

Mr. Bernard Cocheme (cocheme@un.org)  
UNJSPF Chief Executive Officer  
UNJSPF, New York.

March 25, 2009 Rev1

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Dear Mr. Cocheme:

The United Nations Joint Staff Pension Fund (UNJSPF) provides the strength and stability for the United Nations in the sense that it is benefits that flow through retirement that helps to create a high performing staff and retaining high caliber staff for the UN who can focus on their work and not worry about retirement finances and family protection. I trust a number of UN staff think in these terms and place a high value on the work of UNJSPF.

From my work experience with UNDP, UNICEF and the various interactions with both higher and lower staff levels in the UN and its agencies, there is many staff that joined the UN not for the salary but for a defined purpose in mind, to work through the UN to benefit people around the world. Some of these staff could have enjoyed higher salaries (and bonuses) in private sector organizations, but they chose instead to work for the United Nations as they co-joined in the mission of the UN. In doing so, they could devote their time and energy to their work, knowing that one day, when retirement comes, UNJSPF will not fail them. We are now lucky to enjoy that experience.

## Managing the fund

UNJSPF has a long history of success in providing retirement security to the UN retirees in their golden years and we very much appreciate this stability. We are fully aware that the management of a pension plan like UNJSPF is highly complex and must be managed with vigor and vigilance. Sometimes however, United Nations staff and retirees can worry when the economy turns bad and the media fills the news how private pension funds are filing for bankruptcy, and state pension funds are equally facing liquidating prospects unless contribution rates are significantly increased. For instance, in Pennsylvania, the state employees and teachers' pension funds both have warned that contribution rates could surge seven-fold from about 4% of payroll to 28% starting in 2012. The Detroit police and fire pension plan might have to double employer contributions rates to 50% of payroll by 2011 according to the fund's outside actuary. Two of the nation's biggest public pension funds, **New York State Common Retirement Fund and the California Public Employees' Retirement System**, also have warned state employers to brace for future rate increases. It's going to be a big showdown between taxpayers and public employees. So it is worrying to hear such news affecting pension funds and to think the UN pension fund is quarantined from this economic hardship? While UNJSPF has a comfortable cash-inflow/outflow ratio, there is no doubt in my mind that if there is a greater and prolonged economic downturn there will be a greater imbalance in the current values of future pension liabilities and the current value of the fund that may need some drastic steps, one of which could be increasing the contribution rates to the pension fund. We are confident that you will take the necessary steps to ensure the solvency of the fund. We await with interest the next actuarial evaluation of the fund and the actuaries' recommendation of the contribution ratios. Even the \$11 billion (approx) loss for 2008 is the equivalent of about six years of total benefits.

It is due to these concerns that I wrote to you and am very thankful for the prompt response from you and Frank De Turris, Chief of Operations. We place our trust in what you both have reported to us, and place our trust in the management, actuaries and the Pension Fund Board. However, occasionally we like a hearing, especially in hard times.

It is comforting that the actuarial valuation of the fund is taken at 85% of market value in the past two valuations. I think the sensitivity analysis should be updated since 2005. Furthermore, since the World Wide Web took hold information flows have increased dramatically and the speed of transmission has affected the volatility of the market. As such, it is questionable whether the Committee of Actuaries should revisit the 5-year moving average suggested in 1987, which has remained a fixed posture with the fund. In other words, should the 5-year moving average be replaced with a 3-year moving average or added as a comparison?

There has been much distaste about fixed budgeting and many organizations are leaning towards a rolling budget which constantly extends 12 or 24 months out with the fixed period being very short (3 – 6 months) so that changes are captured continuously in the budget. More information on this can be reviewed at [www.bbrt.org](http://www.bbrt.org) (The Beyond Budgeting Roundtable). Since UNJSPF's existence depends on the vibrations of the market place have you found the biannual budget period (two year budgets) a problem in managing the fund?

As a matter of recommendation it would be good for UNJSPF's website or other reports to depict the major processes in managing the pension fund and provide information on oversight committees such as the third committees (or other), JIU and the supervisory role of the SG in the process

## **The longevity issue**

In some respects we think that UNJSPF has been slow to change with the increase in longevity. For instance, for those born in the period 1943-1954, the full retirement age under United States Social Security is 66 years, and for those born after 1960 the full retirement age are 67. Of course, those retiring this year in the UN at either 60 or 62 years of age are born in the years 1947-1949 but there will be a number of people serving the UN who are born after 1960. For instance a recent study by the Pension Institute in the UK ([www.snipurl.com/9mvdv](http://www.snipurl.com/9mvdv)) predicts that the expected future life-time of English and Welsh men aged 65 are likely to rise from 19.8 years in 2006 to 27.4 years in 2056. Similarly, life expectancies have also increased substantially in the developing world. Just from these examples, we can infer that the costs of increased longevity are likely to rise by a comparable percentage for social security systems and pension funds, including UNJSPF. Has any thought been given to extending the retirement ages of UN staff, which, by current longevity standards is ridiculously low for UNJSPF? Is it UNJSPF that must encourage this option or some other body of the United Nations? Although UNJSPF has a comfortable position of covering pension liabilities (with the inflow of contributions), there can be serious implications for longevity risk, which may of course not be the dominant risk of the fund. On the other hand, by extending the early retirement and full retirement age, staff will be able to contribute monetarily to UNJSPF for those additional years and also get the mental and psychological satisfaction of a more fulfilling life serving the United Nations for six to seven more additional years. If this rule changes, some of the younger retirees can also be hired back into the system and start contributing to the pension fund and to the UN organization. In some respects, due to the shorter retirement age in the UN system, younger working UN staff is indirectly subsidizing the additional liability of longevity.

## **The survivor benefits**

UNJSPF is no doubt a defined benefit plan with joint and survivor annuity for the life of the surviving spouse that is the actuarial equivalent of 50 percent of the participant's full pension. The survivor annuity is an automatic benefit if no other benefit is elected, like 100% withdrawal and no pension. Then there is the option of a lump-sum not exceeding one-third of pension benefits with two-thirds payable as a monthly annuity. Therefore, when a pension participant elects one of these two options (100% withdrawal or partial lump-sum), the spouse must understand the rights given up and must consent in writing to the participant's choice of another form of benefit. Such

elections must be considered very carefully, particularly by the nonparticipant spouse. Generally, a nonparticipant spouse would (and should) not agree to waive this benefit unless the couple's overall retirement planning provided some compensating benefit to the spouse (which of course is an in-house arrangement and not that of UNJSPF). Nevertheless, any benefit waiver is potentially subject to contest by the deprived spouse at some later time. For this reason, full disclosure – in writing – to the nonparticipant spouse must be made, and that spouse should be advised to obtain an independent legal (and possibly also financial) advisor in connection with the waiver. Any consent of the nonparticipating spouse to an optional benefit selected by the participant should be notarized. For large benefits, this advice to the spouse is an extremely important consideration. I have been waiting for years to make this recommendation, particularly for the benefit of women who are mostly the nonparticipating spouse, and sadly to say, up-to-this-day is those that face the biggest discrimination of the gender species, and also live longer.

## Phased retirement

Going into retirement is not easy for most people. Sometimes, UN staff compels to retire early for various situations. However, given the opportunity, many staff may want to elect an option of a phased retirement where the UN staff can retire early and work for the UN (say on half-time) at the same time contributing to the UN pension when the final retirement age is reached.

I thank you for giving me the opportunity to write to you further on these matters and will await your most valuable response in the near future.

Yours truly,

Merrill Cassell  
Former Budget Director of UNICEF

PS: I will be sharing this letter with a number of UNICEF retirees and UNICEF staff I know.

Cc: Andres Castellanos <castellanos@un.org>, FAFICS President  
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