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联合国粮食及农业组织 Food and Agriculture Organization of the United Nations Organisation des Nations Unies pour l'alimentation et l'agriculture Продовольственная и сельскохозяйственная организация Объединенных Наций Organización de las Naciones Unidas para la Alimentación y la Agricultura منظمة الأغذية والزراعة للأمم المتحدة

FINANCE COMMITTEE

Hundred and Fifty-seventh Session
Rome, 9 - 13 March 2015
2014 Actuarial Valuation of Staff-related Liabilities

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- This document updates the Finance Committee on the results of the actuarial valuation of the Organization's liability for staff-related plans (the "Plans") at 31 December 2014.
- **Section I. *Introduction*** describes the Plans, which provide distinct benefits to staff either on completion of service or as a result of work-related illness or injury. It also explains the purpose of annual actuarial valuations.
- **Section II. *Results of Actuarial Valuation*** summarises the total liability of the Plans as at 31 December 2014, 2013 and 2012 and provides the key assumptions used in those valuations. During 2014, the total liabilities of the Plans increased by an amount totalling USD 193.0 million from USD 1,197.5 million at 31 December 2013 to USD 1,390.4 million at 31 December 2014. The various reasons for the increase are detailed in this section.
- **Section III**. ***Current Financial Situation*** provides the total recorded, unrecorded and net balance sheet liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for the Plans as at 31 December 2014, 2013 and 2012, respectively. The total unfunded liability of the Plans as at 31 December 2014 was USD 952.3 million compared to USD 765.9 million at 31 December 2013.
- **Section IV. *Accounting and Funding*** provides a comparison of the annual Current Service Costs for the Plans for the three years ending 31 December 2015. The total Current Service Cost for 2015 is USD 46.9 million (2014 – USD 38.3 million). This section also includes full funding proposals for the ASMC plan and Terminal Payments Fund (TPF). The annual past-service ASMC funding amortization to fully fund the liability by 2040 amounts to USD 27.3 million, while the funding approved by Conference for 2014 and 2015 amounted to USD 7.05 million per year leaving a shortfall of USD 20.25 million per year. The annual past-service TPF funding amortization to fully fund the liability by 2025 amounts to USD 6.6million for which no funding has ever been approved.
- **Section V**. ***Funding of After Service Medical Liabilities*** provides an update on progress made by the Secretariat in reviewing options to address the funding gap of the ASMC liability, including through its discussions with the Organizations of the United Nations Common System.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the results of the 2014 actuarial valuation and the current financial situation, accounting and funding of the Organization’s liability for staff-related plans at 31 December 2014. The Committee is invited to report to Council the biennial funding amounts necessary to fully fund the liabilities by 2040 (ASMC) and 2025 (TPF).

Draft Advice

The Committee:

- **noted that total staff related liabilities as at 31 December 2014 amounted to USD 1,390.5 million, representing an increase of USD 193.0 million from the valuation at 31 December 2013 due mainly to an increase in the discount rate;**
- **noted the ongoing review of the issue of unfunded After Service Medical Coverage (ASMC) Liabilities in the United Nations Common System and urged the Secretariat to keep the Committee informed of the outcome of these discussions;**

I. Introduction

1. FAO has four staff-related plans (the "Plans") that provide benefits to staff members either upon completion of service or as a result of work related illness or injury. The Plans are as follows:

- Separation Payments Scheme (SPS) –The provisions of the separation payments scheme apply only to staff members in the General Service category at Headquarters and are paid on separation from the Organization or on promotion to the Professional category.

- Termination Payments Fund (TPF) – The Termination Payment Fund comprises benefits payable to staff upon separation from service, specifically Repatriation Grant, Repatriation Travel and Removal, Commutation of Accrued Leave, Termination Indemnity, and where applicable, Death Grant.

- After Service Medical Coverage (ASMC) – is a medical insurance plan for retired staff and their families meeting certain eligibility criteria. The Basic Medical Insurance Plan provides partial reimbursements for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The premium of the Basic insurance is nominally shared between the retired staff member and the Organization.

- Compensation Plan Reserve Fund (CPRF) – The Compensation Plan provides benefits subject to certain limitations to staff members (including, inter alia, consultants and persons holding Personal Service Agreements) in the event of injury, illnesses, or death attributable to the performance of official duties. The benefits include annuities or lump-sum payments (supplementing the UN Pension benefits, if applicable) in the event of death or disability, and reimbursement of reasonable medical, hospital and directly-related expenses.

2. All of the above Plans are treated by the Organization as defined benefit plans. To meet the financial reporting requirements the Organization annually obtains from an external actuarial firm a valuation of all the Plans in order to:

a) determine the Organization's overall liabilities associated with the Plans;
b) establish the annual expense related to the Plans' maintenance;
c) quantify recommended rates of contributions to fully fund the liabilities; and
d) obtain information necessary to meet financial reporting requirements.

The actuarial valuations for 2014, 2013 and 2012 were all performed by Aon Hewitt (www.aon.com). This document refers to the results of the actuarial valuation as at 31 December 2014 and the current financial situation, and accounting and funding of the Organization's liability with information as at 31 December 2013 and 2012 as comparatives.

II. Results of Actuarial Valuations

3. A comparison of the total actuarial liability by plan as at 31 December 2014, 2013 and 2012 is detailed in Table 1.

Table 1

(in USD Millions)		Increase / (Decrease)			Increase / (Decrease)		
Plan	**2014**	***USD m***	***%***	**2013**	***USD m***	***%***	**2012**
CPRF	18.9	*0.4*	*2.2%*	18.5	*(1.1)*	*-5.6%*	19.6
TPF	64.5	*(7.7)*	*-10.7%*	72.2	*(3.2)*	*-4.2%*	75.4
SPS *	67.4	*(2.0)*	*-2.8%*	69.4	*(18.7)*	*-21.2%*	88.1
ASMC	1,239.7	*202.3*	*19.5%*	1,037.4	*(24.7)*	*-2.3%*	1,062.1
Total actuarial liability	**1,390.5**	***193.0***	***16.1%***	**1,197.5**	***(47.7)***	***-3.8%***	**1,245.2**

** In 2014, the SPS liability is shown net of advances and 2012 and 2013 have been restated accordingly*

As detailed in Table 1 above, the net increase of USD 193.0 million in the actuarial liability between 2014 and 2013 was significant. The variations relating to the assumptions and methods were as follows:

Sources of Changes of the Plans from 2013 to 2014	**Variations USD millions**
Expected change, without New Entrants*	42.2
Decrease in discount rates	293.7
Movement in Euro-USD exchange rate	(100.0)
Claims and administrative expenses experience	(54.8)
Change in UNJSPF Mortality Assumptions	22.4
Others	(10.5)
Total net increase	**193.0**

** Expected increase due to Service Cost (additional benefits earned) and Interest Cost, offset by expected decrease due to actual benefit payments*

4. The actuarial valuation of the Plans requires the Organization to make certain assumptions in order to best estimate the cost of providing these benefits to its staff members. Such assumptions include demographic (e.g. mortality rates/estimates, rates of staff member turnover, claim rates under medical plans, etc.) and financial (e.g. discount rate, future salaries and benefits, future medical costs, etc.). Owing to changes in factors, both internal and external, the Organization, together with the actuaries, performs an annual review of the assumptions used in the actuarial valuation and adjusts them where it is deemed necessary for a more accurate calculation of the Plan liabilities. Like most actuarial calculations, annual valuations are subject to significant uncertainty and unpredictability. In particular, the values of the Organization's liabilities for the Plans are highly sensitive to changes in the EUR-USD exchange rate, the discount rate, and medical claims and anticipated medical inflation. For the purpose of the 2014 actuarial valuation there were no significant changes in the basis of the actuarial assumptions. The key assumptions used in the valuations of the Plans for 2014, 2013 and 2012 are presented below in Table 2.

Table 2

Key Assumptions	2014	2013	2012
Economic			
→ Discount rate			
ASMC	2.9%	4.3%	3.9%
SPS	1.4%	3.0%	2.5%
TPF	2.8%	3.7%	3.0%
CPRF	3.7%	4.6%	3.8%
→ Medical cost inflation rate	5% starting from 2015 to 2024; 4.5% for 2025-2044; 4% for 2045 and beyond	5% starting from 2014 to 2024; 4.5% for 2025-2044; 4% for 2045 and beyond	5% starting from 2013 to 2024; 4.5% for 2025-2044; 4% for 2045 and beyond
→ General inflation rate	2.5 % per year	2.5 % per year	2.5 % per year
→ Year end spot rate €/USD	1.22	1.38	1.33

III. Current Financial Situation

5. Table 3 below shows the total recorded and unrecorded liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for all Plans as compared to the fair market value of earmarked long-term assets at 31 December 2014, 2013 and 2012, respectively.

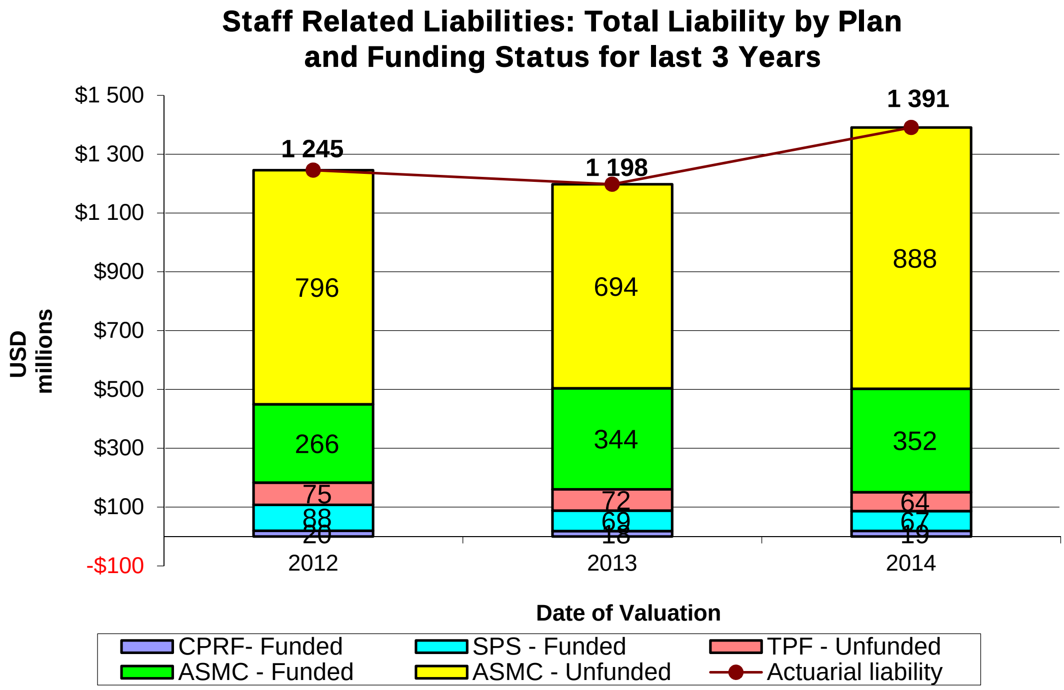
Table 3

	2014	2013	2012
	USD millions	USD millions	USD millions
Plan			
CPRF	18.9	18.5	19.6
TPF	64.5	72.2	75.4
SPS*	67.4	69.4	88.1
ASMC	1,239.7	1,037.4	1,062.1
Total actuarially determined liabilities	**1,390.5**	**1,197.5**	**1,245.2**
Less: Earmarked long-term investments (at Fair Market Value)	(438.2)	(431.6)	(374.2)
Total unfunded liabilities **	**952.3**	**765.9**	**871.0**
** Of which:			
TPF	64.4	72.2	75.4
ASMC	887.9	693.7	795.6
Total unfunded liabilities	**952.3**	**765.9**	**871.0**

** In 2014, the SPS liability is shown net of advances and 2012 and 2013 have been restated accordingly*

Graph 1 below details the total liability by plan and its funding status:

Graph 1



6. During 2014, the carrying value of long-term investments earmarked by the Organization for the Plans increased by USD 6.6 million from USD 431.6 million at 31 December 2013 to USD 438.2 million at 31 December 2014. For comments on investments, reference should be made to the Report on Investments 2014 (document FC 157/4).

IV. Accounting and Funding

7. Table 4 and Graph 2 below show the annual Current Service Costs[1] for the three years ending 31 December 2015, which are based on the actuarial valuations for the preceding years at 31 December 2014, 2013 and 2012, respectively.

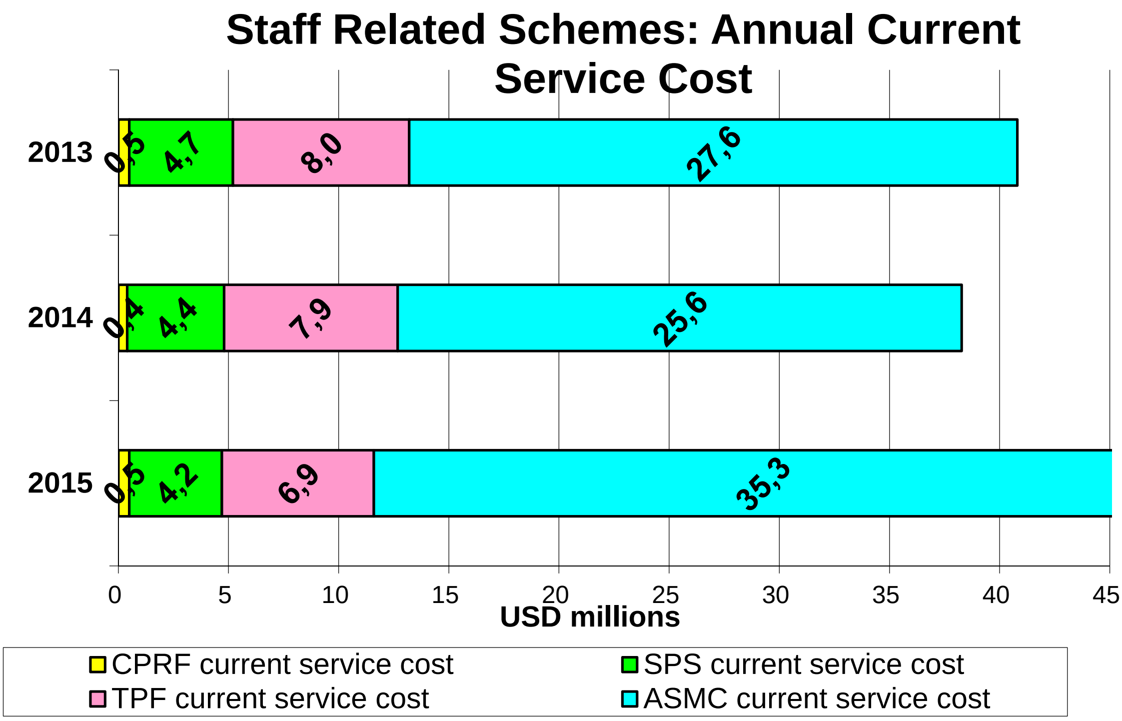
[1] The current service cost is a standard component of staff costs and arises each year as active staff members provide their services in exchange for these benefits to be paid in the future. The above costs comprise both the Regular Programme and Trust Funds

Table 4

Current service costs

Plan	2015 USD millions	2015 % total expense	2014 USD millions	2014 % total expense	2013 USD millions	2013 % total expense
CPRF	0.5	*1.1%*	0.4	*1.0%*	0.5	*1.2%*
TPF	6.9	*14.7%*	7.9	*20.6%*	8.0	*19.6%*
SPS	4.2	*9.0%*	4.4	*11.5%*	4.7	*11.5%*
ASMC	35.3	*75.3%*	25.6	*66.9%*	27.6	*67.6%*
Total	**46.9**	***100.0%***	**38.3**	***100.0%***	**40.8**	***100.0%***

Graph 2



8. In total, the 2015 service cost increased by a net USD 8.6 million. While there was a slight reduction in the service costs for the TPF and SPS, the ASMC service cost increased by USD 9.7 million. The reasons for the increase in ASMC were as follows:

- increase of USD 12.3 million due to the decrease in the discount rate from 4.3% to 2.9%;
- offset by other net decreases of USD 2.6 million including the movement in the year end Euro-Dollar exchange rate and claims and administration expenses experience.

9. Conference Resolutions 10/99 and 10/2001 provide that long-term investments and any income which they generate are to be applied first to ensure the adequacy of funding of the SPS and CPRF. The Resolutions also provided that any additional investments and related income then be earmarked for the ASMC and subsequently for the TPF. As of 31 December 2014, both the ASMC

and TPF continue to be underfunded (refer also to Table 3 and Graph 1). The earmarking of the long-term investments and the SPS advances to the plans is shown in Table 5 below.

Table 5

Long term investments earmarked against the Plans

Plan	2014 USD millions	2013 USD millions	2012 USD millions
Fully funded			
CPRF	18.9	18.5	19.2
SPS *	67.4	69.4	86.7
Partially funded			
ASMC	351.9	343.7	268.3
Unfunded			
TPF	0.0	0.0	0.0
Total funded liabilities	**438.2**	**431.6**	**374.2**
Funded by:			
Earmarked long-term investments	**438.2**	**431.6**	**374.2**

** In 2014, the SPS liability is shown net of advances and 2012 and 2013 have been restated accordingly*

10. In accordance with Finance Committee and FAO Council guidance, the Secretariat has obtained from FAO's actuaries the annual amounts required to fully fund the ASMC and TPF liabilities using target dates of 31 December 2040 and 31 December 2025, respectively.

11. Based on the most recent actuarial valuation as of 31 December 2014, in order to fully fund the TPF past service liability of USD 64.4 million (using a 15-year amortization period starting in 2010), the Organization would need to contribute an additional USD 6.6 million per year (USD 13.2 million per biennium).

12. Based on the most recent actuarial valuation as of 31 December 2014, in order to fully fund the US Dollar value of the unfunded ASMC past service liability of USD 887.9 million (using a 30-year amortization period beginning in 2010), USD 27.3 million per year (USD 54.6 million per biennium) would need to be contributed. By comparison, assessments on Member Nations towards funding of the past service ASMC liability for the biennium 2014-15 currently amount to USD 7.05 million per year (USD 14.1 million per biennium) as approved by Conference in June 2013. This level of funding, based on the original target funding date of 31 December 2027, was first approved by Conference in November 2003 for the 2004-05 biennium, and has remained unchanged through subsequent biennia, notwithstanding the increase in the unfunded amount of the ASMC.

V. Funding of After Service Medical Liabilities

13. At its 156th Session in November 2014, the Committee considered document FC 156/5, *Funding of After Service Medical Coverage (ASMC) Liabilities*, which presented an analysis of options to address the funding gap of the ASMC liability.

14. Since the meeting of the Finance Committee in November 2014, the Secretariat has continued in its efforts to seek an optimum solution to the ASMC issue, including through its discussions with the Organizations of the United Nations Common System and its participation in the ASHI (After Service Health Insurance) Working Group of the Finance and Budget Network of the High Level Committee on Management (HLCM).

15. The Terms of Reference of the ASHI Working Group have as there overall goal to analyse commonalities and differences in the UN system approach to the definition, funding and management

of the ASHI from a comprehensive perspective to inform on-going discussions and identify actions which could engender more efficient and effective common approaches, noting the different business models, funding sources and demographics within the UN System. 4 pillars have been identified for analysis by the working group with the following deliverables:

- Pillar A: A comprehensive understanding of the main cost drivers of the ASHI and of the landscape of different service providers and the potential for alternative arrangements and for greater harmonization and greater efficiency.
- Pillar B: An analysis of the pros and cons of a centrally managed UN common system entity to manage ASHI, including the option of a direct UNJSPF role, as well as other possible options. The analysis will include, inter alia, the design of the medical insurance schemes, procurement of the insurance-related services, administration of the schemes, including the relationship with the participants, and the human resources, financial and legal implications of such options.
- Pillar C: A comparative and reasoned understanding of existing differences in financial variables and levels of disclosure to increase credibility of results and raise awareness of auditors, and of variations in the terms and conditions with different actuaries, in view of identifying proposals to increase standardization and the overall efficiency of determining and disclosing the ASHI liability.
- Pillar D: A guideline of existing best practices taken by early adopters in the system and a set of proposals to take more effective and efficient approaches for definition, funding and management of the ASHI liability at the entity level and/or UN system level, including the implications on transfers of active staff between Organizations.

16. A further Pillar E covering the analysis of existing investment styles and a proposal on how to gain efficiencies by pooling the ASHI related investments will be addressed by the Treasury Common Services Working Group.

17. The ASHI Working Group has finalized the Terms of Reference for a project consultancy to perform a study covering Pillars A and B and the proposed study was endorsed by the HLCM Steering Committee for the Harmonization of Business Practices Trust Fund. The final deliverables of the study are expected to contribute significantly to the end vision of ASHI management in the UN System, and to identify key proposals and initiatives to increase efficiency and cost-effectiveness. The study will be performed during 2015and the Secretariat will keep the Finance Committee informed of its progress.

18. As a member of the UN Working group, FAO participates in the analysis of all 4 pillars.