By e-mail

March 15, 2009

Mr. Bernard Cocheme at unjspf@un.org
UNJSPF CEO
UNJSPF, New York.

Dear Mr. Cocheme:

In July 2007 pension funds were reporting surpluses. But by July 2008 and the later part of 2008 the financial conditions of pension funds were brutal, losing large sums in valuation over the year and into 2009, thanks to falling stock prices. Fortunately, the UN pension fund (UNJSPF) has a steady stream of contributions from participants to meet its expenditure benefits and administration and investment costs. Private sector pension funds are not so lucky due to large layoffs of prevailing workers. While the cash-inflow to out-flow seems steady and slightly depressed but comforting enough for UNJSPF in the short-term. However, any prolonged financial tsunami may have a significant impact on the valuation of the pension fund and its ability to meet its obligations without impairment of pensions.

From 30 June 2008 to 30 September 2008, the market value (MV) of the fund's investments decreased from $39.8b to $35.4b, a drop of $4.4b or 11.2%. Then from 30 September 2008 to 31 December 2008 the funds decreased by $4.1b to $31.3b, a further drop of 11.7%. That is a drop of $8.5b or 21.4% for the six-month period June to December 2008. From January 2008 to December 2008 the fund's MV decreased by $10b or about 24-25%. This shows that the decrease has been rapid from June 2008. As such it will be interesting to know, say for a 10-year period, the present value of UNJSPF's obligations versus the market value of its investments, which will also make a formidable ratio.

In your annual letter from the CEO of February 2009 (https://pengva1.unjspf.org/UNJSPF_Web/pdf/annletter2009eng.pdf) you give the funding ratios of the current assets with the value on accrued benefits (page 11) showing that the current funded ratio for 2007 was 146.9, signifying that there was a 46.9% safety margin. However, when the same ratio is adjusted for inflation, the ratio drops to 95. Does that explain that the current ratio is negative by 5% when pension obligations are adjusted for inflation? If this assumption is correct, does it infer that the pension liability might change considering that pension liability also depends on salary forecasts, discount rates and, inescapably, the stock and bond markets? It would be interesting to know the comparative funding ratios for 2008?

Some of us retirees wonder to what extent you have done any sensitivity analysis (or scenario testing) postulating a "what if?" scenario and then working through the possible effects of the current financial crisis. For instance:

1. what will happen to pensions of current and future retirees if the current downward market spiral continues for 5, 10 or 15 years?
2. What if that long market downward spiral carries market losses of 50% to 75% over these prolonged years?

Being confident that UNJSPF management has built in some safety net to deal with negative eventualities, one can wonder how long that safety net holds a worst-case scenario? When liability measurements are as sensitive as in today's financial turmoil it makes sense for the pension fund to report such probability assumptions, at least over a 10-year period in its annual report or CEO's letter.

I would be grateful for your response to this letter, which I am sharing with a number of UNICEF retirees and staff who I happen to know.

Thank you for your attention in this matter.

Merrill Cassell
Former Budget Director of UNICEF

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