UNJSPF

United Nations Joint Staff Pension Fund

Funding Policy

July 2023

Preface

This funding policy has been adopted by the United Nations Joint Staff Pension Board at its seventy-fifth session held on 24-28 July 2023. It is intended to complement related UNJSPF policies, including the Investment Policy Statement ("IPS") and the Enterprise-wide Risk Management Policy. Informed by the results of the biennial actuarial valuations and each asset liability management ("ALM") study, the policy will be reviewed, amended and enhanced on a periodic basis, usually every four years.

Version history

Version	Date	Comments
1.0	28 July 2023	Initial Funding Policy endorsed by the Committee of Actuaries and Fund Solvency and Assets and Liabilities Monitoring ("FSALM") Committee and approved by the Pension Board.

Contents

UNJSPF Funding Policy

The Fund

1. The United Nations Joint Staff Pension Fund ("Fund") is a defined benefit plan established by the General Assembly of the United Nations ("UN") to provide retirement, death, disability and related benefits for the staff of the UN and other organizations admitted to membership in the Fund.

2. The Fund requires member organizations and staff members who are participants in the Fund, to make contributions to the Fund based on a percentage of pensionable remuneration. The actual rate of contribution is prescribed in the Fund's Regulations and is currently 23.7% of pensionable remuneration, split between the member organization (2/3; 15.8%) and the staff member (1/3; 7.9%). Benefits paid are with reference to the staff member's pensionable remuneration. The Fund bears all economic, demographic and, therefore, solvency risks. Under Article 26 of the Regulations, in the event that an actuarial valuation shows that its assets may not be sufficient to meet the Fund's liabilities, the member organizations are responsible for paying into the Fund to make good the deficiency.

3. With more than a majority of accrued benefit liabilities relating to benefits already in payment, the Fund is regarded as mature. Therefore, to meet its ongoing obligations, and assuming there are no changes in the contribution rate or benefit design, the Fund must rely on future investment returns.

Roles and Responsibilities

4. The General Assembly is the highest legislative body of the Fund, which may amend the Fund's Regulations after consultation with the Board. The Board reports to the General Assembly.

5. The Fund is administered by the United Nations Joint Staff Pension Board ("Board"), the Chief Executive of Pension Administration and the Staff Pension Committees of member organizations. Administration of the Fund has been delegated by the Board to the Chief Executive of Pension Administration who is responsible for paying benefits to beneficiaries located around the world.

6. The General Assembly, through the Fund's Regulations, has given the fiduciary responsibility for the investment of the Fund's assets to the UN Secretary-General who, in turn, has delegated this responsibility to the Representative of the Secretary-General ("RSG"). The Office of Investment Management ("OIM") assists the RSG in investing the assets of the Fund. The UN Secretary-General and the RSG decide on the investments after consultation with the Investments Committee[1], and in the light of observations and suggestions made from time to time by the Board on the investments policy. Thus, the UN Secretary-General and the Board work in tandem to

[1] Established under Article 20 of the Regulations, consisting of external independent investment professionals appointed by the UN Secretary-General in consultation with the Board and the Advisory Committee on Administrative and Budgetary Questions.

support the General Assembly's responsibility to manage the long-term solvency of the Fund.

7. In monitoring the Fund's solvency, the Board utilizes the advice of the Consulting Actuary and Committee of Actuaries ("CoA")[2], coordinating with OIM and the Investments Committee. In addition, the Board has established the Fund Solvency and Assets and Liabilities Monitoring ("FSALM") Committee[3] to provide advice and recommendations on risk management, funding policy, asset liability management ("ALM") and investment policy.

8. The Fund's solvency position is ascertained and informed through two key studies:

a. Actuarial valuation

The purpose of the actuarial valuation is to provide a snapshot of the Fund's liabilities and assets at a point in time, with a view to measuring current solvency and the future level of contributions required to fund benefits. Article 12 of the Regulations requires that an actuarial valuation be undertaken by the Consulting Actuary at least once every three years. In practice, an actuarial valuation is undertaken in every even-numbered year. This allows the Board to consider in every odd-numbered year the actuarial assumptions to be used in the following year's actuarial valuation in accordance with Article 11 of the Regulations. Following review and input from the Committee of Actuaries, the Board approves the actuarial valuation assumptions. The Board notes the valuation results and recommends any actions to the General Assembly. Such actions might include the consideration of any approved changes in benefits or plan design that were contingent on the actuarial valuation results.

b. ALM study

An ALM study is undertaken at least every four years. The study is procured from an external independent consultant, working with the Chief Executive for Pension Administration and OIM, with the findings reviewed by the Investments Committee, Committee of Actuaries and FSALM Committee, and then summarized in the Board's report to the General Assembly. The purpose of the study is to evaluate the current and alternative asset allocations, to optimize the balance of risk and reward inherent in the allocation. Understanding risk and reward includes (a) assessing whether the current assumed asset return is expected to be achieved in the long term; (b) forecasting the likelihood that the current contribution rate will remain sufficient; and (c) forecasting the likelihood that future funded ratios and solvency metrics will remain in an acceptable range. The results are utilized by OIM in setting the Fund's short- and long-term investment strategy, and by the Board in understanding the effects of potential plan design changes and other relevant trends.

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[2] Established under Article 9 of the Regulations consisting of external independent actuaries appointed by the UN Secretary-General on recommendation by the Board.

[3] The FSALM Committee comprises six Board members and two members of the Federation of Associations of Former International Civil Servants (FAFICS), supported by Pension Administration and OIM staff, plus two experts from each of the Investments Committee, the Committee of Actuaries and the Consulting Actuary.

9. The Fund maintains an Investment Policy Statement[4] ("IPS") (managed by OIM) and a funding policy that are designed to complement each other. Annex II (a) outlines the key studies and policies that are in place to support the ongoing solvency position of the Fund. This includes the relationship to the Fund's overarching Enterprise-wide Risk Management Policy[5].

10. The Board has responsibility for overseeing the implementation and review of this funding policy, with the roles and responsibilities of other key parties outlined under Annex II (b). Through the actuarial valuations and ALM studies, should it be determined that actions are necessary to maintain long-term solvency, the Board would make appropriate recommendations to the General Assembly for its consideration and decision.

Scope

11. The purpose of this funding policy is to outline the methodology and targets used to ensure the Fund's obligations to beneficiaries can be met over the long-term. Risk factors that affect these obligations are identified, with processes for monitoring, managing and mitigating those factors.

Objectives

12. The long-term objectives of the funding policy are to:

a. Ensure that sufficient assets are available to meet the current and future obligations of the Fund to provide the relevant benefits, minimizing the likelihood of any deficiency payments being required (under Article 26 of the Regulations);

b. Maintain a stable contribution rate;

c. Ensure that changes in plan design and/or investment policy do not increase risks beyond the Fund's risk appetite; and

d. Identify triggers when remedial action may be required to address sustained deficits or surpluses.

Guiding Principles

13. To meet the policy objectives, the following principles have been established:

a. **Solvency:** Maintain long-term solvency, as monitored through ALM studies and actuarial valuations, and within the risk appetite established by the Board;

b. **Benefits:** Ensure a trend towards equitable generational funding and avoid intentional distortions in future generational funding;

c. **Contributions:** The primary funding target is to manage the required contribution rate (on an open group basis) within a specified range and evidenced through ALM studies.

[4] Available on the UNJSPF website: https://www.unjspf.org/wp-content/uploads/2022/09/Investment-Policy-Statment-September-2022.pdf
[5] Available on the UNJSPF website: https://www.unjspf.org/wp-content/uploads/2022/07/UNJSPF-enterprise-wide-risk-management-policy-July-2022-.pdf

This range represents a key risk tolerance for the Fund. As a secondary metric, the Fund will also target a funded ratio (on a closed group, termination basis) at a specified level, again supported by insight from ALM studies. The current funding targets for the Fund are documented in Annex I; and

d. **Liquidity:** Monitor short- and long-term cash flow needs for administrative and investment purposes.

Deficits and Surpluses

14. When it is anticipated that the required contribution rate will remain outside the targeted range over an extended period, as evidenced through actuarial valuations and ALM studies, the Board should consider whether any action is required. In the first instance, an additional ALM study and further actuarial studies may be commissioned. Any further action would be based on the results of those studies, with particular attention given to future expected economic and demographic trends.

15. Actions could include changes to benefits or wider plan design features, for both deficits and surpluses. All potential actions would be vetted by the Committee of Actuaries and the FSALM Committee, and the extent to which it could affect different groups or generations of members would be considered. The Board would make recommendations to the General Assembly for approval of measures and related changes to the Regulations. Amendments to benefit entitlements would be without prejudice to rights to benefits acquired through contributory service prior to the amendment date, in accordance with the Regulations.

16. The Board may be presented with certain benefit enhancements that correct an historical inequity in plan design or assist in simplifying administration. To the extent such changes do not affect the Fund's ability to meet its funding targets over the long-term, they could be adopted without deviating from this policy's objectives, subject to appropriate approval.

Solvency Risks

17. Any material differences between actual experience and the actuarial valuation assumptions should be assessed to determine if they are risks to the Fund. Annually, the Fund prepares a Solvency Risk Monitoring Report and Dashboard to document the status of key risks to the solvency position. The report is considered each year by the Committee of Actuaries and allows the Board, through the FSALM Committee, to focus on key risk solvency matters that may require immediate attention.

18. Due to the maturity of the Fund, the most significant risk factor is failure to achieve the assumed real rate of investment return. It is expected that assets will never earn exactly what the investment assumption predicts; each year there will be an investment gain or loss, which is smoothed over five years for the actuarial valuation.

19. Due to its size and participant/beneficiary profile, the Fund utilizes its own mortality experience in determining its liabilities. The Committee of Actuaries studies mortality trends

biennially and analyzes long-term experience every 10 years with the Fund's mortality study. While the effects of mortality trends are slow to be realized, they can have a significant effect on the Fund.

Actuarial Methods and Assumptions

20. For management of solvency matters, it is assumed that the contribution rate of 23.7% of pensionable remuneration remains stable for the foreseeable future.

21. The Fund's liabilities are valued from three perspectives:

a. Open group: Includes future benefit accruals and contributions from current participants and future participants into perpetuity. The outcome of this valuation is used to inform the required contribution rate (target under Annex I i.).

b. Closed group on termination basis: Assessment against Article 26 of the Regulations and the likelihood of the need for deficiency payments from member organizations, assuming that the Fund is closed and all participants separate immediately. The outcome of this valuation is used to inform the funded ratio (target under Annex I ii.).

c. Promised benefits: Required under International Accounting Standard 26 ("IAS 26") for the purpose of the Fund's Financial Statements and not utilized in any measure of solvency or funding requirement.

22. To minimize fluctuations in funding requirements, the following practices are utilized for the purposes of ascertaining the solvency position under the open group valuation:

a. Aggregate actuarial funding method to reflect long-term participant trends;

b. Actuarial assumptions are reviewed biennially through experience analyses and 10-year mortality, disability and withdrawal tables developed;

c. Asset values are based on a five-year market averaging method to limit the impact of short-term market fluctuations while still reflecting longer term trends; and

d. Investment strategy based on comprehensive stochastic modelling in ALM studies every four years.

23. In recommending assumptions to the Board for its consideration, the Consulting Actuary and Committee of Actuaries study a range of reasonable alternatives for each assumption, taking into account past experience and future expectations. Typically, the best estimate of future expectations for an assumption may not be a specific single answer but rather a range of possible results. Consistent with established practice, the Pension Board approves the assumptions falling within the most likely range, with a degree of prudence aligned to its risk appetite.

Review of the Funding Policy

24. This funding policy is expected to be reviewed by the Committee of Actuaries and the FSALM Committee on a quadrennial basis after each ALM study.

Annex I: Current funding targets

The current funding targets for the Fund are:

i. **On an open group basis**

   Required contribution rate: seek to maintain within a 2% corridor of the actual contribution rate. This currently equates to a range of **21.7% - 25.7%** of pensionable remuneration.

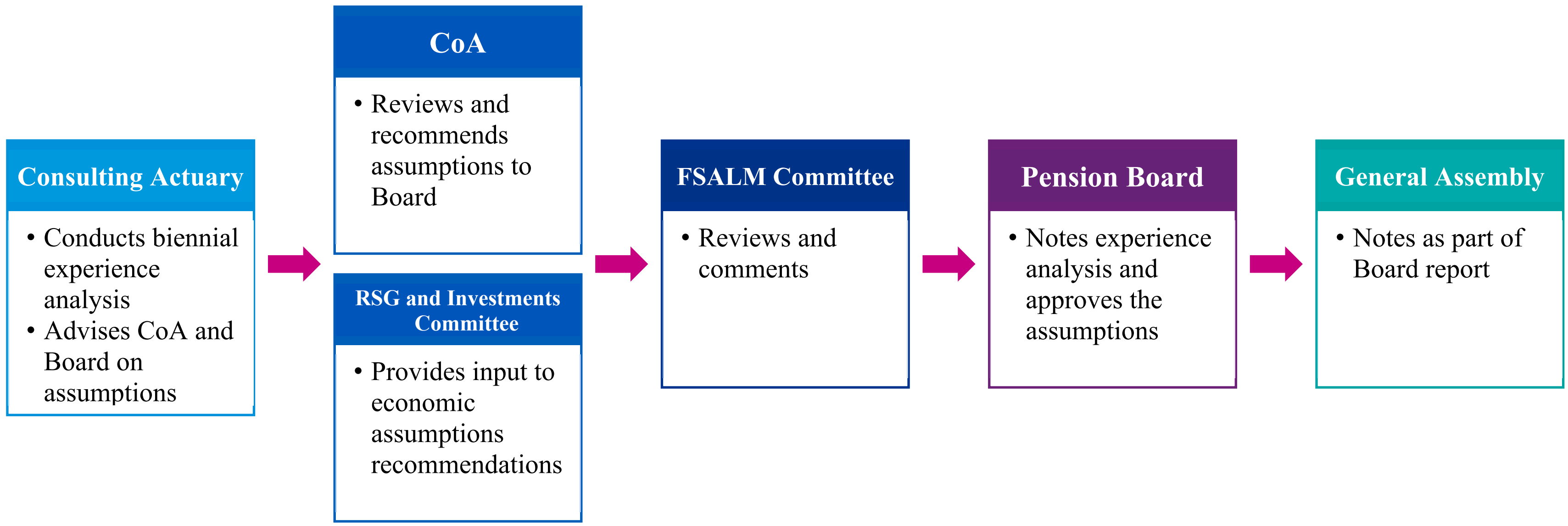
ii. **On a closed group, termination basis** (for the purpose of Article 26)

   Funded ratio: including future cost-of-living improvements, to target **100%**.

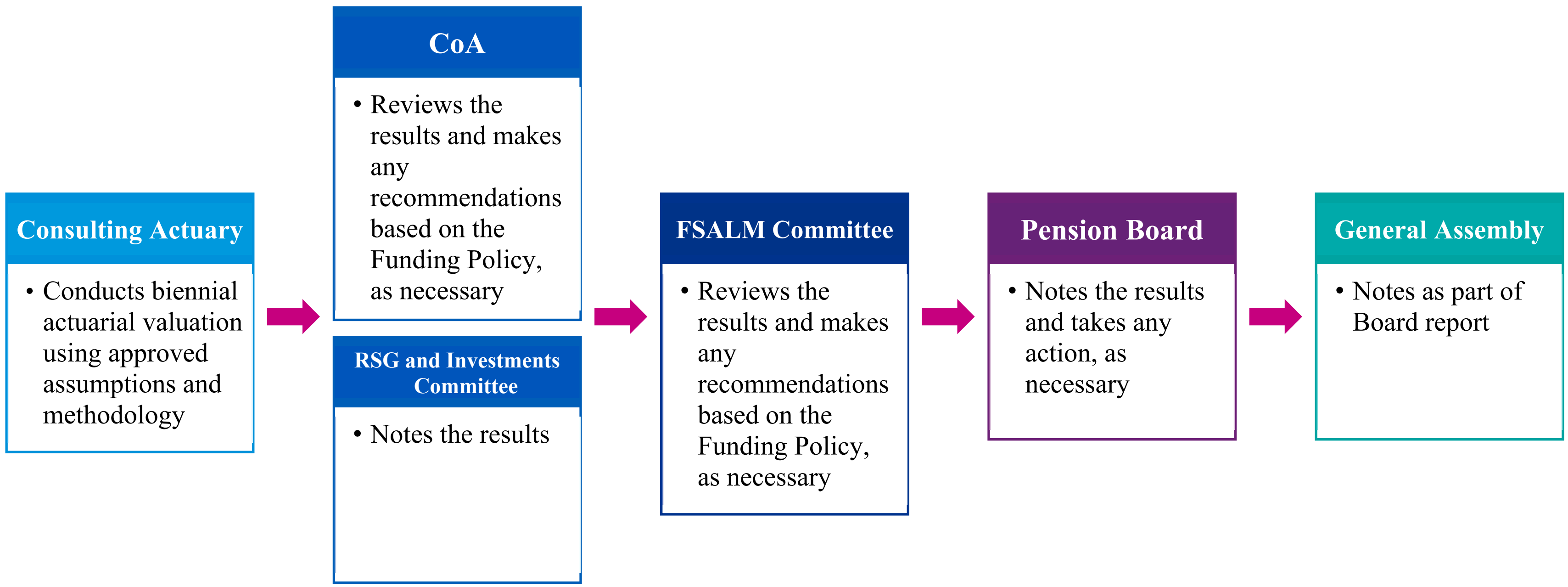
Annex II: Integrated funding and risk management

(a) Roles and responsibilities

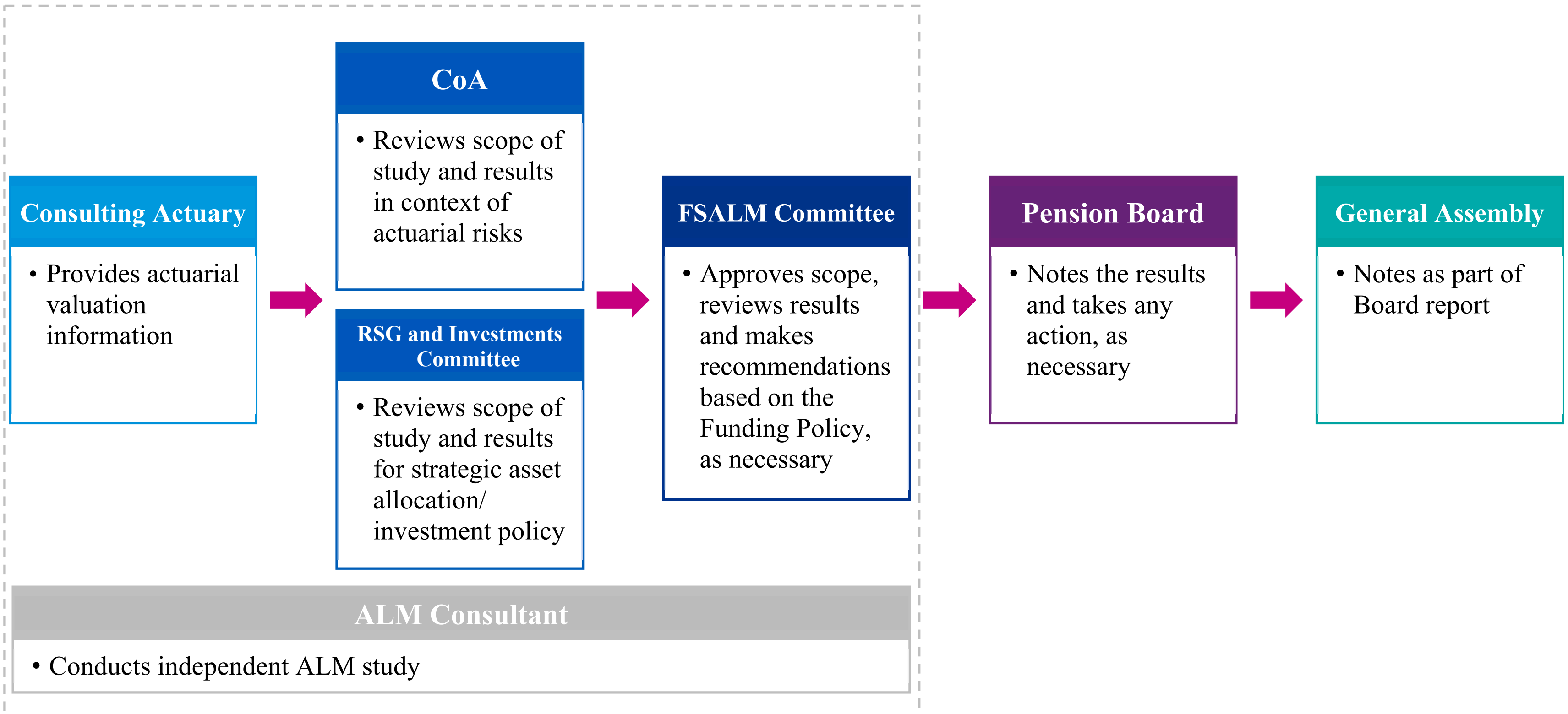
<u>Experience analysis and assumption setting for actuarial valuation</u>



Actuarial Valuation



ALM Study

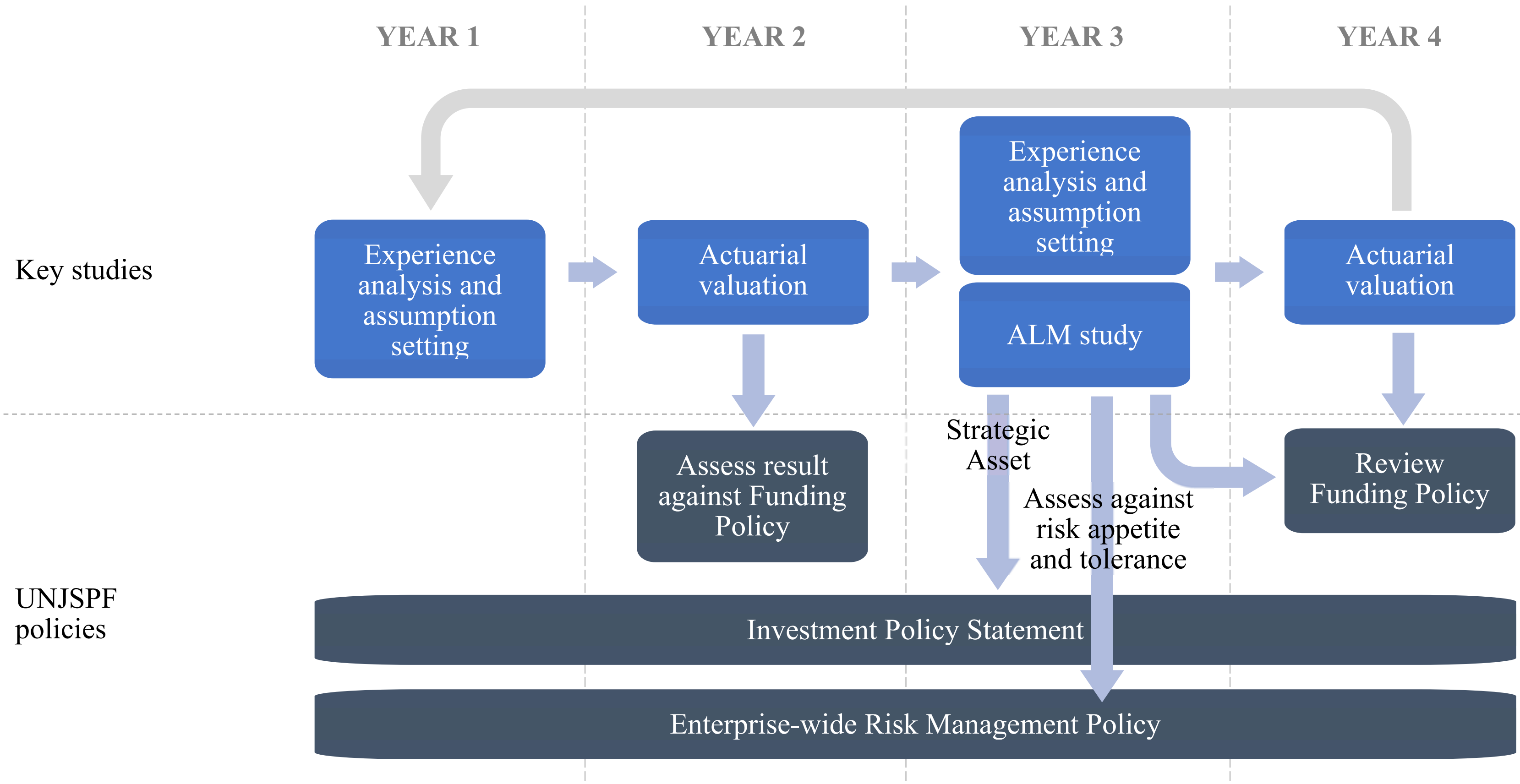


CoA
• Reviews scope of study and results in context of actuarial risks
Consulting Actuary
• Provides actuarial valuation information
RSG and Investments Committee
• Reviews scope of study and results for strategic asset allocation/ investment policy
FSALM Committee
• Approves scope, reviews results and makes recommendations based on the Funding Policy, as necessary
Pension Board
• Notes the results and takes any action, as necessary
General Assembly
• Notes as part of Board report
ALM Consultant
• Conducts independent ALM study

Funding Policy

Body	Role in respect of this Funding Policy
General Assembly	For noting as part of Board report. Approves any changes to plan or Regulations required to maintain the Fund within risk appetite.
Pension Board	Approval and monitoring adherence to the policy through actuarial valuation results and ALM studies.
FSALM Committee	Recommend for approval by Board and monitoring adherence to the policy.
Committee of Actuaries	Monitoring adherence to the policy through the results of the actuarial valuation.
Consulting Actuary	Conducts actuarial valuation to inform adherence to the policy, plus other studies to inform impact of any changes to plan or assumptions.
Investments Committee	For noting in connection with economic assumptions.
Representative of the Secretary-General	For comment and to ensure Funding Policy is consistent with Investment Policy Statement

(b) Overview of key studies and policies supporting UNJSPF's funding position (on a four-year cycle)



Annex III: Acronyms and glossary of terms

Acronym	Full term
ALM	Asset liability management
CoA	Committee of Actuaries
FAFICS	Federation of Associations of Former International Civil Servants
FSALM Committee	Fund Solvency and Assets and Liabilities Monitoring Committee
IAS	International Accounting Standard
IC	Investments Committee
ICSC	International Civil Service Commission
IPS	Investment Policy Statement
OIM	Office of Investment Management
RSG	Representative of the Secretary-General
SAA	Strategic asset allocation

Term	Description
Accrued benefit	Entitlement to benefits already accumulated in exchange for contributions paid, as set out in the Regulations.
Actuarial value of assets	Value of assets with smoothed gains and losses over five years, subject to maximum of 115% and minimum of 85% of market value.
Aggregate actuarial funding method	The expected present value of the benefits and the value of the assets is considered at a plan level, rather than for each individual participant or beneficiary.
Closed group	Pension plan that is no longer accepting new participants.
Closed group on termination basis	Pension plan that is no longer accepting new participants and all existing participants deemed to separate on the valuation date, with the benefits taken immediately and in the form that is best value to the beneficiaries.

Term	Description
Deficiency payments	Sums payable by member organizations in the event of an actuarial valuation showing that the Fund has insufficient assets to meet its liabilities under Article 26 of the Regulations.
Demographic risks	Risks relating to mortality, disability, retirement and separation patterns, marital and family status.
Discount rate	The rate of interest used to calculate the present value of future cashflows, reflecting the time value of money. The discount rate used by the Fund in the actuarial valuation is the assumed nominal rate of investment return. The nominal rate of investment return is the annual rate of return on an asset before any adjustment for inflation, net of investment expenses.
Economic risks	Risks relating to investments, inflation, expenses, increases in Pensionable Remuneration and currency movements.
Funded ratio	The present value of assets divided by the actuarial value of liabilities on a closed group on termination basis
Funding requirement	How the cost of the benefits is financed.
Funding targets	Outcomes that are regarded being aligned to the Fund's risk appetite and articulate the risk tolerance.
Intergenerational equity	The concept that the Fund does not belong to a particular cohort or generation of members. It is managed in a way that preserves it for future generations and does not intentionally lead to particular generations being disadvantaged in terms of value.
Long-term solvency	Ability of the Fund to pay benefits to its beneficiaries over the long term.
Open group	Pension plan that is open to new participants and new accruals of benefits from existing participants.
Pensionable Remuneration	Under the Fund's Regulations and defined by the International Civil Service Commission ("ICSC").
Promised benefits	Only valuing benefits that have already been accrued by existing beneficiaries and participants, with benefits assumed to be taken at normal expected time in the future.
Real rate of investment return	Annual rate of return on an asset, net of investment expenses, and adjusted for inflation. i.e. the nominal rate of return with an adjustment for inflation.

Term	Description
	While the Fund uses a discount rate based on a nominal return, benefits payable are increased in line with inflation, making the real rate of investment return the more relevant metric to monitor.
Required contribution rate	Contribution rate that would be required, as a percentage of Pensionable Remuneration, to maintain a balance between the expected present value of liabilities and the expected present value of assets over the long term on an open group basis.
Risk appetite	The amount of risk the Fund is prepared to accept in meeting the needs of its participants and beneficiaries. Current risk appetite approved by the Board at its 61st session in 2014[6]: *"The Fund recognizes the very long-term scope of its operations, its insurance-like nature which pools resources and risks to provide retirement, death, disability and other defined benefits and related services to its participants, retirees and beneficiaries as well as the importance of ensuring the continuing viability of its operations and finances. The Fund has very low appetite for the risk of losing its long-term sustainability and not being able to meet its long-term financial commitments."*
Risk tolerance	The degree of variability from its desired outcomes that the Fund is prepared to accept.
Strategic Asset Allocation	Target asset allocation across asset classes
Sustainability	The ability for the Fund to continue to fulfil its goal of providing provide retirement, death, disability and related benefits to the staff of the UN and other member organizations over the long-term.

[6] Report of the sixty-first session of the United Nations Joint Staff Pension Board to the General Assembly, A/69/9, paragraph 281.