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Summary record of the 20th meeting
Held at Headquarters, New York, on Monday, 24 November 2008, at 10 a.m.

Chairman: Mr. Bródi .... (Hungary)
Chairman of the Advisory Committee on Administrative and Budgetary Questions: Ms. McLurg

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The meeting was called to order at 10.15 a.m.

Agenda item 126: United Nations pension system (A/63/9, A/63/363 and A/63/556; A/C.5/63/2)

1. **Mr. Pozenel** (Chairman of the United Nations Joint Staff Pension Board), introducing the report of the United Nations Joint Staff Pension Board (A/63/9), said that the report provided information on the global operations of the United Nations Joint Staff Pension Fund for its 22 member organizations and more than 160,000 participants. He drew the Committee's attention to chapter II of the report, which contained an overview of the Board's recommendations and decisions.

2. For the sixth consecutive time, the actuarial valuation of the Fund, as at 31 December 2007, had revealed a surplus, in that the contribution rate to the Fund exceeded the amount of contributions required to meet its present and long-term obligations to its participants and beneficiaries. For the current valuation, the surplus was 0.49 per cent of pensionable remuneration. In accordance with the reporting methodology mandated by the General Assembly, the Fund's consulting actuary and its Committee of Actuaries were of the opinion that the present contribution rate was sufficient to meet long-term liabilities under the pension plan and that there was no requirement, as at 31 December 2007, for deficiency payments under article 26 of the Fund's Regulations.

3. That surplus was all the more notable because in 2007 the Board had adopted new mortality tables, as recommended by the Fund's actuaries, reflecting improved longevity rates for its participants. Thus, even though the Fund's participants and beneficiaries were expected to live longer, the Fund remained in an actuarially sound position to fund the increased costs of its obligations to them. With effect from 1 January 2009, the commutation, transfer values and other actuarial factors, such as those relating to survivor benefits, would be modified to reflect the new mortality tables.

4. The Board had reviewed the actual emerging costs or savings of modifications to the two-track feature of the pension adjustment system and had decided that no changes were necessary for the time being, but that they should continue to be considered in conjunction with the actuarial valuations. The Fund's secretariat would monitor trends in costs/savings and report to the Board.

5. The annualized nominal rate of return on the Fund's investments over the 48-year period ending 31 March 2008 was 8.8 per cent. Adjusted for inflation, that represented an annual, long-term, real rate of return of 4.4 per cent over the same period, which exceeded the Fund's long-term actuarial objective of a real rate of return of 3.5 per cent.

6. Particularly in the current uncertain economic times, market conditions might result in higher or lower rates of return in the short term. Nevertheless, as the Representative of the Secretary-General for the Investments of the Fund had made clear, the Fund's investment objectives and strategies were geared for the long term. The long-term performance of its investments continued to exceed the actuarial assumptions concerning the real rate of return on assets required by the Fund in order to meet its obligations to participants and beneficiaries. Even in the short term, the Fund's diverse portfolio had sheltered its returns from swings in the capital markets, and the Fund had continued to meet or exceed its key performance benchmarks.

7. Because diversification of the Board's portfolio was a key to continuing its successful investment performance, the Investment Management Service had informed the Board about options for expanding the Fund's investments in alternative investment classes. The Board had suggested that continued diversification should be done judiciously and incrementally, taking into account cost implications, and in regular consultation with the Investments Committee, and had also requested sufficient in-house expertise and outside investment support to effectively implement and manage such a portfolio.

8. The Board recalled that the General Assembly had consistently reaffirmed the role of the Secretary-General under the Fund's Regulations as fiduciary for the Fund's assets and that the principles guiding the exercise of that fiduciary responsibility were the safety, profitability, convertibility and liquidity of its investments. Having the primacy of those principles in mind, the Board had welcomed the efforts by the Representative of the Secretary-General, the Investments Committee and the Investment Management Service to develop and apply the Principles for Responsible Investment, including those

in keeping with the Secretary-General's initiatives under the Global Compact.

9. The Board recommended to the General Assembly that the Investment Management Service should be given borrowing authority for the limited purpose of including provisions in its custody agreements for the "contractual" versus the "actual" settlement of securities transactions. Although contractual settlement of such transactions was standard practice in developed securities markets, it involved an element of borrowing until the transaction was finally settled. The Office of Legal Affairs had advised that such borrowing could not be undertaken under the Charter and the Financial Regulations and Rules without the General Assembly's approval. Accordingly, the Board recommended that the General Assembly should specifically grant approval to the Fund to enable, as warranted, the Fund's custodian to engage in contractual settlement of securities transactions.

10. Turning to administrative matters, he said that the Board welcomed the ongoing efforts by the Representative of the Secretary-General for the Investments of the Fund and the Chief Executive Officer of the Fund to review and refine their memorandum of understanding, with a view to strengthening their coordination and consultation, in particular with regard to financial management and asset-liability management. It had noted that information technology consolidation, for which resources had already been approved, would be a priority among the items being addressed in the revised memorandum.

11. Chapter VI of the report contained detailed information on the Fund's operations and financial position during the biennium 2006-2007; detailed statistics were set out in annex VII. The financial statements, including the opinion of the auditors on those statements, appeared in annex VIII. In the biennium that had ended on 31 December 2007, the number of participants had increased by 13.8 per cent to 106,566, following an increase of 9.9 per cent during the previous biennium. Benefits-in-award had increased by 5.3 per cent to 58,084, after an increase of 5.0 per cent during the previous biennium. The principal of the Fund had increased from $23.6 billion to $30.6 billion, while total investment income had increased 63.6 per cent to $7.2 billion from $4.4 billion. The contribution income of the Fund had increased some 20 per cent to $3.1 billion from $2.6 billion, while benefit payments had increased 17.8 per cent to $3.2 billion from $2.7 billion, primarily because of an increase in the number of beneficiaries. Expenditures during the biennium 2006-2007 of $3.3 billion for benefits plus administrative and investment costs had exceeded total contribution income by $153 million.

12. The Board had approved the Chief Executive Officer's plan for implementing an integrated pension administration system. In the context of the budget proposal for the biennium 2010-2011, he would present a comprehensive proposal to the Board in 2009 that would include expected costs for hardware, software, contractual services, including costs of systems integrators and external consultants, and other related costs. The Representative of the Secretary-General had been requested to provide information on the functional model that the Investment Management Service might propose for staffing and operations, including a review of the scope of activities and the responsibilities of the internal investment managers and the external investment advisers and asset managers, and to present any financial implications with the Fund's budget proposals for the biennium 2010-2011. Similarly, the Chief Executive Officer had been requested to include, in the budget for the upcoming biennium, fully justified and comprehensive proposals for any additional resources relating to best practices in a public-sector defined-benefit plan, possible organizational changes in the Fund's structure and enhanced performance management.

13. Turning to the revised budget estimates for the biennium 2008-2009, he invited the Committee to approve the Board's recommendation for the allocation of additional resources in the amount of $2.2 million, for a total appropriation of $153.2 million. Of that amount, $134.3 million would be chargeable to the principal of the Fund, and the remaining $18.8 million would be borne by the United Nations under the cost-sharing arrangement. The Board had requested the Fund's Chief Executive Officer to present an interim performance report on the 2008-2009 budget at its next session.

14. The Committee was also invited to approve the Board's recommendation for $271,100 in funding to meet the estimated expenses of a working group that the Board had agreed to establish to consider proposals concerning the Fund's overall design. The working

group was expected to submit its report to the Board in 2010.

15. The Board had considered the Fund's third management charter and had welcomed its focus on a more strategic approach to performance issues. However, it had also requested the Fund to continue improving its reporting through a more focused, results-based budgeting and management approach, including by setting out strategic objectives, expected results, key performance indicators and programme evaluation techniques.

16. The Board had approved the extension of the current contract with the consulting actuary to 31 December 2010. Noting the length of the Fund's relationship with the current consulting actuary, however, it had requested the Chief Executive Officer to undertake a formal bidding exercise for future contractual arrangements for a consulting actuary and to present the short-listed vendors for the Board's consideration in 2010.

17. With respect to auditing, the Board had approved all of the Audit Committee's recommendations, which were set out in chapter VII of the Board's report. The Board had also considered the report of the Board of Auditors, which was included as annex IX to the present report, and had noted its findings and recommendations.

18. On matters of governance, the Board had noted that, during their 2008 meetings, the Investments Committee, the Committee of Actuaries and the Audit Committee had all been presented with a declaration of conflict of interest, which referred to the mandate and focus of each committee and covered the status, conduct and accountability of the committee members. All three committees had agreed to their respective declarations for their members and the Board had formally approved those declarations.

19. The Board had recommended, and sought the approval of the General Assembly for, an amendment to the Regulations of the Fund allowing participants who returned to active contributory service after a period of disability to count such periods as contributory service without requiring the participant or the employer to pay contributions for that period. The relevant amendment to article 24 (b) of the Regulations of the Fund was contained in annex XIV to the report before the Committee, and the related change to the Administrative Rules of the Fund was contained in annex XV.

20. In 1998, the Board had recommended and the General Assembly had approved a 36-month time limit under article 21, on participation, and article 32, on deferment of payment or choice of benefit, of the Fund's Regulations. The Board had approved a technical change in order to align the time limits set out in the Fund's Administrative Rules and in its Regulations. The text of the amendment to Administrative Rule B.6 (b) was contained in annex XV to the present report.

21. Lastly, the Committee was invited to approve the Board's recommendation for an amendment to the Regulations of the Fund that would allow for the purchase of additional years of contributory service by part-time staff. The Board had made the decision in 2007, but had requested the actuaries to review the item. Based on the information provided by the actuaries, the Board recommended that the amendment should contain strict limitations. Moreover, it emphasized that its decision was not intended to set any precedent with regard to purchasing additional contributory service by other classes of participants, and that the decision was to be monitored in the light of experience. The change would apply only to participants who elected part-time employment as of 1 April 2009.

22. The Board had reviewed the remaining unimplemented recommendations in respect of the Fund's benefit provisions from 2002, concerning modifications to previous economy measures taken in the 1980s to address actuarial deficits faced by the Fund at that time. Recalling that the General Assembly had approved those recommendations in principle, but with implementation to begin when the actuarial valuation showed a clear upward pattern of surpluses, he said that in the light of the current actuarial valuation, no new benefit measures could be considered at present, but that the Board would keep the remaining recommendations as a priority on its agenda.

23. In 2008, the secretariat had prepared a review of the impact of currency fluctuations on pension benefits and variations in amounts due as a result of different separation dates. The Board had noted two important points concerning the impact on benefits for Professional staff: first, there had been wide variations

in local currency track benefits and, thus, in income replacement ratios, resulting from different dates of separation and different applicable exchange rates between 2002 and 2005. Second, the continued downward trend in local currency track amounts, although they had moderated substantially more recently, could reach a point at which action was required. The Board would closely monitor the situation and would review the matter in 2009. Variations in the local currency track pension amounts payable to General Service staff in the locations examined had remained within an acceptable range, and again, the Board would continue to monitor the situation.

24. In 2007, the Board had reaffirmed its decision to have the Fund determine entitlements to pension benefits, in particular spousal benefits, in accordance with the personal status of a participant as recognized and reported to the Fund by the participant's employing organization, with final verification of that status to be done by the Fund's secretariat at the time when benefits were awarded. The Board recommended approval of amendments to the Regulations of the Fund, as contained in annex XIV to the report, that would streamline the application of the relevant provisions governing family, or former family, members.

25. In 2006, the Board had recommended, and the General Assembly had approved, the elimination of the limitation on the right of restoration for existing and future participants based on the length of contributory service. The Board had subsequently clarified that revised article 24 (a) of the Fund's Regulations covered not only participants who had received a withdrawal settlement, but also those who, before 1 April 2007, had elected a deferred retirement benefit, whether full or partial, that was not yet in payment, and that former participants who had not made a benefit election, and who were therefore deemed to have elected the deferred benefit, were to be treated the same way as those who had made an election. The Board therefore requested approval for a technical amendment to article 24 of the Regulations as provided in annex XIV to its report.

26. The Board recommended the admission of the Special Tribunal for Lebanon to membership in the Joint Staff Pension Fund, effective 1 January 2009, provided the Secretary/Chief Executive Officer confirmed to the General Assembly that the Tribunal followed the United Nations common system of salaries and allowances and other conditions of service, as required under article 3 (b) of the Fund's Regulations.

27. With respect to the new system of administration of justice of the Organization, if substantive changes were made to the statute of the Appeals Tribunal or to other conditions under which that Tribunal would exercise jurisdiction over Joint Staff Pension Fund participants or other applicants, the matter could require negotiations with the Pension Fund member organizations and changes to its Regulations.

28. The proposed draft resolution on pension matters contained in annex XVII to the Board's report contained a summary of the matters requiring the attention and decisions of the General Assembly.

29. **The Chairman** drew attention to the report of the Secretary-General on investments of the United Nations Joint Staff Pension Fund and steps and efforts undertaken to increase diversification (A/C.5/63/2) and the written statement on the report from the Representative of the Secretary-General for the Investments of the Fund.

30. **Mr. Thatchaichawalit** (Programme Planning and Budget Division), introducing the report of the Secretary-General on the administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/63/363), said that the report had been submitted in accordance with rule 153 of the rules of procedure of the General Assembly. The Board, in its report (A/63/9), had recommended revised budget estimates for the United Nations Joint Staff Pension Fund for the biennium 2008-2009 and, in that connection, had recommended a revised share of $18,848,000 to be borne by the United Nations. However, given the recent revisions to the post adjustment multiplier for New York and the General Service salary scale, which had been implemented after the preparation of the Board's report, no revisions were now proposed to the current share attributable to the United Nations, namely $18,998,600. Therefore, the current appropriation under section 1 of the programme budget for the biennium 2008-2009 would be maintained, and the actual expenditures would be reported in the context of the second performance report for the biennium 2008-2009.

31. **Ms. McLurg** (Chairman of the Advisory Committee on Administrative and Budgetary

Questions), introducing the report of the Advisory Committee on the United Nations pension system (A/63/556), said that the Advisory Committee had primarily focused its comments and recommendations on those areas that required action by the General Assembly. In that context, the Advisory Committee recommended that the General Assembly should endorse all except two recommendations of the Board.

32. With regard to the investments of the Fund, there had been a significant downturn in financial markets worldwide after the adoption of the Board's report in July 2008. As a result, the market value of the Fund's assets had dropped from $41.7 billion as at 1 January 2008 to $29.4 billion as at 24 October 2008, a decline of 29.6 per cent. As the Board had continuously emphasized, the long-term solidity of the Fund was more important than short-term upward or downward movements in its market value. However, the Advisory Committee was fully aware that the current world financial situation was, perhaps, uncharted water for the Board, and it urged that, during the current period of extreme uncertainty, the four principles of safety, liquidity, convertibility and profitability should remain the Fund's paramount investment guidelines.

33. With regard to the possible allocation of up to 18 per cent of the Fund's assets to alternative asset classes, the Advisory Committee shared the Board's view that such investing should be done judiciously and incrementally, taking into account cost implications. Furthermore, the Advisory Committee took the view that investing in such alternative asset classes in the current volatile market should be done cautiously.

34. The Advisory Committee recommended against approval of the Board's recommendation of an amendment to the Regulations of the Fund that would allow for the purchase of additional years of contributory service by part-time staff, since that would constitute a violation of the long-standing and accepted principle of income replacement, which was embodied in the Fund and had been upheld by the General Assembly on numerous occasions. Furthermore, the proposed amendment would give some staff the option of participating either fully or partially in the Fund, whereas the Fund was based on the principle of full participation of all staff. Such an amendment could set a precedent. The General Assembly should remain mindful of the global integrity of the Fund and should avoid amending the Regulations merely in order to overcome issues that were of a limited scope or of a temporary nature.

35. With regard to the Board's recommendation that the General Assembly should approve the inclusion of contractual settlement provisions in the agreement with the Global Custodian of the Fund, which would mean granting borrowing authority to the Investment Management Service, the Advisory Committee noted that such borrowing could not be undertaken under the Charter and the Financial Regulations and Rules of the United Nations without the approval of the General Assembly. Given the absence of clear and compelling information on the conditions and terms of such authority, the Advisory Committee did not support the Board's recommendation at the current stage.

36. **Mr. Hunte** (Antigua and Barbuda), speaking on behalf of the Group of 77 and China, said that improvements in the United Nations pension system should be implemented in such a way as to ensure that retirement, death, disability and related benefits were provided to participants and retirees of the United Nations on the basis of full respect for the principles of transparency and accountability. The Group appreciated the positive developments in the management of the secretariat of the United Nations Joint Staff Pension Fund, as reflected in the report of the Pension Board, and supported the recommendations of the Advisory Committee on Administrative and Budgetary Questions.

37. The Group was pleased to note the actuarial surplus of 0.49 per cent of pensionable remuneration as at 31 December 2007 and the increase of $3.0 billion, or 7.9 per cent, in the market value of the Fund's assets between 31 March 2007 and 31 March 2008. However, noting that the market value of the assets had dropped 29.6 per cent since the beginning of 2008, he requested more information about the possible effects of that decline on the Fund, given that a large number of staff were expected to retire within the next four years.

38. The Group also appreciated the efforts made to pursue geographical diversification in the Fund's investments, but noted that, while the amount invested in a few developing countries had increased substantially, the figures for the Latin American and African regions were comparatively low. Investment in those regions could spur economic growth and job creation. Sound developing economies should be

targeted for investment so that they could serve as engines of growth.

39. Turning to the study regarding the introduction of alternative asset classes, which had recommended an overall allocation of 18 per cent to private equity, hedge fund and hybrid assets, he said that there was a need for regular coordination and consultation among all the relevant actors and that the four paramount investment guidelines of safety, liquidity, convertibility and profitability should be respected. In the current financial crisis, cautious analysis of all types of investment was more important than ever. The Group therefore endorsed the Advisory Committee's recommendation that every effort should be made to ensure that future investments took into account potential risks and its observation that the Investments Committee played a key role in providing guidance to the Investment Management Service.

40. With regard to administrative matters, the Group was pleased to note the progress made in the recruitment of staff for the posts approved by the General Assembly for the biennium 2008-2009 but remained concerned about the need for more specialized personnel, as mentioned in the overall review of the Fund's staffing and organizational structure. As for the Board's plan to implement an integrated pension administration system, the Group concurred with the Advisory Committee that the Fund should consult with the Chief Information Technology Officer on the technical requirements of the system.

41. On governance matters, any amendment to the Regulations of the Fund should be fully consistent with the principle of income replacement. In addition, the Representative of the Secretary-General for the Investments of the Fund should cooperate closely with the Board and the Investments Committee, in accordance with the authority delegated to each, since their decisions affected the returns on billions of dollars in the Fund.

42. The Group welcomed the recommendation of the Board and the Advisory Committee that the Special Tribunal for Lebanon should be admitted as a member of the Fund and reiterated the need for equitable representation of the constituent organizations of the Fund at all its meetings.

43. Lastly, the Group was concerned by the lack of information regarding the adoption of the ad hoc measure that had been recommended by the Board and subsequently approved by the General Assembly in its resolution 62/241 to address the adverse consequences of dollarization on retirees and beneficiaries living in Ecuador.

44. **Mr. Kovalenko** (Russian Federation) said that, given the decline in the Fund's actuarial surplus from 1.29 per cent of pensionable remuneration in 2005 to 0.49 per cent as at 31 December 2007, his delegation supported the Board's decision at its fifty-fifth session to take a cautious approach and not to recommend that the General Assembly should take steps to liberalize the pension benefits system. The Board should continue to monitor closely the results of actuarial valuations; any recommendations on changing the parameters of the pension system or the rate of contribution to the Fund should deal with both elements together and should take account of future changes in the actuarial balance.

45. His delegation also supported the Board's cautious approach with regard to investment in alternative asset classes and plans to change the functional model of the Investment Management Service and redistribute the responsibilities of the internal investment managers and external advisers. He would welcome more detailed information from the Investment Management Service on the measures it was taking to protect the Fund's assets in the context of the collapse of securities markets and the global financial crisis.

46. With regard to the Board's recommendation that the Special Tribunal for Lebanon should be admitted as a member of the Fund from 1 January 2009, subject to confirmation that the Special Tribunal followed the United Nations common system of salaries and allowances and other conditions of service, as required under article 3 (b) of the Regulations of the Fund, he noted that it was for the General Assembly to take the final decision on that issue.

47. **Mr. Scanlon** (United States of America), noting that the market value of the Fund's assets had increased by 7.9 per cent to $40.6 billion as at 31 March 2008, welcomed the Board's decision to retain the resulting actuarial surplus. His delegation expected that that policy would remain in force and that the Board would not seriously consider certain benefit proposals, including a recent proposal to mitigate the impact of currency fluctuations. With regard to the Board's recommendation that the Regulations of the Fund

should be amended to allow for the purchase of additional years of contributory service by part-time staff, his delegation agreed with the view of the Advisory Committee on Administrative and Budgetary Questions that such an arrangement would be a violation of the principle of income replacement and endorsed the Advisory Committee's recommendation against approval of the change.

48. As with any governing body that dealt with large-scale, expensive and complex issues, it was important to focus on long-term possibilities as well as short-term operational issues. His delegation therefore commended the Board for establishing a working group to consider the future of the Fund and hoped that its efforts would include analysis of ways to modernize the pension benefit scheme, such as proposals to make it more attractive to staff members who did not wish to spend their entire careers with the United Nations.

49. His delegation commended the Fund's Audit Committee for assisting the Board with internal and external audit matters, the financial statements of the Fund and the risk management and internal control framework. With regard to external audit matters, he noted that the recommendation concerning monthly reconciliation of contributions had not been implemented and requested information on its current status.

50. In order to ensure effective oversight of the Fund, it was important for the internal audit function to have the independence necessary to conduct its work and certify compliance with generally accepted audit principles. He therefore commended the Board for approving a change in the Audit Committee's terms of reference in order to achieve that aim.

51. It was critical for the Fund's two components, dealing respectively with investments and the payment of benefits, to coordinate their operations as much as possible. His delegation appreciated the Board's continued insistence on improvements in that regard and endorsed the Advisory Committee's recommendation that a revised memorandum of understanding aimed at achieving such improvements should be presented to the Board at its next session. He also endorsed the Board's recommendation that the Special Tribunal for Lebanon should be admitted as a member of the Fund.

52. He welcomed the willingness of the Secretary-General and Member States to review existing structures, procedures and systems with a view to promoting accountability in the United Nations. A change in the Pension Fund could make a significant contribution to that cause. In cases where staff members had been convicted of stealing from the Organization, the United Nations should be able to attach their pension benefits in order to recover the amounts stolen. Currently, the Secretary-General had no such recourse; that situation should be remedied expeditiously, and he requested advice on ways to begin the process.

53. **Mr. Schuldt** (Ecuador) said that his delegation was pleased to note the increase in both the market value and the actuarial value of the Fund but nonetheless agreed that it was necessary to strengthen the Fund's staffing and organizational structure. All the necessary precautions should be taken with regard to changes in investment policy and the inclusion of new areas of investment, particularly in the light of the current financial crisis and market volatility. In addition, the criteria of safety, liquidity, convertibility and profitability should be fully respected.

54. With regard to the Board's commitment to increase investments in developing countries, he pointed out that the increase in the Latin American region was small, even though the region had experienced consistent economic growth in recent years and was a favourable environment for long-term investments. Such investments would also promote job creation and improve the situation of the population.

55. He reiterated his gratitude to all delegations that had supported the ad hoc measure approved by the General Assembly to address the adverse consequences of dollarization on retirees living in Ecuador, but expressed concern that no information on its implementation had been provided. Moreover, his delegation had learned that the retirees in question still had to overcome a number of bureaucratic obstacles in order to receive the exceptional payment approved by the Assembly. The payments should be made in full and, if difficulties arose in that regard, information should be provided as to when the payments would be made.

The meeting rose at 11.25 a.m.