United Nations

A/C.5/67/SR.10

General Assembly
Sixty-seventh session

Official Records

Distr.: General
9 January 2013

Original: English

Fifth Committee

Summary record of the 10th meeting
Held at Headquarters, New York, on Wednesday, 24 October 2012, at 10 a.m.

Chair: Mr. Berger. . . . . (Germany)
Vice-Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. Ruiz Massieu

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12-56617 (E)

The meeting was called to order at 10.10 a.m.

Agenda item 138: United Nations pension system (A/67/9 and A/67/525; A/C.5/67/2)

1. **Mr. Adeniyi** (Chair of the United Nations Joint Staff Pension Board), introducing the report of the United Nations Joint Staff Pension Board (A/67/9), said that chapter II of the report provided an overview of the Board's recommendations and decisions. The first part of the chapter summarized those recommendations that required action by the General Assembly. Specifically, the Board recommended the approval of an amendment to the Regulations of the United Nations Joint Staff Pension Fund to allow the payment of a portion of the benefit directly to a retiree's former employing organization when the staff member had been convicted of fraud. The Assembly was invited to raise the retirement age to 65 for new participants with effect no later than 1 January 2014 in order to address the impact of participants' increased longevity on the Fund's actuarial situation. The Assembly was also invited to concur with the Board's approval of transfer agreements with the Organization for the Prohibition of Chemical Weapons and the African Development Bank, which would become effective on 1 January 2013. Lastly, the Board recommended approval of technical changes in the Regulations and the pension adjustment system to reflect past decisions and amendments adopted by the Board and approved by the Assembly.

2. The thirty-first actuarial valuation of the Fund as at 31 December 2011 had revealed a deficit of 1.87 per cent of pensionable remuneration, primarily as a result of lower than expected investment return. The Committee of Actuaries was of the view that the Board should consider taking remedial action in order to avoid continued deterioration of the deficit; the Board had therefore established a working group that would consider measures to ensure the Fund's long-term sustainability. With respect to liabilities, the Fund was soundly funded at 130 per cent as at 31 December 2011, but that ratio dropped to 86 per cent when future cost-of-living increases were taken into account. There was no need for deficiency payments under article 26 of the Regulations. Furthermore, no change to the contribution rate or the cap provision of the two-track feature of the pension adjustment system was necessary at present.

3. The Board had decided to establish a term limit of 15 years for members of the Committee of Actuaries, which was an advisory committee to the Board.

4. With regard to investment management, the Fund's market value was $39.7 billion as at 31 December 2011, down from $41.4 billion a year earlier. The Fund had had a negative return of 3.92 per cent in 2011, underperforming its benchmark. The 10-year nominal return was 6.46 per cent, compared to a return of 5.88 per cent for the benchmark; however, the Fund's long-term return objectives had been met in only one of the previous eight years.

5. Information on the Fund's operations and financial position during the biennium 2010-2011 was discussed in paragraphs 156 to 173 of the report. The number of participants had increased by 2.7 per cent from 117,580 to 120,774 following an increase of 10.3 per cent in the previous biennium. Benefits in award had increased by 5.7 per cent to 65,387, after an increase of 6.5 per cent in the previous biennium. The principal of the Fund had increased from $33.1 billion to $35.3 billion; however, total investment income had fallen by over 20 per cent to $2.1 billion from $2.7 billion in the prior two-year period. Contributions had increased by 12.2 per cent to $4.2 billion, while benefit payments had increased by 9.1 per cent to $4.1 billion. Expenditure of $4.3 billion for benefits plus administrative and investment costs had exceeded total contribution income by $82 million.

6. The Board had considered a number of administrative items, as set out in paragraph 13 of the report, including the arrangements for investment-related advisory services provided by the Investment Management Division to the United Nations Library Endowment Fund and the United Nations University Endowment Fund; the status report on the Emergency Fund and the increased disbursements paid out since 2007; the funding of after-service health insurance; the standards for medical examinations required for employment in a member organization and the requirements for Fund participation; the implementation of the integrated pension administration system; and the business continuity and disaster recovery measures taken by the Fund. Buck Consultants, LLC had been appointed as the Fund's consulting actuary for four years effective 1 January 2011. The Board had amended the Administrative Rules to extend the review period from three to five years for disability awards where medical

evidence indicated a permanent disability with an unfavourable prognosis of recovery and to extend the review period for determination of incapacity for children or secondary dependents from 5 to 10 years. It had approved a revised enterprise-wide risk management policy and, welcoming the increased transparency that would result from the implementation of the International Public Sector Accounting Standards (IPSAS) as of January 2012, had noted that the most significant change would be increased volatility of the financial results and the measurement of the Fund's investments.

7. With respect to audit matters, the Board had endorsed the report of the Audit Committee, which had included a recommendation that the Fund should use the guidance of International Accounting Standard 26 in its reporting under IPSAS, and had also noted the Board of Auditors' unqualified audit opinion on the financial statements of the Pension Fund for the biennium ended 31 December 2011.

8. The Board had decided to recommend to the Secretary-General that Mr. Sergio Arvizú should be appointed the next Chief Executive Officer of the Fund and Secretary of the Board for a five-year appointment effective 1 January 2013. It had approved the Fund's strategic framework for 2014-2015 and had requested the Secretary to present a revised accountability statement after a review of the section concerning the responsibilities of staff pension committees.

9. On benefit provisions, the Board had agreed to study the issue of small pensions further with a view to developing draft provisions on the minimum benefits payable from the Fund and had requested clarification and administrative guidance from the contact group established to review the verification of the marital status of participants. The Board had also noted that, according to the 2012 first quarter study of the effects of currency fluctuations on benefits, the local currency track pension amounts continued to be maintained at or near the targeted levels for the countries under review. The Board had taken note of the results of the review of pensionable remuneration by ICSC and the Pension Fund secretariat. It had also taken note of the five United Nations Appeals Tribunal judgments in cases in which the Fund was the respondent; in all but one the Board's decision had been upheld, indicating that the Regulations and Rules were being properly administered. The Board had requested the Fund secretariat to further revise a proposal to allow recovery from a third party of amounts paid as death or disability benefits if the party was found liable by a court for the injury or death of a participant.

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

11. **The Chair** said that the Pension Board's decision to establish a working group on the long-term sustainability of the Fund had no programme budget implications.

12. **Mr. Sach** (Representative of the Secretary-General for the Investments of the Fund), introducing the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund and measures undertaken to increase the diversification of the Fund (A/C.5/67/2), said that steps had been taken to protect the Fund's assets from volatility in the capital markets by increasing diversification and acquiring some low volatility assets. The high market volatility was reflected in changes in the Fund's principal, which had increased from $39.7 billion as at 31 December 2011 to an all-time high of $44.5 billion in September 2012. In the two-year period from 1 April 2010 to 31 March 2012, the Fund's value had increased by 12.3 per cent to $43.1 billion, representing an annualized return of 6.09 per cent compared with 7.42 per cent for the benchmark. The equity portfolio had had a return of 5.90 per cent, while the bond portfolio had returned 6.39 per cent. The most significant reason for underperformance in 2011 had been the decision to avoid excessive risk by reducing the holdings of some European sovereign debt. Since the beginning of the financial crisis, such debt had been reduced from 6.92 per cent to 1.13 per cent of the bond portfolio. Equity holdings in peripheral European States had been reduced from 5.15 per cent to 0.5 per cent.

13. In 2012, the Fund had returned 10.36 per cent in the first nine months, exceeding the benchmark of 9.93 per cent. Over the previous 15 years, the Fund had achieved an annualized return of 6.9 per cent, outperforming the 6.2 per cent return of the benchmark. The annualized rate of return over a 50-year period was 8.2 per cent, representing a real rate of return of 3.8 per cent after adjustment by the United States consumer price index. Myriad events in 2010 and 2011, ranging from political and economic disruptions to natural disasters, had affected economic activity worldwide, heightening market volatility and

encouraging risk aversion among investors, while fiscal concerns in Europe had had a negative impact on sovereign risk around the globe.

14. The Fund had strengthened its technology infrastructure and systems to support IPSAS implementation. Investment techniques had been adjusted, including through some limited indexing arrangements, to respond to market volatility. The resulting infrastructure, which met the highest industry standards, would reduce transaction costs and enhance the security of fund transfers. The Fund had also expanded the use of RiskMetrics by using stress tests and scenario testing to guide asset allocation and portfolio balancing.

15. In March 2011, the Investment Management Division had used exchange-traded funds (ETFs) in order to adjust the asset allocation rapidly. The Fund had been a net seller of equities by $850 million during the third quarter of 2011, something that would have been impossible without the use of ETFs. The Division had invested in an equity ETF to track the Morgan Stanley Capital International All Country World Minimum Volatility Index, which minimized equity volatility and enabled broader market exposure by including equities in 45 developed and emerging markets. To expand its asset classes, in June 2010 the Division had hired a Senior Investment Officer for alternative investments. It had also signed a contract with a private equity adviser to provide guidance on private equity managers. By March 2012 the Fund had committed $530 million to seven funds; the adjusted market value of the Fund's private equity investment as at 31 March 2012 was $125.3 million. In November 2010, the Division had begun investing in commodities to hedge against inflation risk. As at 31 March 2012, that investment had yielded a return of 0.5 per cent, compared to a 3.3 per cent decrease in the benchmark. To improve transparency, the Division had begun posting weekly reports on the Fund's website.

16. The Fund was committed to a policy of broad diversification of its investments by currency, asset class and geographical area as a method of improving the risk return profile of its portfolio. The proportion of investments in North America had increased to 45.7 per cent in March 2012 from 43.1 per cent in March 2010. Investments in Europe had decreased to 25.4 per cent from 29.3 per cent, while investments in Asia and the Pacific had decreased to 18.0 per cent from 18.5 per cent. The Fund made every effort to increase its investments in developing countries while adhering to its investment criteria and strategy. It had direct and indirect investments in 40 countries (including 10 African countries), 21 of which were emerging markets. Investments in developing countries had increased from $4.8 billion in March 2010 to $5.9 billion in March 2012. The Investments Committee had held meetings in Botswana and South Africa and the Division had prospected for investment opportunities in Ghana, Kenya, Mauritius, Nigeria and Tanzania during the period under review.

17. Like most pension funds, the United Nations Joint Staff Pension Fund was experiencing swings in the markets. However, it was still achieving its long-term objective, both as to the actuarial requirement of 3.5 per cent real return and in its performance against the benchmark. Given that the Fund had exceeded the actuarial requirement in 6 of the previous 10 years, the statement by the Chair of the Pension Board that the long-term objectives had been met in only one of the previous eight years was inaccurate. The Fund's long-term rates of return were set out in figure 1 of the report. The Fund would continue, with the support of budget provisions, to widen its asset classes in order to enhance and diversify the portfolio. While there were concerns about the unrealized losses of $1.5 billion during the period under review, it should be noted that they were more than offset by unrealized gains of $6.2 billion for the same period.

18. **Mr. Ruiz Massieu** (Vice-Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/67/525), said that the Advisory Committee concurred with the opinions of the Board of Auditors, which were contained in annex X to the report of the United Nations Joint Staff Pension Board (A/67/9). The actuarial valuation of the Fund for the biennium ended 31 December 2011 indicated a deficit of 1.87 per cent of pensionable remuneration, following a deficit of 0.38 per cent as at 31 December 2009. The Advisory Committee shared the Pension Board's view that the deficit should be addressed prudently, taking into consideration the long-term income and expenditure of the Fund, but noted with concern the continuing downward trend in actuarial results of the five previous valuations. The Advisory Committee welcomed the establishment of the working group on sustainability, which should

consider all possible measures to strengthen the Fund's actuarial position.

19. The Advisory Committee had been informed that for the 10-year period ending 31 March 2012, the Fund's investments had had an annualized return of 7.3 per cent, which outperformed the policy benchmark of 6.6 per cent. It noted, however, that the Fund had underperformed against the investment return objective in each of the three prior fiscal years and for the eight-year period ending 31 March 2012. The Advisory Committee was concerned that, while the Fund's long-term objectives were largely being met, its underperformance for three consecutive years had contributed to the current actuarial deficit. It recommended that, given the magnitude of the unrealized losses reported by the Board of Auditors, the Representative of the Secretary-General for the Investments of the Fund and the Investment Management Division should take measures to better monitor the Fund's investments as a matter of priority.

20. Noting the 23 per cent increase in the Fund's investments in developing countries, the Advisory Committee recalled its previous recommendations on diversification of the Fund's holdings, welcomed the progress made, and encouraged further investment in emerging markets and developing countries.

21. The Advisory Committee concurred with the Board's recommendation that the General Assembly should approve an amendment to the Fund's Regulations that would allow the use of pension entitlements to reimburse financial losses caused by staff members proven to have defrauded participating organizations.

22. Increasing the normal retirement age to 65 would yield actuarial savings that would partially offset the costs arising from the increased longevity of participants. The Advisory Committee had been informed that the new mortality assumptions had an annual cost of approximately 2 per cent of pensionable remuneration and that the proposed increase in the normal retirement age would result in annual savings of approximately 1 per cent. The Advisory Committee had no objection to the course of action proposed by the Board, which would mitigate the Fund's actuarial deficit. Noting that ICSC had endorsed the proposal, the Advisory Committee encouraged the Assembly to consider the policy implications for human resources management of increasing the mandatory age of separation in participating organizations.

23. The Advisory Committee welcomed the progress made in implementing the recommendations of the Board of Auditors on accounting for unrealized losses and gains and noted that the Board had issued an unqualified audit opinion with respect to the Fund's financial statements for 2010-2011. It recommended approval of the proposals set out in paragraph 12 of the Pension Board's report (A/67/9), taking into account the Advisory Committee's observations and recommendations.

24. **Ms. Sabar** (United States of America) said that she was discouraged at the downward trend in the Fund's actuarial deficit but recognized that the prudent management of investments and the Pension Board's oversight had prevented a far steeper decline. Her delegation endorsed the proposal to increase the retirement age as one measure to ensure the Fund's recovery, but cautioned that that step alone would not ensure the viability of the United Nations pension system, given that it would result in savings of 1 per cent of pensionable remuneration whereas the new mortality assumptions had a cost of 2 per cent. It was no longer feasible to assume that pensions would survive by yielding high annual returns. The mandate of the working group on the Fund's long-term sustainability should be expanded to include the consideration of participants' annual benefits.

25. Her delegation supported the recommendation that the mandatory retirement age for new staff should be raised to 65 effective 1 January 2014. While there was a financial imperative for that change, it was also true that too young a retirement age deprived organizations of skilled staff with a wealth of institutional knowledge. Her delegation also approved of the proposal to amend the Fund's Regulations in order to allow for the use of pension entitlements to reimburse financial losses caused by staff members who had defrauded their employing organizations.

26. Lastly, the management of the Investment Management Division was far too important to be a part-time responsibility; her delegation was therefore in favour of having the Division managed by a full-time Representative of the Secretary-General, to be financed from the Fund's resources.

27. **Mr. Sach** (Representative of the Secretary-General for the Investments of the Fund) said that the

majority of the Fund's investments were already monitored in real time using RiskMetrics and other tools. Daily summaries of portfolio movements were reviewed by senior members of the Investment Management Division and quarterly reports were reviewed by the Investments Committee. The real problem was how to deal with high levels of uncertainty and volatility in the market and how to manage a portfolio made up largely of bonds, which currently yielded nearly 0 per cent. Returns would not track the benchmark every year, but would be above it half the time and below it the other half, without deviating greatly. Because investment cycles were longer than one year, it was necessary to interpret the annual figures with some caution.

28. **Mr. Chumakov** (Russian Federation) said that it was regrettable that the Russian version of the Pension Board report (A/67/9) had been unavailable at the time the report was taken up by the Committee, in violation not only of the six-week rule for the distribution of documents but also of the requirement that documents must be distributed simultaneously in all official languages.

The meeting rose at 11.10 a.m.