borrow monies from the Pension Fund for re-loan to United Nations staff members in accordance with the conditions set forth in paragraph 5 above;

(b) Approval of an undertaking to reimburse the Pension Fund for any loss of capital or interest by the Fund resulting from such loans;

(c) Adoption of a supplementary Article B to the Regulations of the United Nations Joint Staff Pension Fund as proposed by the Board, so as to permit assignment by the borrower of his withdrawal benefit.^{3/}

10. If discussion in the Fifth Committee reflects a sufficient measure of agreement in principle, the Secretary-General will be prepared, after taking account of observations which may be made by the Advisory Committee on Administrative and Budgetary Questions and of the views expressed by representatives, to submit an appropriate text in draft resolution form for the purpose of facilitating General Assembly action on this item.

^{3/} See Official Records of the General Assembly, Eleventh Session, Supplement No. 8 (A/3146), Annex II.