

UNITED NATIONS
GENERAL
ASSEMBLY



Distr.
LIMITED

A/C.5/L.395
23 November 1956

ORIGINAL: ENGLISH

Eleventh session
FIFTH COMMITTEE
Agenda item 47

UNITED NATIONS JOINT STAFF PENSION FUND

Use of Pension Fund Capital for Housing Loans to Staff

In response to the request made at the 536th meeting of the Fifth Committee, there are distributed herewith for the information of the members of the Committee copies of a letter dated 16 July 1956 addressed to the Secretary-General by the Director-General of the International Labour Organisation on the question of the use of Pension Fund Capital for housing loans to staff, and of the Secretary-General's reply.

Letter dated 16 July 1956 from the Director-General of the ILO
to the Secretary-General

16 July 1956

Dear Mr. Hammarskjold,

My representative at the Seventh Session of the United Nations Joint Staff Pension Board (New York, March-April 1956) has reported to me the position taken by the Board on a majority vote in regard to a proposal of your initiation in the terms of which the Joint Staff Pension Fund's capital could be used for housing loans to participants through their respective organizations.

It is my understanding that, resulting from the position taken by the Board after consideration of this proposal - the text of which had not been distributed, to the ILO at least, prior to the opening of the session - the proposal will be submitted to the Investments Committee and that in the event of this Committee reporting favourably thereon to you, the Standing Committee of the Joint Staff Pension Board has been empowered to propose for adoption by the General Assembly an amendment to article XXXII of the Fund's regulations which would allow participants to make assignment of their rights to benefits as security for housing loans.

For my part, I view the position taken by the Joint Staff Pension Board with considerable disquiet. Indeed, from the earliest discussions of this subject by the Board, my representatives, and also the representatives of the International Labour Conference, have consistently defended the following two fundamental principles:

1. that the trust monies of the Fund should not be used for investments other than those which could be readily realized in the eventuality of the Fund having to meet its liabilities to beneficiaries or participants in an emergency, e.g. such as was experienced in 1939-1940 by the League of Nations Staff Pensions Fund;

Mr. Dag Hammarskjold,
Secretary-General of the
United Nations,
United Nations,
42nd Street,
New York 17, N.Y.

/...

2. that participants of the Fund should not be authorized to assign, mortgage or otherwise commit any part of their benefit entitlements under the regulations of the Fund (on which the entitlements of their dependents are, of course, also based) for any purpose whatsoever.

It is true that various national social security schemes are investing a part of their assets at the present time in some form of housing. This practice is followed notably in certain countries of Latin America such as Brazil, Chile, Ecuador and Mexico. It was also followed to some extent in pre-war times by several social security schemes in Central Europe such as those of Czechoslovakia and Germany. The social security institution in some cases has itself taken a direct part in providing housing, while in others the institution has collaborated with other public agencies concerned with housing. But it is necessary to point out that important differences exist between the housing activities followed under these social security schemes and the proposal which was considered by the Joint Staff Pension Board.

The social security schemes concerned either have constructed the housing themselves and own it outright, or else have lent money to workers on the basis of a mortgage which gives the institution the right to take over the house in case of a default on a loan. The proposal under reference in contrast would involve what is, in effect, the extending of a personal loan to purchasers of houses to enable them to make down-payments on a house. The usual mortgage loans covering the remainder of the purchase price would presumably be obtained by the individuals concerned from the ordinary lending institutions in the area.

The monies of the pension fund thus would be channelled into only the most risky type of real estate loan which ordinary lending institutions are unwilling to make. In addition, it is proposed that such loans might run for as long as ten years. If a borrower bought an over-valued property at an inflated price and later found it impossible to carry the burden involved, the forced liquidation of the property at a reduced price might yield enough to pay off the mortgages but not the down-payment financed by a personal loan from the Pension Fund. This equity thus might be entirely wiped out. In short, the advancing of down-payments, in the form of what are essentially personal loans is a much more speculative and risky type of investment than the housing operations of national social security schemes.

/...

It may be noted in this connexion that an ILO Committee of Experts which drew up basic principles that should govern the investment of funds of social insurance institutions in 1938 emphasized the necessity of obtaining a first mortgage whenever social insurance monies are lent directly to the owner of real property.

It may be pointed out moreover, that the United Nations Pension Fund, in its technical and financial structure, is somewhat nearer to a private pension fund than to a national scheme. Unlike the national social security schemes referred to above, it is not set up by a State to cover compulsorily an entire segment of the working population of a country. It is not inappropriate in the case of such national schemes for the State to seek to link the social security scheme with the attainment of other social objectives that may raise the standard of living of the population. The State sets up the social security scheme as a matter of national policy and may, if it chooses, seek to operate this scheme in such a way as to assist in effectuating other national policies such as those in the housing field. Moreover, the general taxing power of the State is always latently available to aid in supporting the social security scheme if it runs into financial difficulties.

The United Nations pension scheme in contrast is a self-contained pension scheme of restricted membership which is not underwritten by the unlimited taxing power of a State. Nor can this scheme be considered as having any "social" objectives other than that of insuring its participants against the risks of old age, invalidity and death. Thus, any analogy sought to be drawn between its investment policy and the housing activities of national social security schemes is not well taken.

The ILO, in advising countries regarding their social security programmes, has always followed the policy of insisting that benefits promised under social security schemes should represent an absolute right which can always be enforced whenever the specific risks insured against materialize. In other words, it has taken the view that benefit rights should be inalienable by prospective beneficiaries, regardless of circumstances. The prohibition of the possibility of assigning benefit rights has been found by experience to be a necessary measure to prevent insured persons from dissipating their rights prematurely, perhaps through

/...

improvidence. A pension scheme cannot guarantee complete income security if it contains provisions that permit its members to assign away even a part of their pension rights. The proposal under consideration thus conflicts with a long-recognized canon of social security policy.

It should also be noted that the proposal provides that the guarantees of repayment to be furnished by borrowers would be made, not to the Pension Fund itself, but to third parties. This part of the proposal, in an of itself, is not one that would be calculated to increase the security of the Fund in respect of the loans that it would make. Neither is it usually considered sound policy for a private pension fund to make loans to the employers of its participants.

Finally, whilst I have noted that, according to the terms of the proposal, each member organization would remain free to decide whether or not it wished to make use of the loans facility for its staff, nevertheless, the existence of such scheme could be expected to create very bad staff relations in an agency which refused this facility for its staff members whilst participants of the Joint Staff Pension Fund in other agencies were granted it.

Having regard to the considerations set out above, I would view with very serious apprehension both the introduction of the proposed loans scheme as a feature of the investments policy of the Fund, and the adoption of the attendant provisions of the scheme.

In view of the special experience and responsibilities of the ILO in regard to social security questions I have thought it appropriate to draw your personal attention to the matter.

Sincerely,

(Signed) David A. Morse

Letter dated 22 October 1956 from the Secretary-General to
the Director-General of the ILO

Dear Mr. Morse,

I am sorry it has not been possible for me to respond earlier to the points raised in your letter of 16 July 1956, concerning the proposal made on my initiative in terms of which part of the capital of the United Nations Joint Staff Pension Fund would be made available for housing loans to participants through their respective organizations. I note that in acknowledging receipt of your letter, my Executive Assistant gave an assurance that it was my intention to go carefully into the questions raised and to let you have my views upon them as soon as possible. Unfortunately, it is only recently that I have had an opportunity of re-examining, in the light of your observations, the plan which was submitted earlier this year to the Joint Staff Pension Board and subsequently to the Investments Committee and which, in view of the support given it by these bodies, I now feel obligated to recommend to the General Assembly for adoption.

It seems to me that the basic objections and misgivings you have expressed derive in large measure from possible misunderstanding, on the part of your representatives in the Pension Board, of the nature and intent of the United Nations proposals. I would hope, therefore, that further consideration of these proposals as presented in the enclosed draft report which I am planning to place before the Fifth Committee of the General Assembly at its forthcoming session, will convince you that there are, in fact, no valid grounds for viewing the position taken by the Joint Staff Pension Board with considerable disquiet. With a view, however, to reassuring you further in this respect, may I offer the following explanatory comments.

In the first place, the security of the capital of the Pension Fund, and the admissibility of permitting a participant to assign any of his rights under the Fund are, of course, questions of fundamental importance and, I believe, implicitly recognized as such in the proposal I made to the Pension Board. They have

Mr. David A. Morse,
Director-General,
International Labour Office,
154 rue de Lausanne,
Geneva, Switzerland

/...

certainly been very much in mind for the two years or so during which the possibility of using Pension Fund monies for loans to staff for housing purposes has been under discussion, at the Secretariat level, in the Board itself, and with the Investments Committee. Because of the importance I attach to your views on these points, I was anxious, before replying, to take another careful look at our proposals, together with those administratively concerned, in order to be completely satisfied as to their propriety and soundness.

On the former point, that of security and liquidity of the capital of the Pension Fund, you will understand that as Custodian of the Fund, I have a special concern. Indeed, I stated in my communication to the last session of the Pension Board, that "... The first consideration in any scheme for such loans must, of course, be the security of the capital and income of the Pension Fund". I believe that the conditions subject to which loans would be made as set out in the paper submitted to the Board and in the draft Fifth Committee document, amply fulfil these requirements. The conditions are:

- (i) the assignment of his withdrawal benefit by the borrower, the value of which sets the maximum of his loan;
- (ii) the assignment by the borrower of a fixed amount from his salary for repayment of the loan and payment of the interest thereon;
- (iii) 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 and guarantee the repayment of the loan even when pension payments are in the form of widows' and children's benefits;
- (iv) the guaranteed repayment by the participating agency of the loans it makes to its own staff; and
- (v) the other conditions regarding maximum amount and duration for individual loans, the requirement that they be repaid in full some years before the statutory retirement age, etc.

As regards the liquidity of the assets of the Fund - that is, the ability to realize the investments in the event of an emergency - I believe the position is secured by the fact that the loans would be made from the Pension Fund to the

/...

participating agencies, under guaranteed repayments by the latter. I do not like to speculate on what would happen in the event of a hypothetical situation so serious as to require immediate liquidation of all the investments of the Pension Fund, but I would point out that the amounts realized on such a liquidation at any one moment would, of course, depend on market conditions at that time.

In this connexion, it would seem that much of the concern expressed in your letter is based on the assumption that Pension Fund monies "would be channelled into only the most risky type of real estate loan which ordinary lending institutions are unwilling to make"; and that "if a borrower bought an over-valued property at an inflated price and later found it impossible to carry the burden involved, the forced liquidation of the property at a reduced price might yield enough to pay off the mortgages but not the down-payment financed by a personal loan from the Pension Fund. This equity thus might be entirely wiped out".

I hope it is clear from what has already been said that this assumption is not a valid one. While it is true that the loans would be granted to staff members for the express purpose of enabling them to acquire permanent housing, it does not follow and is certainly not intended that either the Pension Fund or the lending organization should in any way concern themselves with, or become involved in, the admittedly risky business of real estate equities. From the viewpoint of the lending organization, the security for any loan granted is the salary assignment received, the insurance policy by which the borrower is required to cover the unpaid balance of the loan, and the value of his prospective withdrawal benefit; it is in no sense the equity which the staff member may acquire in any property he is helped to purchase.

It can, of course, be argued - and I have myself made the point both in my submissions to the Board and to the General Assembly, that in acting on applications for loans, reasonable precautions should be taken to ensure that borrowers do not over-extend themselves. This, however, would be a responsibility which the lending organization would exercise strictly in the interests of the staff member himself and for his own protection. At the same time, the fact should not be overlooked that in the New York area at least, a not inconsiderable number of staff already find themselves, because of disproportionately high rental charges, in a situation which the facilities I have suggested, if prudently administered, might do much to alleviate.

/...

The question of the acceptability of loans from the Pension Fund to participating agencies for reloan to staff members as investments for capital of the Pension Fund has, of course, been considered by the Investments Committee. That Committee has agreed that such loans, provided they are made and repayable in United States dollars, would represent an acceptable investment, and has suggested that the aggregate total of such loans might, in the first instance, be limited to \$1 million. I naturally depend heavily on the advice of the Investments Committee in the matter of investment of the assets of the Fund, as does the Pension Board in its deliberations, and would not have pursued the matter if that Committee had expressed doubts about the feasibility of the scheme from the point of view of the security of the Fund.

I also attach great importance to the second point you raise, that of the admissibility of permitting a participant in the Fund to assign any of his rights. Your representative on the Pension Board will have informed you that the Board considered this question at some length, and that the approval by the Board of the scheme I presented was given by a substantial majority. I would not, however, be satisfied to rest on that majority if I had any feeling that my proposal violated the sense of principle to which you have referred - that is, that insured persons should not be allowed to dissipate their rights prematurely, perhaps through improvidence.

Opinions may very well differ as to whether the proposed scheme does violate that principle, but as I see it the question is governed by two main considerations:

- (a) that what is being assigned is the withdrawal benefit, not the pension rights;
- (b) that the widows' and children's benefits and disability benefits are not affected since the insurance policy that the borrower would be required to take out covers repayment of the loan.

I believe the latter point speaks for itself. As regards the former, the scheme provides that the loans would have to be repaid well before statutory retirement age is reached and therefore could not infringe on the pension (i.e. retirement) rights of the borrower. What is being assigned is the withdrawal benefit. Under article X of the regulations of the Fund, the withdrawing participant may elect to take his withdrawal benefit in a lump sum as from the day of his separation, and certainly neither the Fund nor the participating

/...

organizations can protect him or his family from improvident disposition of the withdrawal benefit he thus receives. In these circumstances, I wonder if the withdrawal benefit is the type of social provision to which the principle you cite is intended to relate.

I trust you will believe me that a good deal of thought, including the consideration of the points you raise, went into the development, over a period of years, of the proposal I placed before the last session of the Pension Board. Our concern has been to devise a scheme which will not only go some distance towards solving the problem that faces the staff in this area, but which will also be capable of more general application in so far as a similar problem exists for staff at other duty stations, either of the United Nations or of the specialized agencies.

Yours sincerely,

(Signed) Dag Hammarskjöld
Secretary-General
