

**STATEMENT TO THE FIFTH COMMITTEE
OF THE UNITED NATIONS GENERAL ASSEMBLY
BY MR. OLUSOJI ADENIYI
CHAIRMAN OF THE UNITED NATIONS JOINT STAFF PENSION BOARD
24 OCTOBER 2012**

Mr. Chairman and Distinguished Delegates:

As the Chairman of the Pension Board and a representative from the Participants' Group from UNICEF, I am honoured to appear before the Fifth Committee of the United Nations General Assembly to present the report of the 59th session of the Board, which took place at UNESCO headquarters from 3 to 11 July, 2012.

The United Nations Joint Staff Pension Fund operates under Regulations promulgated by the General Assembly. Pursuant to those Regulations, the Pension Fund is administered by a Board, composed of representatives of the twenty-three member organizations of the Pension Fund. The 33-member Board has a tripartite composition, consisting of equal numbers of representatives of the governing bodies of such member organizations, of their staff in contributory service, and of their executive heads.

The Report of the Pension Board that is before you, document A/67/9, includes the results of the Fund's thirty-first actuarial valuation as of 31 December 2011 and the biennium investment performance of the Fund as of 31 December 2011, as well as a variety of issues considered by the Board this summer. Chapter II of the Report provides an overview of the recommendations made and the decisions taken by the Board. The first part of that chapter provides a summary of the following four recommendations which require action by the General Assembly, that your Committee is invited to endorse:

First, the Board recommends approval of an amendment to the Fund's Regulations to pay a portion of a benefit directly to a retiree's former employing organization, when the staff member had been convicted of fraud, as evidenced by a final and executed court order issued by a competent national court.

Second, the Board acknowledged that both the Fund's Consulting Actuary and Committee of Actuaries had determined that, given the serious impact that increased longevity has had on the actuarial situation of the Fund, raising the Fund's Normal Retirement Age to 65 would improve the actuarial situation of the Fund. Accordingly, the General Assembly is being invited to authorize the Board to decide to increase the Normal Retirement Age to age 65 for new participants of the Fund with effect no later than 1 January 2014;

Third, the General Assembly is invited to concur with the Board's approval of two new transfer agreements between the Fund and the Organization for the Prohibition of Chemical Weapons (OPCW) and the African Development Bank (AfDB), which will become effective 1 January 2013;

Finally, the Board recommends approval of technical changes in the Fund's Regulations and the Pension Adjustment System to reflect past decisions and amendments adopted by the Pension Board and approved by the General Assembly.

The second part of Chapter II of the Report summarizes various other decisions and recommendations of the Board that do not require specific action by the General Assembly but, nonetheless, are of sufficient importance to be of interest to the General Assembly.

31st Actuarial Valuation of the Fund, as of 31 December 2011

I begin with the 31st actuarial valuation of the Fund, as of 31 December 2011, which revealed an actuarial deficit in the Fund's required contribution rate. The first deficit in 14 years was reported to you in 2010 and was -0.38 per cent of pensionable remuneration as of 31 December 2009. The deficit as of 31 December 2011 was -1.87 per cent of pensionable remuneration, which is the amount by which the contribution rate required to maintain actuarial sufficiency exceeded the actual contribution rate of 23.7 per cent of pensionable remuneration. The Board noted that the increase in the actuarial deficit was primarily the result of lower than expected investment experience.

In considering the current actuarial valuation results, the Committee of Actuaries was of the view that the Board should take remedial actions in order to avoid continued deterioration of the deficit. Therefore, after in-depth discussions at its 2012 session, the Board established a Working Group that, in consultation with the Fund's Consulting Actuary, the Committee of Actuaries, the Investments Committee, the Representative of the Secretary-General for Investments of the Assets of the Fund, and the Fund's Chief Executive Officer (CEO), will consider possible measures to ensure the Fund's long-term sustainability. The Board directed its Working Group to focus on the long-term sustainability of the Fund, including governance, investment management, and asset-liability management.

With respect to the Fund's liabilities on a plan termination basis, as of 31 December 2011, the Fund was in a soundly funded position at 130 per cent. The funded ratio drops to 86 per cent when future expected cost-of-living increases are taken into account. In reference to Article 26

of the Fund's Regulations, the Consulting Actuary stated that there is no requirement for deficiency payments by member organizations;

Regarding other actuarial matters, the Board reviewed the emerging costs of past modifications of the two-track feature of the Pension Adjustment System. It decided that no changes were necessary at this time, to either the rate of contribution or to the cap provision. The Board also decided that the costs of the modifications of the two-track system since 1992 should continue to be monitored and reported to the Board biennially with the actuarial valuations, including trends in utilization and costs of the past modifications.

Concerning the Committee of Actuaries, an advisory committee to the Board, the Board considered term limits for its members as suggested by the Secretary-General and decided to establish a term limit of 15 years.

Management of the Investments of the Fund

With regard to the management of the Fund's investments, the Representative of the Secretary-General for Investment of the Assets of the Fund reported that the Fund's market value was USD 39.7 billion as of 31 December 2011, down from USD 41.4 billion from the prior year.

For 2011, the Fund returned -3.92 per cent, which underperformed the Fund's market benchmark by 255 basis points. The annualised 10-year nominal return for the Fund was 6.46 per cent, which outperformed the Fund's benchmarks return of 5.88 per cent. However, the Fund's long-term return objectives were not met, both in nominal and real terms, in all but one of the last 8 years.

The Representative of the Secretary-General for Investment of the Assets of the Fund will provide more detailed information on investments in his presentation to this Committee.

I note that when the Board considered the report on investments presented in 2011, it confirmed that additional information should be added, including main holdings by asset category, performance by asset class, key ratios, risk information and investment income, and performance comparison with the Fund's return objectives, such as for actuarial funding purposes. At its July 2012 session, the Board took note of IMD's new website, which can be accessed from the Pension Fund's website or at <http://imd.unjspf.org/>.

Administrative Matters

Regarding administrative matters, I draw the Advisory Committee's attention to the detailed information concerning the Fund's operations and financial position during the biennium 2010-2011, which are discussed in paragraphs 156 - 173 of the Report. The detailed statistics on operations are set forth in the annexes to the Financial Statements, which appear in Annex VIII of the report.

To highlight certain operational and financial information for the biennium that ended on 31 December 2011, I mention that the number of active participants increased by 2.7 per cent from 117,580 to 120,774, which follows from an increase of 10.3 per cent during the previous biennium. Benefits-in-award increased by 5.7 per cent from 61,841 to 65,387, following an increase of 6.5 per cent during the previous biennium. The principal of the Fund increased from \$33.1 billion to \$35.3 billion. However, total investment income decreased by over 20 per cent to \$2.1 billion from \$2.7 billion in the prior biennium. The contribution income of the Fund

increased 12.2 per cent from \$3.7 billion to \$4.2 billion, while benefit payments increased 9.1 per cent from \$3.8 billion to \$4.1 billion. Expenditures for benefits of \$4.1 billion during the biennium were less than total contribution income by \$68.3 million, whereas expenditures of \$4.3 billion for benefits plus administrative and investment costs exceeded total contribution income by \$82 million compared to the prior biennium where total costs exceeded total income by \$163 million.

The Board also considered the following additional administrative items:

1. Regarding the appointment of the Consulting Actuary to the Fund, after a competitive bidding process, the Board recommended and the Secretary-General decided that Buck Consultants, LLC be appointed for four years, beginning 1 January 2011.

2. With respect to medical matters, the Board discussed the issue of standards for medical examinations required for employment in a member organization and the requirements for Fund participation, pursuant to Article 41 of the Fund's Regulations. The Secretary/CEO recommended that the Board adopt the "fitness for employment" standard, as used by the UN for contracts of six months or longer, as the basis for participation in the Fund. The Board requested additional information on this matter and will discuss this item again at its next session.

3. The Board approved an amendment to its administrative rules to extend the review period from three to five years for disability awards where medical evidence indicates a permanent disability with an unfavorable prognosis of recovery. The Board also approved a similar change to the administrative rules to extend the review period from five to ten years for determination of incapacity for children or secondary dependents.

4. Regarding the investment related advisory services provided by the Fund's Investment Management Division to the UN Library Endowment Fund (UNLEF) and the UN University Endowment Fund (UNUEF), the Board noted the disclosures annexed to the Financial Statements. The Board was informed that documentation to formalize these arrangements was being prepared and it requested that the arrangements be reported to it at its next session in 2013.

5. With respect to accounting matters, the Board acknowledged, with appreciation, the significant progress made in the implementation of IPSAS as its new accounting standard, starting January 2012. It welcomed the increased transparency to be provided in future Financial Statements. The Board noted that the most significant change in the Fund's financial reporting under IPSAS will be the increased volatility of the financial results and the measurement of the Fund's investments.

6. The Board took note of the status report on the Emergency Fund and the increased disbursements paid out since 2007, as encouraged by the Board.

7. The Board supported the Secretary/CEO's recommendation that the decisions regarding the funding of the After Service Health Insurance (ASHI) be guided by the approach that the UN may take.

8. The Board reviewed the progress report on the Integrated Pension Administration System and noted, with appreciation, the progress achieved towards implementation, with a completion date at the end of 2014.

9. The Board took note, with appreciation, of the Fund's business continuity measures. The Board also noted that the business continuity and disaster recovery measures

taken by the Fund over the past few years, together with other initiatives, represent further improvement in the Fund's management.

10. The Board noted that the revised Enterprise-wide Risk Management Policy and the Risk Manual presented to it reflected industry best practices and constituted a major achievement in the Fund's management. The Board approved the revised Enterprise-wide Risk Management Policy.

Auditing

Turning to audit matters, the Board was presented with the Report of the Audit Committee which summarized its major findings and conclusions. The Board endorsed the report, including the recommendation of the Audit Committee that the Fund incorporate the guidance provided in IAS 26, in its entirety, for its reporting under IPSAS.

The Board of Auditors presented their report on the Financial Statements of the Pension Fund for the biennium ended 31 December 2011. The Pension Board noted the Board of Auditors' unqualified audit opinion on the Financial Statements.

Governance Matters

The Board also considered matters relating to the governance of the Fund, in particular the selection of the next CEO.

In light of the forthcoming retirement of the Secretary/CEO, Mr. Bernard Cochemé, the Board considered the report submitted by its Search Committee and decided by acclamation to recommend to the Secretary-General of the United Nations that Mr. Sergio Arvizú be appointed

as the next CEO of the Fund and Secretary of the Board, with effect from 1 January 2013 for a fixed term appointment of five years.

The Board also considered the Fund's 2014 – 2015 Strategic Framework and approved it, including the indicators of achievement covering both the activities of the Fund Secretariat and IMD.

The Board was presented with a revised accountability statement and requested the Secretary/CEO to review the section on the role and responsibilities of the Staff Pension Committees (SPCs) and the SPC secretaries, following consultations with each Member Organization's SPC, and to present a revised accountability statement to the Board at its sixtieth session in 2013.

Benefit Provisions of the Fund's Regulations and Rules

The Board considered certain benefit provisions as contained in the Fund's Regulations and Rules, as follows:

1. The Board took note of the report on Small Pensions and agreed on a further study, with a view to develop draft provisions that would coordinate and simplify the minimum benefits payable from the Fund, following the modalities and principles identified in the report.

2. The Board considered a note from the Contact Group established to review issues concerning verification of marital status of participants under articles 34/35 of the UNJSPF Regulations, and develop proposals to clarify earlier Board guidance as well as to review those cases where the Fund secretariat had implementation difficulties. The Board did not reach

consensus on this matter and it requested the Contact Group to come up with further clarification and administrative guidance, as appropriate.

3. The Board considered that increasing the Fund's Normal Retirement Age to 65, for new participants of the Fund, with effect no later than 1 January 2014, is the priority among various other actions that could be taken to ensure the Fund's long term sustainability. In light of the Board's readiness to decide to increase the Fund's Normal Retirement Age, the Board urged the ICSC and the Member Organizations of the Fund to immediately raise the Mandatory Age of Separation to age 65 for new staff.

4. The Board could not reach consensus on resubmitting, to the General Assembly, the proposal to allow purchase of years of contributory service for part-time staff.

5. The Board took note of the application of Article 26 of the Pension Adjustment System regarding suspension of local currency track benefits.

6. The Board recalled that the impact of currency fluctuations on pension benefits and the variations in amounts due as a result of different separation dates had been studied frequently throughout the history of the Fund's Pension Adjustment System. The Board was presented with the 2012 first quarter study of the effects of currency fluctuations on the benefits payable in countries covering 90% of the benefits payable as a local currency track benefit. The Board took note that the local currency track pension amounts continue to be maintained at or near the targeted levels for the countries under review.

Other Items

The Board took note of the ICSC's and Pension Fund Secretariat's results of the Review of Pensionable Remuneration.

The Board reviewed and took note of the five UNAT judgements where the Pension Fund was the respondent, of which all but one decision had been upheld, indicating that the Rules and Regulations are being properly administered.

The Board considered a proposal to allow recovery from a third party of amounts paid by the UNJSPF as death or disability benefits, if the party was found liable by a court for the injury or death of a participant. The Board requested that the Fund Secretariat revise the proposal to incorporate further specificity with regard to the scope and conditions to be applied in the implementation of the provisions and deferred the matter to its next session in 2013.

Conclusion

Mr. Chairman and distinguished Delegates, in concluding my comments, I would like to underscore my appreciation for the views expressed by the Advisory Committee on Administrative and Budgetary Questions (ACABQ), in its report, document A/67/525, on the issues addressed in the report of the Board. A summary of the matters requiring the attention and decisions of the Assembly is reflected in the proposed draft resolution on pension matters, which is submitted for the consideration of the Assembly and included in annex XVII of the Board's report.

Thank you, Mr. Chairman and distinguished Delegates for your consideration of the Report of the United Nations Joint Staff Pension Board as well as of the Report of the ACABQ with respect thereto.