

**(A )Merrill Cassell's initial e-mail response of May 28, 2009 to the India Proposal**

Dear All:

This is a very fragile subject to get involved. It is easy to rubber stamp the India proposal sent by Venkatarama Muthuswami (Muthu) as we can all meritoriously benefit; but to do so is against my conscience.

Private employers are dropping defined benefit (DB) plans in favor of defined contribution (DC) plans. Perhaps, over time, UNJSPF may be the only standing DB plan in North America other than government DB plans. From an international perspective, when someone opts for a lump sum payment, they are in fact replacing one-third of the pension with an equivalent 401 (K) plan (or private DC pension plan). They are thus telling themselves, that they can outdo UNJSPF in investing the one-third and so they go for it. Logically then, the person who takes a lump sum payment is supposed to invest the money for growth and cash flow as UNJSPF does the same with the balance two-thirds. Thus each month, the retiree receives a cash payment from his private pension plan (from the one-third invested) and a cash payment from the UNJSPF plan (for the two-thirds left in the fund). Therefore there is a meeting point here that puts X and Y on a financial equal footing as X took a lump sum and reduced pension and Y took a full pension.

In the meager North American company-sponsored private pension plans, lump-sum distributions have become harder to get. The option of a lump-sum on retirement is likely to disappear for a lot of workers this fall reports the Wall Street Journal. Lump-sums were a common option for workers enrolled in pension plans. However, it is now become rarer because of declining stock values that have sent pension assets plunging just as they have to meet stringent funding requirements. Pensions themselves, of course, are being offered to fewer workers in North America.

The Wall Street Journal recently reported that the 100 largest pension plans ended 2008 with \$217 billion in liabilities, compared to an \$86 billion in surpluses at the end of 2007. The funding status dropped from about 106% at the end of 2007 to less than 80% at the end of 2008. The US Pension Protection Act begins to restrict lump-sum payments when a plan is less than 80% funded. At that point workers can receive only half of the amount in a lump-sum with the other half as an annuity. Plans that are less than 60% funded are forced to freeze and provide only an annuity. The limits are designed to prevent participants from draining badly needed cash from the plans. They also give employers an incentive to keep funding at appropriate levels. Comparatively, UNJSPF is suffering the same fate and does not place restrictions. Fortunately, UNJSPF's lump sum has been wisely limited to not more than one-third.

Likewise, when UNJSPF beneficiaries opt for the lump-sum payment they are in affect draining UNJSPF of resources by not leaving their one-third for UNJSPF to invest and grow. Instead, they took the lump sum and invested it hoping to beat UNJSPF at their own game. Remember, ladies and gentlemen, we have to assume that the one-third lump sum was hypothetically invested even although UNJSPF participant would have done something else with it. I have personal knowledge of tens of UN staff (including some very dear friends in UNICEF) who took

the lump sum payment and lost it all in the stock market in under six months and are receiving a reduced pension ever since, while their other colleagues who opted for a full pension are obviously receiving a full pension from UNJSPF and the others (those who took the one-third lump sum) obviously make no complain.

A lump-sum is a lot of money, but a big advantage of an annuity (monthly pension) is that it is guaranteed for life. Now what lessons do we have to learn from the private pension plan that the UNJSPF participant made (one-third lump sum) as compared to UNJSFP pension plan (two-thirds)?. Obviously, both are supposed to give the same result in cash flow.

Well, clearly UNJSPF has been deprived of resources when someone takes the lump-sum and the person who took it is supposed to also invest it in parallel. Now if X who received a reduced pension also gets reinstated with a full pension after a term of years then he or she will have a distinct financial advantage over Y who took a full-pension. To make the case equitable, the UNJSPF will have to also give Y a lump-sum payment after a term of years. In short, you can't have the cake and eat it too.

I am sorry; to me the India proposal put forth by our dear beloved Mr. Muthu is not financially prudent, ethical or fair. UN staff must carefully consider their choice, lump sum and reduced pension or full pension and be prepared that that decision is a decision for life

**(B) Response of May 28, 2009 to the above e-mail from a member of the India Pension Group**

My problem is with his understanding of what is the "objective" of a good civil service pension fund as opposed to a mutual fund or any other types of retirement funds (e.g. 401k) risk-based quid-pro-quo arrangements.

(Please read several statements by G20 countries during the past years, praising the UNJSPF management, to ensure that UNJSPF should not only be a model civil service pension fund, but should also be a great incentive to attract the best world minds & talents to come and work for UN in fulfilling its mandates, long or short term. Please read what the UN Sec-Gen said time and again about UN retirees and how the UN principles of equal treatment should become a reality only when the UDHR principles are implemented by everyone everywhere).

Merrill's assumption that all the lump-sum recipients have wisely invested for growth and cash flow and have been out-doing/out-performing UNJSPF seems typically a capitalistic American mind-set of a long time until they woke up recently, thanks to when AIG Godzilla got exposed. My observation and experience: most lump-sum seekers, especially those outside of US and resettling into their home countries (after prolonged expatriation), opted for the arrangement to meet immediate family and other commitments, probably also unsure of their continued existence on this planet to fulfil all obligations.

Now, being alive even beyond the anticipated actuarial life expectancy, having fully reimbursed the UNJSPF of all the lump-sum PLUS good amount of interest and having to face the ever increasing living cost, is there anything wrong in asking to be treated as equals with other full-pensioners after say 13,14, etc. years as "reduced pensioners"?

Thank God, the Indian Supreme court saw such a claim as normal, justifiable, fully conscionable and enforceable and said this should ensure an efficient and loyal civil service in the management of the country. Is it not relevant to the UN management or is it a private MNC entity with "fat" bonus claims from Board Members, come what may?

Can we not say that UNJSPF wisely made the "lump-sum" investment on the retirees, so much so they are quite sure of recovering this lump sum plus a sumptuous interest whose current inflation-adjusted value would be significantly more than what was "gracefully" given as lump-sum to ensure a dignified re-settlement for a long time UN staff upon retirement?

So, it is OK for UNJSPF to make all the "wise" investments and safeguard pension fund, but it is NOT OK for a few lump sum recipients to invest and safeguard his/her family against any unanticipated risks and calamities. Also, it is definitely OK for the lump-sum recipient to accept life-time denial of any restoration of full-pension. Great!

May I ask you friends to study Merrill's argument (rejoinder) carefully. Is it humane? and is it possible to make our "humanised" explanations with a clear conscience, asap.

We want UNJSPF to be fully funded and sustainable, and also we are sure that it is possible to do so for UNJSPF management, by operating/behaving in a humane manner and in tune with the UNDR mandates of equity, fairness and natural justice.

**(C) Merrill Cassell's response of May 28, 2009 to the above e-mail**

To be humane is one thing and to be logical and fair is another thing. Sometimes, logical and correct actions are not humane. It is surely humane to continue to pay UN staff a full salary when they retire rather than let them get a pension which is a lesser amount of money (who ever pays), but to do so is illogical and unfair by those who are working as opposed to retired. Similarly, it is unfair to reinstate the full pension for those who took a lump-sum payment when compared to those who opted for a full pension even though both categories may live to a 100. To make the case equitable, UNJSPF will have to give full pension participants a lump-sum if they reinstate full pensions to those who took the lump sum. It is clear that people use the lump-sum for various reasons, pay off debts, buy a new house, or just invest in the market and lose it all (as happened to many in New York) or do better than UNJSPF or have one big party and bust it all up (very common in some developing countries).

True, many mutual funds and private equity funds have gone bust and likewise many UN staff who also took the lump-sums has gone bust, and those who wisely took the full pension are much better off. However, there are many reasons why some people should take a lump-sum as opposed to a reduced pension and I have covered this in detail in many blog postings (Pension Payout - Making the right decision at link [http://merrillc.typepad.com/unwind/2006/06/pension\\_payout\\_.html](http://merrillc.typepad.com/unwind/2006/06/pension_payout_.html); Pension Pandemonium - A rewind at link [http://merrillc.typepad.com/unwind/2007/03/pension\\_pandemo.html](http://merrillc.typepad.com/unwind/2007/03/pension_pandemo.html), please read the two articles cited. We are Therefore, for purposes of thinking of equity and justice, we have to assume that the lump sum was hypothetically invested, hence I stated in the previous e-mail:

"Remember, ladies and gentlemen, we have to assume that the one-third lump sum was hypothetically invested even although UNJSPF participant would have done something else with it."

It is humane to help the poor financially, but it is unfair and illogical to rob the bank to help the poor. In the same token, to reinstate full-pensions is the equivalent of taking money from UNJSPF from resources left to be distributed equitably to others according to their contributions and pension-options: lump-sum and reduced pension or full-pension (and no lump-sum) for life. The arrangements that UNJSPF now has are fair and equitable and do not call for any change will be unfair to the many others who opted for full pensions. Also, it must be reminded that surviving spouses get 50% of the full pension although the UNJSPF participant may have taken a lump-sum.

Muthu made a good point by asking all to study the various arguments (rejoinders).

**( D ) E-mail response of May 28, 2009 from a member of the India Pension Group**

Thank you for a detailed analysis and the reality check of the UNJSPF Scheme in the light of the present global crisis.

While you aver that the lump sum beneficiaries made a "packet", which is debatable, I am puzzled at one thing. If the lump sum was the goose that laid the golden eggs, isn't it surprising that the majority of the participants did not opt for the lump sum? I don't think these international civil servants, well-versed in administration, financial management and other skills, who had a cool head over their shoulders, (even giving advice to governments) would have been stupid to miss out on this gilt-edged package served on a silver plate, a basket full of cakes (to eat and have)! The fact should, therefore, be otherwise.

The only entity to be blamed is perhaps the UNJSPF, which thrust the spurious scheme on not-properly-advised, impulsive and stressed-up (at the time of their retirement) and unsuspecting participants and having calculated on an actuarial determination at a time when the life expectancy was 70-odd years and not revising the amount of the lump sum and the necessary deduction or the years of recovery based on the radically-changed situation ie., people living beyond 80 years, which is now common. That is too much water under the bridge and would get us nowhere. Is it just (and conscionable), for example, that our friend, Mr. Bhimayya, who recently crossed the 101-year mark, should continue to pay for the lump sum he took over 40 years ago? Of course, you would say, he has been robbing the Fund getting his benefit all these years and he (or no one else) should not complain. But it is the spirit of the thing and the principle involved we should argue about.

I agree that the lump sum beneficiaries benefitted, to, in that the sizeable amount was a god-send for them at a time of crisis. And I also concede that they should agree to pay a price for the favour (and also to be seen to have derived no tangible advantage over those who did not avail of the lump sum), That's why I suggested to the CEO, UNJSPF, that the Fund could extract by continuing the deduction for another 5 years beyond the actuarially-intended full recovery (of the lump sum), say 13 years, and should consider restituting the full pension after, say, 18 years. I haven't heard from M. Cocheme. Maybe or maybe-not, he might bring this up before the Pension Board. But, I am sure, individual Board Members may be requested to advance this "pound of flesh and nothing else, like blood or excess of a cut" proposal and hit upon a compromise resolution. Certainly, I live in hope.

I am fully in accordance with your contention that it is immaterial where one was born or where one decided to settle -- we are all of the same bonding, bound by principles of justice, fairness and equitable treatment of all. Everybody elects for a safe haven, whether it be Australia, US, Canada (even Timbuktoo, if it would provide) and even opt for the lump sum.

**(F) Merrill's Cassell's response of May 28, 2009**

This will be my last response on this subject.

Simply put the UN has two options: Option A: "lump-sum and reduced pension"; and Option B: zero lump-sum and full pension. Second, actuarial ages in the pension fund are not individual but average, so their are lower and higher life-expectancies that average out the funds disbursements.

By offering "B" to anyone who chose "A", the UN would be acting unfairly to those who chose "B" initially.

If the UN were to set a precedent for others in the future to choose "A" expecting that if they lived longer they would be converted to "B", the result would be a pension plan that cost the UN more than either "A" or "B".

There would be no reason for any pensioner not to choose "A": at the time of distribution, the pensioner who chose "A" could choose to invest their lump sum in an annuity, taking their financial position back to the equivalent of "B" until they lived to an "average" age. And if they lived longer than average, they would receive more than "B" for the remainder of their retirement (under the "conversion to full pension" scenario).

Note that the ability of any "A" pensioner to make an "equivalent" conversion at any future point in time (after distribution) becomes necessarily limited: those who die early (or their heirs) realize in retrospect a financial gain from having chosen "A", and those who live longer realize in retrospect a financial loss from having chosen "A".

I again underscore, that although lump-sums are used for different purposes, for this case, we have to assume make a hypothetical assumption that lump-sums were invested for cash flow.

**(G) E-mail response of June 2, 2009 from a member of the India Pension Group:**

In your email, you had clearly stated that it shall be your last communication on the subject. It is, therefore, with a sense of guilt that I seek your indulgence for this likely breach of trust, when I make the following comments:

1. In my humble opinion, your arguments seem more emotional rather than objective (or even legal).
2. There is not a single Article or clause in the Regulations (which go down even to the last cent in other situations) specifically declaring the lifelong deduction. The only Article which might indirectly apply to the lump sum, is Art.43, and that does not justify the Fund's present practice.
3. The contention that the Definitions, which are a part of the Regulations, hint at something like that may or may not be appropriate, in such a matter of import. Even in the Definition of "commute", there is no specificity as to the permanent indebtedness, leaving it vague for at least two interpretations.
4. The only apparently binding document is the undertaking in an inofficial "Instructions Sheet". Will that suffice in the court of public opinion, let alone in a court of law?
5. While those who opted for the lump sum could be seen to have had an edge, whether true or not, those who didn't avail of the lump sum did not, repeat not, lose a penny due to their decision, other than in perception.
6. It is estimated that only about 20% of the participants chose the lump sum, possibly because they obtained bank loans, for tiding over their temporary needs, at more attractive terms. For example, in the UK, where Housing Societies are more popular and offer competitive rates, there are practically only a few, if any, who opt for the lump sum. Those who took the lump sum perhaps had sentimental reasons that they were borrowing "from themselves".
7. In a survey conducted in New Zealand, Canada and South Asia, most of those who took the lump sum took it to buy a house, in the process of their resettlement. (In South Asia, the added reason was a daughter's marriage or children's higher education). So the conception that the lump sum option was motivated by turning into an instant millionaire, is not proven by facts.
8. Finally, is it conscionable for a Staff Pension Fund to make (huge?) profits from a scheme offered essentially on humanitarian grounds? Significantly, National Civil Service pension schemes don't do that.

I hope the above points are genuinely reasonable and make the case more convincingly.

**(H) Merrill Cassell's E-mail response of June 5, 2009**

I have argued that the India proposal is unjustified and still maintain that position. It is sad for me to express this disagreement among some very nice people. I think the UNJSPF arrangements, lump-sum and reduced pension or zero lump-sum and full-pension should apply equally to everyone. If the India proposal is considered justified, then to make for greater equity, UNJSPF will have to refund to pay to heirs, the estimated pension from early death of a pension fund beneficiary to the actuarial determined average life-expectancy and pay a proportional lump-sum for those on a full pension who have exceeded the UNJSPF estimated lifespan