

UNJSPF's Two-Track system: Challenges and Prospects

At present, around half the countries of residence of UN retirees no longer have access to the local track payment system. The purpose of this article is to draw your attention to the challenges posed by the recent evolution of the benefit.

Definition of the two-track

On the UNJSPF website¹, the service is defined as follows:

“Two-Track is an option made available by the Fund so that beneficiaries living in high cost of living countries can receive a periodic benefit that can adapt to the local cost-of-living changes. It has little to do with the choice of currency in which you wish to receive your periodic benefit and is more dependent on the differences in the cost of living between your preferred country of residence and the cost of living in the United States.”

The future retiree of the United Nations system can thus choose between a benefit in US dollars or in local currency:

“Your local track pension is calculated by converting the value of your dollar track pension on the first day of your retirement, at an average exchange rate between the United States dollar and the currency of the country of your residence (this average is computed over the 36 consecutive calendar months up to and including the month of separation). This local track amount is your protection against future fluctuations of the exchange rate.”

Conditions for suspending services in local currency

The Fund Secretariat may decide to suspend payment in local currency in certain countries:

“From time-to-time in a given country, the conditions relating to inflation and the exchange rate with the US dollar lead to the two-track feature not performing in the way that is fair to all beneficiaries within that country. Notably, it can lead to unintended inequalities between different groups of two-track beneficiaries in the country. To address such issues, under the Pension Adjustment System, the UNJSPF may suspend in the two-track in the affected country.”

Latest information on the two-track status

Since the introduction of this benefit in the 1980s, the Committee of Actuaries has strongly criticized this provision, finding it too costly, and the currency fluctuation factor makes actuarial estimation tricky. In addition, the Secretariat has always stated that calculating the benefit in local currency is time-consuming, despite the computer aids available.

On May 2, the Fund Secretariat published a report on the last meeting of the Governing Board (April 25-26, 2024), informing us of the latest suspensions.

“Following a regular analysis of the Two-Track feature across all Two-Track countries, the Board was informed that, effective 1 November 2024, the local currency track benefit will be suspended in Czechia, Estonia, Haiti, Lithuania, Sierra Leone, Suriname and Uruguay. Notices will be issued to the affected individuals by the end of April. The Board took note of the suspensions.”²

To date, some 80 countries do not qualify, or no longer qualify, for this benefit.

At the last FAFICS Board meeting in July 2023, the Fund's Chief Financial Officer was quick to criticize this benefit. His main argument was that it was complex to manage and that, in any case, few colleagues when retiring select the local currency track. The Director's observation that few

¹ <https://www.unjspf.org/for-clients/two-track-pension-adjustment-system/>

² <https://www.unjspf.org/newsroom/highlights-from-the-77th-session-of-the-pension-board/>

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colleagues opt for local currency is essentially due to the more favorable exchange rate at the moment. It is purely cyclical and may vary over time.

As mentioned above, the Fund's rules allow certain countries to be excluded from the scheme for lack of reliable statistics or for aberrant results due to exchange rates. In 2023, the Fund excluded Slovakia (the first country in the Euro zone).

Every ten years or so, the Pension Board sets up a working group to study the future of the Pension Fund, known in English as a "plan design". The third working group on the Fund's "design plan" is due to deliver its report in July, but the Board has clearly asked it not to deal with the issue of the two-track system.

What can we do about it?

The two-track system is a given, and even if for some it is currently more attractive to receive the benefit in USD, the possibility to opt for the local currency track remains a security, as we do not know how exchange rates will evolve in the future. This nibbling at the edges could lead to fears of a de facto abolition of this option, and enable the Secretariat to present itself to the Joint Committee by demonstrating that the small number of colleagues using the benefit would render it obsolete, and could therefore ask for it to be abolished.

AAFI-AFICS and our FAFICS colleagues on the UNJSPF Joint Committee remain vigilant on this issue. We have asked them to put pressure on the Secretariat to finalize a mechanism to lift a country's suspension in the event that the conditions that led to the suspension are reversed, and thus re-establish the two-track system. To be continued...

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