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Summary of Actuarial Matters on the Agenda of the United Nations Joint Staff Pension Board at its 81st Session in July 2025 (JSPB/81R.2; JSPB/81/R.3 JSPB/81/R4) Vienna

by Suzanne Bishopric

At its 64th session in June 2025, the Committee of Actuaries (CoA) reviewed the Fund's financial, actuarial, and operational developments. This note summarizes for the FAFICS Council the evolving funding and demographic landscape of the UNJSPF, together with a list of the Solvency Risk factors measured in the course of Asset and Liability Management exercises. The Solvency Risk factors provide a framework for many of the discussions between the Actuaries and the FSALM Committee, to ensure the UNJSPF Board is made aware of possible emerging risks to solvency.

The Committee of Actuaries noted that the Fund remains financially strong, but there are some emerging risks related to inflation and the reduction of participants due to the resource constraints of the UN. These developments will require close monitoring by the Board and its Committees, including the FSALM (Fund Solvency and Liability Monitoring Committee).

In accordance with the Regulations and Rules of the Pension Fund ,the UNJSPF conducts comprehensive Asset-Liability Management (ALM) studies at least every four years. The objective of an ALM study is to conduct a thorough risk analysis of the Fund, considering various scenarios including potential market fluctuations, changes in participant numbers and asset allocations. The most recent ALM study was conducted in 2023, based on year-end 2022 valuations. The next ALM study will be conducted in 2027 on the basis of results as of year-end 2026.

The Fund also conducts biennial actuarial valuations. At this point in the actuarial valuation cycle (2025), the actuaries are setting the assumptions for the next biennial actuarial valuation in 2026, which will analyze gains and losses. Economic and demographic assumptions were the primary issues in recent meetings. That study will be ready by mid-2026.

The CoA agreed on the actuarial assumptions to be used for the 38th actuarial valuation of the Fund as of 31 December 2025, incorporating inputs and observations from OIM, Pension Administration, the Investments Committee and FSALM. In the discussions regarding the actuarial assumptions, several issues were considered:

Longevity improvements

At FAFICS, longevity improvements are welcome. Bear in mind, however, that longevity improvements come at a cost, because the magnitude of the liabilities of the Fund depends upon how long pension benefits are paid. The longer we live as retirees, the more expensive the liabilities become. Following the temporary adjustment of expected longevity following the COVID pandemic, forecasting mortality improvements will be reset to 20 years through 2045. The cost to reflect longevity increases for the next 20 years is estimated to be 0.07% of pensionable remuneration.

Lump-sum commutations

For the previous actuarial valuation conducted in 2023, an effective commutation rate of 14.4% was used, which was the same as the commutation rate used in 2021. The commutation rate is the percentage of lump sum payouts. Recent data indicated an upward trend in commutations, possibly linked to higher interest rates. Taking into account the data, the Committee of Actuaries agreed to increase the effective commutation rate from 14.4% to 17%. This assumption will be closely watched, noting the likelihood of unplanned, early retirements. Due to UN funding cuts, more staff will depart either before accruing the necessary five years of contributions and others may need to withdraw lump-sums whilst seeking other career options. A higher commutation rate is generally positive for the Fund's financial viability.

Workforce change projections

Participant growth assumptions will be impacted by the anticipated workforce changes. The timing is quite uncertain, but for the baseline scenario, there is an assumed reduction of 6.0% in the first year. Actuarial assumptions are focused on participant changes from 1 January 2026 onward. Given the current uncertainty, various scenarios will be analyzed. The baseline case will be a 6% reduction in 2026, with no change in headcount after that.

A second scenario will be for a "continued population decline" with initial reduction of 6% of active participants in the first year, with reductions of 1.0 per year for the following nine years, ultimately reaching a total reduction of 15% from staffing levels as of the evaluation date.

A third scenario with project a "higher early decline" scenario with an initial reduction of 10.0% of active participants in the first year, with reductions of one percent for each of the following five years resulting in a total reduction of staff by 15% paragraph

Rate of Return Assumption

The assumed real rate of return will remain at 3.4% (arithmetic)Given the importance of the assumed real rate of return, the 3.4% estimate will be reevaluated in two years. As noted in the table below, from OIM, for the longer term has achieved the 3.5 per cent real rate of return.p

Percentage Annualized Rates of Return on UNJSPF Market Value Assets*

	Years In Period							
31 December 2024	**1**	**3**	**5**	**10**	**15**	**20**	**30**	**50**
Nominal	8.5	1.7	6.0	6.5	6.8	6.3	7.3	8.8
U.S. CPI-U	2.9	4.2	4.2	3.0	2.6	2.6	2.5	3.7
Real [Inflation-adjusted]	5.5	-2.4	1.8	3.4	4.1	3.7	4.7	4.9

* As provided by UNJSPF/OIM. Returns shown are gross of OIM expenses.

It may be noted that the annualized real returns exceeded the 3.4 per cent interest rate used in the Regular 31 December 2023 actuarial valuation and the 3.5 per cent OIM long-term return target real rate of return for periods of 15 years or greater, but not for periods of time less than 15 years except for the 1-year return.

Multiple scenarios will be tested

1. For the actuarial valuation, scenarios will be evaluated on the basis of four sets of economic factors based on nominal rates of interest ranging from 5% up to 6.5% .

2. There will also be scenarios covering a range of inflation rates increasing from the baseline case of 2.6%. Inflation rates in these hypothetical scenarios may be projected to go up to as high as 8% in 2026.

3. Cost-of-Living Shock. in this scenario, it would be assumed that the cost of living adjustment (COLA) for benefits in payment would be higher than expected for three years *without* a commensurate change in the rate of return. Essentially, the Cost-of-Living Shock scenario entails pension beneficiaries receiving a higher COLA adjustment than the level of salary increases for active participants. Participant contributions are based on the salaries of active participants. Therefore, the Cost of Living Shock scenario tests the impact on Fund solvency of a rate of increase in benefits which exceeds the rate of growth of pensionable remuneration. Under such conditions, the contribution rate would lag the increase in pension liabilities.

Real rates of Return Scenarios

The baseline scenario will assume a 6.0 per cent per annum nominal rate of return on investments to be used as the "Regular basis" for the 31 December 2025 actuarial valuation.

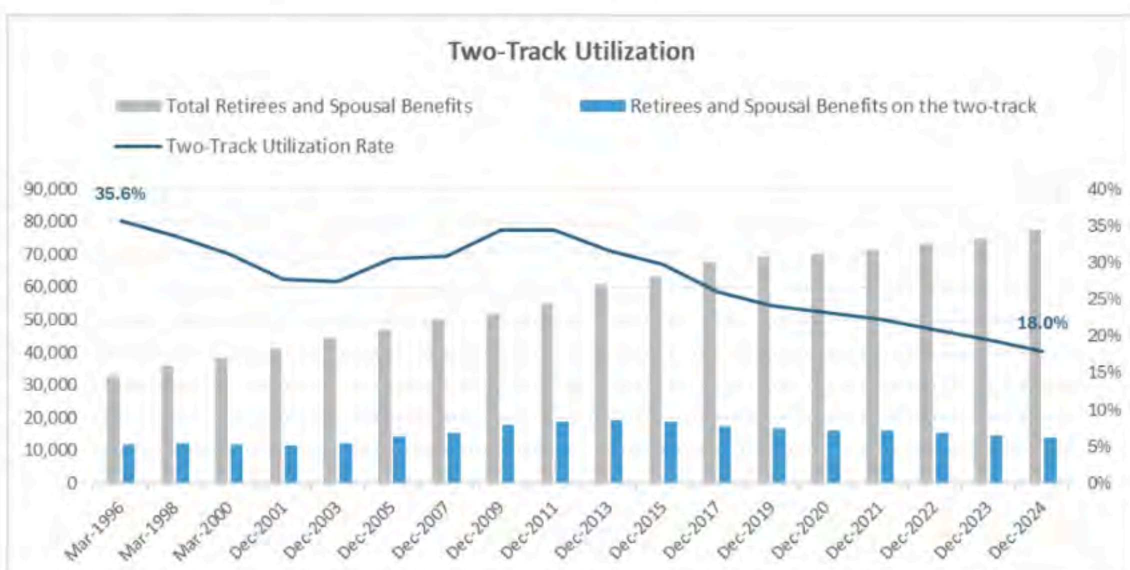
The nominal rate of return is simply the combination of the real rate of return plus inflation. In the baseline, or "Regular basis" scenario, the real rate of return will be 3.4 per cent (same as the 2023 valuation) plus 2.6 per cent inflation, yielding a 6 per cent nominal return.

For some scenarios, different inflation rates will be subtracted from the nominal rates of return to project how the real rate of interest (return) of the Fund might evolve over the long term. As a mature Fund, the importance of the real rate of return is paramount.

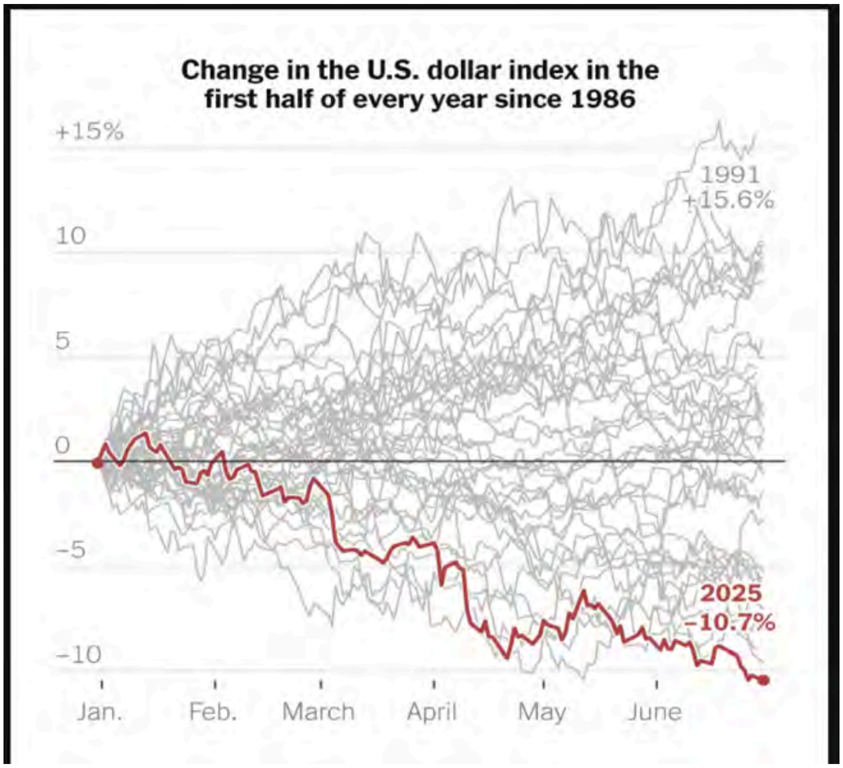
Because it is important for the Board to focus on the downside risks, the scenarios will incorporate nominal rates of return of 5.0 per cent and 6.5 per cent. It may be observed that the downside return scenario is a full 1 percentage point lower than the baseline case of 6 per cent, whilst the upside scenario is only half a percentage point higher than the baseline case of 6 per cent. The explanation for this asymmetrical approach is that the Committee of Actuaries wishes for the Board to focus on downside risks.

The Two-Track System

The decreasing utilization of the Two-Track System has been observed in recent years, strongly associated with the strong US Dollar. In the upcoming actuarial valuation, the assumed cost of the Two-Track utilization is not expected to change from the 2.1 per cent of PR, however, noting the significant decline in the US Dollar during the first half of 2025 more retirees may elect to have the two track. xThe next chart show the declining take-up of the Two-Track system in recent years:



This chart shows why the Two-track Utilization rate may become more popular:



Solvency Risk Factors included in the discussions

a) The Two-Track System: The take-up remains lower than historical levels due to a strong U.S. dollar, but the Committee noted the potential for an increase in utilization, should the dollar weaken. Currency volatility and take-up rates are variables to monitor.

b) Lump-sum commutation: Solvency and liquidity can, in some cases, be sensitive to the amount of lump sum payments. Further analysis of this risk has been recommended by the Committee of Actuaries.

c) Sponsor/Employer decisions: Downsizing poses a key question for 2025 and beyond. Changes in staffing may change the risk profile of the Fund's liabilities. A reduction in pensionable remuneration could have an impact on solvency, so additional stress testing is recommended by the Committee of Actuaries.

d) New Entrants: Anticipated funding cuts will lead to a reduction in new participants joining the Fund and the profile of the new entrants may be different than the profile of new entrants in prior years**.**

e) Mortality: There is no immediate risk to the Fund.

f) Actual investment returns: This risk continues to be closely monitored.

g) Future outlook for investment returns: One of the key risk drivers for solvency. Returns become more important as the Fund matures. Note that as the number of retirees grows steadily, downsizing may reduce the proportion of active participants and therefore, contributions. This item continues to be monitored closely.

h) Inflation: Macroeconomic factors such as sovereign debt levels and tariffs may mean that higher inflation could persist into the future. The 2025 cost-of-living (COLA) adjustment to benefits was higher than the actuarial assumption. Inflation will continue to be closely monitored.

i) Liquidity: Initial analysis would suggest that even with greater volumes of separations over the next couple of years, the Fund is not expecting to face any liquidity issues. From a solvency perspective, the key concern might be that OIM might be forced to sell assets unexpectedly and at a time that is not optimal for investment returns. This item will be monitored closely.

Extension of the Current Contract with the Consulting Actuary

If approved by the UNJSPF Board, the contract with the Consulting Actuary may be renewed for a final two years under the current contract with Gallagher (formerly known as Buck). This would be the final renewal allowed, so after that a full procurement exercise would be required.

Both the Committee of Actuaries and the FSALMC support a two-year extension of the current contract with Gallagher. It was noted, during the joint meeting between the Committee of Actuaries and the FSALMC that the actuarial consulting business was limited to a handful of vendors, given the recent consolidation of the pension benefit industry.

Conclusion of the Chair of the Committee of Actuaries

The Chair of the Committee of Actuaries expressed her appreciation of the Committee, the Consulting Actuary, and the Pension Administration staff. She noted that it technically informs and advises the FSALM Committee and the Pension Board on funding and solvency matters. Expected reductions in the participant population and volatility in the global economic environment suggest that these roles may become all the more important.

Recommendations for the FAFICS Council

a) To support the solvency analysis and monitoring work of the Committee of Actuaries, the Consulting Actuary, the FSALM Committee and the Pension Administration staff as they inform and advise the Pension Board in its oversight of the Fund.

b) To concur with the recommendation to renew the contract with the Consulting Actuary (Gallagher) for a final two years.

c) To support and strengthen the collaboration between the Consulting Actuary, the Committee of Actuaries, the Investments Committee, and the FSALM Committee, enabling them to guide the Board in safeguarding the solvency of the Fund.

d) To note that a reduction in the population of active participants means that FAFICS may represent a larger constituency of the Fund.