

Agenda item 134:
Proposed programme budget for the biennium 2016-2017

FIFTH COMMITTEE

Administrative expenses of the United Nations Joint Staff Pension Fund

Statement by Mr. Olusoji Adebowale Adeniyi
Chairman of the United Nations Joint Staff Pension Board

10 November 2015

Mr. Chairman,
Distinguished Delegates,

Thank you for giving me the opportunity to present the report of the Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund, document A/70/325.

As you know, the United Nations Joint Staff Pension Fund is a defined benefit plan providing pension benefit payments to more than 72,000 retirees and beneficiaries in over 190 countries in 15 different currencies. What makes the Fund unique – besides its mandate, global scope and intricate plan design – is that it is an inter-agency entity, comprising not only the United Nations but 22 other member organizations. Pursuant to the Fund's Regulations approved by the General Assembly, the Pension Fund is administered by the Pension Board in accordance with those Regulations. The Pension Board plays a most important statutory role in the Fund's governance structure since it is the only forum where all the 23 member organizations and the Fund's main stakeholders are represented – the Governing Bodies (including the General Assembly), Executive Heads, active participants, and retirees.

It is important to highlight that any decisions taken regarding the Fund, its finances, operation or governance need to be considered clearly understanding the very long duration of its liabilities (that is the life commitments of the pension liabilities) as well as the Fund's operational horizon, which is longer than most of the Fund's member organizations considering that the Fund, on average, services staff members as UNJSPF participants for 17 years on average during their active service and then for another 25 or more years during their retirement and the life of the surviving spouse. Therefore, it is important to review historical trends covering at least 15 years and understand the projections for the medium and long terms in order to take decisions that will bring the required medium and long stability, efficacy and efficiency. The report of the Pension Board to the General Assembly and the supplementary document provide this necessary broader, longer term view.

It is also important to highlight that the Fund's plan design has unique features and is probably one of the most complex in the world. The governance structure of the Fund is complex, extensive and multi-tiered, but it is well structured and works well. The Fund's operational and financial situation is very strong at a time when most defined benefit

plans are struggling. The Pension Board benefits from the expert independent advice of a Committee of Actuaries and Investments Committee (with broad regional representation of world-class experts in their fields), as well as an Audit Committee (including independent expert members), Assets and Liabilities Monitoring Committee, and a Budget Working Group. These committees and working group have well defined scopes and working methods and provide for focused monitoring, oversight and control of the Fund covering all its activities.

Since this year the Board's report focuses on the budget request, it is important to note that the Budget Working Group (which has a tripartite composition including GA representatives and the participation of the retiree representatives) receives the documentation with ample time to study and devotes many sessions during a week, meeting with management, asking questions, and thoroughly analyzing the Fund's budget proposal, which then is presented to the Pension Board for a further review, discussion and agreement as to what the Board would recommend to the General Assembly. You may note that the Board's submission already reflects decisions (and in cases, some reductions to the management's proposals) and is consistent with the Fund's priorities, policies, and approved initiatives and strategies. It also considers, as mentioned, a long term view of the Fund.

As explained in the overview of the report before you, the Fund has experienced an unprecedented growth over the past 16 years: the increase in participants and beneficiaries has been 73%, and the growth is expected to continue well into the future. As of 31 December 2014, the Fund was serving slightly over 195,000 active participants, retirees and beneficiaries – an increase of 5,000 people over just one year. Without the concomitant necessary increase in resources, properly achieving the Fund's mission and objectives would be at risk.

Mr. Chairman,

As stated in the report (A/70/325) and the related supplementary document, the core business of the Fund is paying benefits and servicing its clients. The logistical challenges of administering the Fund, with a large population (both active and retired) dispersed over some 190 countries, and the unique provisions of the Fund's regulations and rules as well as the two-track feature of its pension adjustment system, result in particular operational and client servicing challenges not experienced in any other pension fund in the world. Furthermore, the Fund's Financial Services Section manages the largest and most complex payroll within the UN system (at an annual value of over \$2.3 billion, making payments in 15 currencies in more than 190 countries). The growth and complexity of the Fund's operations has been well recognized by the United Nations Staff Pension Committee and the Pension Board, who have emphasized the urgent need for strengthening the Fund's client servicing capacity.

The Budget Working Group, in its recommendations, has made a special effort to support the strengthening of client services and operations. The Board carefully reviewed and approved the Working Group's recommendations as contained in **Annex I** of the report before you.

The 2016 – 2017 budget as approved by the Board, totals \$178,211,300 and includes

- \$90,361,400 for administrative costs;
- \$83,856,400 for investment costs;
- \$2,893,500 for audit costs; and
- \$944,200 for Pension Board expenses.

It should be noted that the adjustments made by the Group resulted in an essentially zero growth budget, with only a 0.2 per cent increase over the 2014-2015 biennium. Also, the suggested increase in the number of posts should be seen in the proper context, considering the very high increase observed in volume and complexity and the very limited increase in posts over the last two biennia.

It should also be noted that the Fund's projected administrative cost per participant for 2016 and 2017 is below the inflation adjusted average for the past 10 years. It is tentatively projected that the cost per participant for 2018 and 2019 would drop below the 2006 level through estimated further efficiencies gained by the implementation of the Integrated Pension Administration System (IPAS). Considering the long-term horizon of the Fund, a metric that measures operational efficiency over the medium term, is particularly relevant for the analysis of the Fund's budget. It is also important to rely on the already well developed governance mechanism of the Fund, which has been operating well for many years and which centers around the Pension Board and its advisory and oversight committees and working groups, as to avoid potential high risks associated with micro-managing the Fund's operations.

The Fund is continually adapting its processes and procedures, strengthening its internal control framework and modernizing its information technology systems. This year, the Fund successfully implemented the Integrated Pension Administration System (IPAS), which allows the Fund to establish streamlined business processes, a robust infrastructure and a powerful pension application. It is notable that following a controlled deployment, multiple monthly payroll cycles, benefitting over 70,000 retirees, have been processed under the new system without error or delays. This is a significant achievement for the Fund, as IPAS is arguably the most complex and largest operational and IT initiative in the Fund's history.

Before presenting the IPAS project to the Board, the Fund conducted a careful "current state assessment" as well as completing a "target operating model". Every ERP implementation is different, with different scopes and objectives. Some ERP's are required to address administrative inefficiencies and to centralize or automate tasks. IPAS should not be confused with the UN's ERP implementation (Umoja) or of the ERP of any of its member organizations. The Fund already had centralized environment with most tasks already automated. Identified objectives of the system were to repair fragmentation risks of processes and systems as well as introduce a sustainable, flexible and effective operational and IT environment to replace the legacy systems which were based on obsolete technology. It was never expected that the Fund would be in a position to abolish established posts as a result of IPAS implementation. Rather, IPAS objective was

to build capacity to respond to the demands of consistently growing population being serviced by the Fund while reducing system costs and mitigating operational and IT risks. The chronic and risky understaffing had been identified as a weakness, already before IPAS was presented to the Pension Board in 2008.

It is important to note that the scope of the project was expanded including changes derived from decisions of the Pension Board and General Assembly (such as increasing the normal age of retirement to 65 and corresponding changes in early retirement factors), as well as some approved changes which would improve the operational environment (e.g. consolidation of payroll paid in advance). The Pension Board also urged management to consider taking all precautionary and prudent measures to ensure that such a large and complex undertaking did not affect the pension payroll of the Fund's 72,000 beneficiaries. All of these changes were incorporated including a parallel testing phase, which provided the necessary assurances that resulted in a smooth and successful deployment and a very successful ramp-up as evidenced by the overall normal processing rates which has already been reached. All expected efficiency gains related to IPAS were achieved (and exceeded) through savings against recurring contractual services and infrastructure in IT. However, in order to leverage the new modern IT system solution with operational improvements which were not possible under the old legacy system, the Fund plans to continue further enhancing the operating environment.

Mr. Chairman,

It has been brought to my attention that the Board of Auditors has raised in the ACABQ and the Fifth Committee the question of the routing of its report on the UNJSPF. It is important to note that the overall governance structure of the Pension Fund and reporting arrangement for audits have been working well over a very long period. The Fund shares its desire for continuing collaboration with the Board of Auditors and is pleased to report very good working relationship with the current Board of Auditors capable and professional team.

On this topic, it is noted that the Pension Board has not yet received any formal proposal from the Board of Auditors, and the issue of new routing of the Board of Auditors report has not been internally discussed within the governance structure of the Fund, i.e., with the Pension Board and especially with its Audit Committee, which has the mandate to review all audit related aspects and to properly liaise with the Fund's internal and external auditors. The Pension Fund and the Pension Board were not informed in advance that the issue would be raised with the Advisory Committee on Administrative and Budgetary Questions or the Fifth Committee this year. Therefore, the Pension Board has not discussed any such proposal and consequently has not reached any conclusion or position on the matter. Given its responsibility for the administration of the Fund – in strict conformity of the Fund's Regulations as promulgated by the General Assembly – the Pension Board would like the opportunity to study such a proposal and have adequate consultations with the Board of Auditors on this matter. It is also very important to be clear that the UNJSPF Regulations promulgated by the General Assembly govern all pension aspects, including audit, management, plan design, benefit payments, etc.

Of course, if the General Assembly considers that there is a requirement to receive more information on the Pension Board discussions and audit matters – especially during the budget years when only a limited Pension Board report is submitted to the Assembly – I believe that the Board would have no objection to submitting to the General Assembly additional information, including the latest update on the status of implementation of audit recommendations issued by the Board of Auditors.

In conclusion, I would like to reiterate that the Fund enjoys a very healthy financial and operational situation, that a major system and operational initiative has been implemented very successfully and that the governance and oversight arrangements of the Fund are working well with the participation of representatives of the 23 member organizations as well as independent experts in key aspects. I thank you for the opportunity to present the report of the Pension Board. The CEO, RSG, and the other staff of the Fund are ready to respond to any specific details and to provide any technical explanations that may arise. Thank you, Mr. Chairman.