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Summary record of the 16th meeting
Held at Headquarters, New York, on Friday, 8 November 2013, at 10 a.m.

Chair: Mr. Taalas . . . . (Finland)
Vice-Chair of the Advisory Committee on Administrative and Budgetary Questions: Mr. Moon

Contents

The meeting was called to order at 10.05 a.m.

Agenda item 134: Proposed programme budget for the biennium 2014-2015 (*continued*)

Administrative expenses of the United Nations Joint Staff Pension Fund and amendments to the regulations of the Fund (A/68/7/Add.3 and A/68/303)

Administrative and financial implications arising from the report of the United Nations Joint Staff Pension Board (A/C.5/68/2)

1. **Mr. Owade** (Chair of the United Nations Joint Staff Pension Board), introducing the report of the United Nations Joint Staff Pension Board on the administrative expenses of the United Nations Joint Staff Pension Fund and amendments to the regulations of the Fund (A/68/303), said that the report covered the Pension Fund's estimated expenditure and performance report for the biennium 2012-2013 and its proposed budget estimates for 2014-2015. It also included an ad hoc item requiring consideration of amendments to the Pension Fund's regulations as of 31 December 2013.

2. At the end of 2012, the Fund's assets had totalled nearly $45 billion. Annual benefit payments to the current 67,000 beneficiaries exceeded $2 billion, and by 2020 there were expected to be more than 85,000 beneficiaries.

3. The Fund had experienced unprecedented growth over the previous 15 years with an increase in participants of 68 per cent, or 3.8 per cent per year. As at 31 December 2012, it was servicing nearly 190,000 active participants, retirees and beneficiaries. In 2012 alone, it had processed roughly 55,000 standard requests from participants and, despite its heavy workload, the Fund had met its servicing standards by responding to requests within 15 days.

4. The Fund was continually adapting its processes and procedures, strengthening its internal control framework and modernizing its information technology systems in response to the dramatic growth in the population being serviced, the increasing longevity of retirees, the highly volatile economic environment, evolving plan design, and the high level of maturity of the Fund and associated solvency management. It was replacing its current multiple processing and record-keeping systems with a single integrated pension administration system, which would improve efficiency and quality of service. The project had received a satisfactory audit opinion from the Office of Internal Oversight Services and remained on target for completion within budget by 2015.

5. To address the downward trend in the results of the previous seven actuarial valuations, from a surplus of 4.25 per cent of pensionable remuneration as at 31 December 1999 to a deficit of 1.87 per cent of pensionable remuneration at the end of 2011, the Board had established a working group tasked with considering measures to ensure the Fund's long-term sustainability. Its conclusions and recommendations had been approved by the Board and incorporated into the 2014-2015 proposed budget estimates.

6. Chapter VI of the report contained the recommended action to be taken by the General Assembly. While the current actuarial deficit did not warrant any other immediate action, it was imperative for no additional funding or administrative burdens to be placed on the Fund so as not to jeopardize its long-term solvency or its ability to deliver accurate and timely benefit payments.

7. The Board had also established a budget working group to consider budget proposals from both the Investment Management Division and the Fund secretariat, and had subsequently approved its recommendations. In the context of approving the requests for new posts contained in the proposals, the Board had considered the possible risks arising from the constraints of following United Nations human resources policies and procedures. The current memorandum of understanding with the Office of Human Resources Management should be updated to ensure that the Fund's human resources management was in line with its operational and investment needs and took into account the inter-agency nature of the Fund.

8. Total expenditure for the biennium 2012-2013 was now estimated at $185,730,600, which was $8,370,300 less than the approved appropriation of $194,100,900. The 2014-2015 budget approved by the Pension Board totalled $178,852,500, while the overall level of resources requested by the Board for administrative costs amounted to $88,367,600 before recosting, reflecting a net decrease of $9,552,000 from the appropriations for the biennium 2012-2013. The decrease in costs was primarily due to reductions in the

information technology sector related to the finalization of the Integrated Pension Administration System and to efficiency savings.

9. To enhance the Fund's ability to oversee key solvency issues and provide integrated analysis for decision-making, the Fund secretariat was proposing to establish a new technical capacity. The Fund would use efficiencies in the current structure and the redeployment and consolidation of existing staff so that the new service would require only two new posts: a Chief of Service at the D-1 level and a General Service team assistant. In addition, a new P-3 Accountant position had been requested for the Financial Services Section.

10. With regard to the Investment Management Division, the global financial crisis, political instability and natural disasters had created a very challenging operational environment, and the Division had therefore requested 24 new posts in order to restructure and meet its objectives. The overall level of resources for the Division in 2014-2015 totalled $83,373,600 before recosting, reflecting a net decrease of 10.7 per cent compared with the appropriations for the biennium 2012-2013. However, the decrease was primarily due to a change in the reporting of external management fees, which had been excluded from the 2014-2015 budget proposal.

11. The Pension Board supported the Secretary-General's recommendation to appoint a full-time representative to assist him with his fiduciary duties. It also recommended that the position should be at the expense of the Fund, within the meaning of article 15 (a) of the regulations of the Pension Fund, thus requiring an amendment to article 19 of the regulations. The Board had not considered it necessary to recommend any changes to the Fund's existing governance framework and management structure, which had been found to be both appropriate and effective during the most recent reviews.

12. The 2012 financial statements had been prepared for the first time in accordance with International Public Sector Accounting Standards (IPSAS), and the Pension Fund had received an unqualified external audit opinion from the Board of Auditors on those statements. In 2012, the Fund had also made considerable progress in implementing outstanding internal audit recommendations, the Fund secretariat having addressed all but one observation and the Investment Management Division having addressed 15 observations. For the biennium 2014-2015, the Fund anticipated a decrease of around 4.7 per cent in the cost of both internal and external auditing of the operations of the Fund secretariat and the Investment Management Division.

13. The Pension Board was requesting the General Assembly to amend the Pension Fund's regulations in order to raise the normal retirement age from 62 to 65 years for new participants who joined the Pension Fund on or after 1 January 2014. That change would have a significant impact on the Fund's long-term solvency by reducing the actuarial deficit by about 1 per cent of pensionable remuneration. It would also require a formal amendment to the Fund's regulations, including its early retirement provisions.

14. With regard to the comments made by the Advisory Committee on Administrative and Budgetary Questions on the management of the increasing after-service health insurance liabilities (A/68/550), the Pension Fund would welcome a system-wide solution, but the Advisory Committee's proposal posed potential systemic, legal and financial problems, as well as risks to the Fund's operations and governance. The General Assembly should, moreover, direct all requests to review the Pension Fund's mandate to the Pension Board, not to the Secretary-General.

15. As there were 23 different after-service health insurance plans in place in the 23 member organizations, those would first need to be harmonized and standardized before any system-wide solution could be found. Once the challenges of establishing a system-wide plan had been resolved, including issues relating to the acquired rights of serving and former staff members, the Pension Board would welcome discussion of the options.

16. It was important to appreciate that any redirection of contributions on the part of a participant as part of a collective arrangement aimed at providing for benefits outside the ambit of the Fund's regulations would have an immediate adverse effect on the Fund's actuarial situation and put it into deficit, thereby threatening its long-term solvency.

17. **Mr. Huisman** (Director, 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/C.5/68/2), said

that, according to the Board's report, for the biennium 2014-2015 the Organization's share in the administrative and audit costs related to the Joint Staff Pension Fund would be $21,324,700, of which $13,370,600 would represent the share of the regular budget, while the balance of $7,954,100 would be reimbursed to the United Nations by its funds and programmes.

18. A provision of $13,932,000 had already been included under section 1 of the proposed programme budget for that biennium to cover the share of the regular budget in the expenses of the Fund's central secretariat, excluding reimbursements anticipated from United Nations funds and programmes. The General Assembly's approval of the Board's proposals and recommendations would mean that the appropriation under section 1, Overall policymaking, direction and coordination, of the proposed programme budget for the biennium 2014-2015 would reflect a reduction in the amount of $561,400 after recosting.

19. **Mr. Moon** (Vice-Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/68/7/Add.3), said that, under administrative costs, the Advisory Committee had no objection to the Pension Board's staffing proposals for the biennium 2014-2015, including the redeployment of three existing posts and the establishment of two new posts for the proposed risk management and legal service.

20. Under investment costs, it had no objection to the proposed establishment of a full-time position of Representative of the Secretary-General for the Investments of the Fund at the Assistant Secretary-General level, on the basis of the current terms of reference. However, the requirement for the position needed to be fully rejustified and the General Assembly should be provided with revised terms of reference for the full-time Representative in the context of the Board's report on the proposed administrative expenses of the Fund for 2016-2017.

21. The division of responsibilities between the administration of the Fund and the management of investments did not necessarily entail the bifurcation of its management structure. Consequently, the Pension Board should examine the Fund's governance arrangements and management structure in order to ensure the optimal utilization of its budgetary resources and the achievement of its long-term objectives. The Advisory Committee therefore recommended that the General Assembly should request the Pension Board to submit the results of the review of its governance arrangements and management structure, and its related conclusions and recommendations, to the General Assembly for its consideration in the context of the budget for the administrative expenses of the Fund for the biennium 2016-2017. Such a review should take into consideration the possibility of establishing a single position of leadership for the Fund, guiding both its administrative and investment management components, and should elaborate the roles, responsibilities and reporting lines of the senior management positions of the Fund.

22. Pending the consideration by the General Assembly of the requested review of the Fund's governance arrangements and management structure, the Advisory Committee recommended that the General Assembly should not approve the proposed revision to the Fund regulations requiring that the Secretary-General should consult the Pension Board before appointing the Representative. In addition, the existing D-2 position in the Investment Management Division should retain responsibility for coordination and management of the Division under its current structure.

23. The Advisory Committee had expected that, with the completion and anticipated benefits of the Integrated Pension Administration System in 2014, the requirements for resources would be proportionately reduced in future budget submissions. However, while the overall budget for the biennium 2014-2015 was reduced by $19,468,200 before recosting, that reduction in the budget was mainly attributable to the changes in the accounting treatment of external management fees for small capitalization funds and publicly traded real estate. The Advisory Committee would therefore keep the growth of the budget of the Pension Fund under close review and expected that future submissions for the Fund would reflect efficiencies and savings stemming from the implementation of the System.

24. **Mr. Thomson** (Fiji), speaking on behalf of the Group of 77 and China, said that the Group had noted the increase in the number of active participants in the Fund, as well as the $5 billion increase in the Fund balance in 2012. The Group also noted that the Fund would report on the fair value of its investments and on

its operations as at 31 December of each year. In particular, it welcomed the alignment of reporting on operations with reporting on the investments of the Fund following implementation of IPSAS.

25. The Group noted that, for the biennium 2012-2013, the Fund was showing underexpenditure of $8,370,300 compared with the total appropriation, and that it had requested a lower amount under the proposed budget for 2014-2015 than the revised appropriation for 2012-2013. However, as that lower amount resulted from the change in the methodology for formulating its budget for administrative expenses, the Pension Board's proposed requirements for 2014-2015 actually reflected an increase of $1,795,300 compared with 2012-2013.

26. The Group noted the proposal to establish 27 new posts and 10 temporary posts, as well as the proposal to establish, at the Assistant Secretary-General level, the post of full-time Representative of the Secretary-General for the Investments of the Fund. It would welcome further information on the rationale for that proposal, its added value and the extent to which it took into account the pending review of the Pension Fund's governance arrangements and management structure. The Group would follow closely the thematic issues related to the Fund and would welcome information on the progress made in implementing IPSAS and addressing underlying challenges.

27. **Mr. Lieberman** (United States of America) said that the United States welcomed the efforts made to minimize the impact of the recent market volatility on the Pension Fund's sustainability and was pleased to see the Fund's continued growth and strong performance. However, it encouraged the Secretariat to continue to look for innovative ways to minimize administrative expenditure to ensure the long-term health of the Fund.

28. Management of the Fund required a delicate balance between adequacy and sustainability and, while actuaries could not provide absolute forecasts, they provided a reasonable snapshot of the future solvency of the Fund based on the best information available. His delegation therefore encouraged the Committee of Actuaries to continue adjusting its methodology and the economic assumptions used so as to accurately reflect necessary changes to staffing and compensation in the United Nations system.

29. In order to contain staff costs, the Organization had few options besides streamlining its workforce, increasing its reliance on temporary staff and demanding that the annual growth in salaries should be reduced. As the Organization became leaner, actuarial assumptions would need to reflect negative growth in both participants and contributions. Heightened economic uncertainty made it necessary to explore all avenues to ensure the Pension Fund's long-term sustainability, including raising staff contribution rates to reflect the longer longevity of participants and increasing early retirement reduction factors to better reflect the relationship between contributions and benefit outlays. The Chief Executive Officer's proposed simplification of the small pension adjustment system was both reasonable and equitable, and the Secretariat was encouraged to critically evaluate other benefits to ensure that no single segment of the population received substantially higher benefits than any other. Lastly, his delegation would welcome the establishment of a full-time Representative of the Secretary-General dedicated to managing the Investment Management Division, to be financed by the Fund.

The meeting rose at 10.50 a.m.