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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 Eighty-fifth Session

Rome, 22 - 26 March 2021

2020 Actuarial Valuation of Staff Related Liabilities

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EXECUTIVE SUMMARY

- This document updates the Finance Committee on the preliminary results of the actuarial valuation of the Organization’s liability for staff-related plans (the “Plans”) at 31 December 2020.

- 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 summarizes the total liability of the Plans as at 31 December 2020, 2019 and 2018 and provides the key assumptions used in those valuations. During 2020, the total liabilities of the Plans increased by an amount totalling USD 17.9 million from USD 1 481.6 million at 31 December 2019 to USD 1 499.5 million at 31 December 2020. 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 2020, 2019 and 2018, respectively. The total unfunded liability of the Plans as at 31 December 2020 was USD 860.0 million compared with USD 928.5 million at 31 December 2019.

- Section IV. Accounting and Funding provides a comparison of the annual Current Service Costs for the Plans for the three years ending 31 December 2021. The total Current Service Cost for 2021 is USD 46.8 million (2020 – USD 46.4 million).

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the preliminary results of the 2020 actuarial valuation and the current financial situation, accounting and funding of the Organization’s liability for staff-related plans at 31 December 2020.

Draft Advice

The Committee:

- **noted that total staff-related liabilities as at 31 December 2020 amounted to USD 1 499.5 million, representing an increase of USD 17.9 million from the valuation at 31 December 2019;**
- **further noted that the net increase in the valuation at 31 December 2020 was driven mainly by expected changes in the value of the liabilities and the impact of a decrease in the discount rates applied.**

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 SPS 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 TPF 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 reimbursement for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The premium of the Basic Medical Insurance is nominally shared between the retired staff member and the Organization; and
- Compensation Plan Reserve Fund (CPRF): the CPRF provides benefits subject to certain limitations to staff members and Non-Staff Human Resources (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-mentioned 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.

3. The actuarial valuations for 2020, 2019, and 2018 were all performed by Aon Hewitt (www.aon.com). This document refers to the Preliminary results of the actuarial valuation as at 31 December 2020 and the current financial situation, and accounting and funding of the Organization's liability with information as at 31 December 2019 and 2018 as comparatives. The preliminary results of the actuarial valuation have been used for the purposes of preparation of this document in order to meet document distribution deadlines for the 185th Session of the Finance Committee. Based on previous experience, no significant changes are expected when the final actuarial valuation report as at 31 December 2020 is issued. Any change will be reported to the Committee during its 185th Session.

II. Results of Actuarial Valuations

4. A comparison of the total actuarial liability by plan as at 31 December 2020, 2019 and 2018 is detailed in Table 1.

Table 1

(in USD Millions)		Increase/ (Decrease)			Increase/ (Decrease)		
Plan	**2020**	***USD m***	***%***	**2019**	***USD m***	***%***	**2018**
CPRF	23.0	*0.3*	*1.3%*	22.7	*4.1*	*22.0%*	18.6
TPF	70.7	*8.2*	*13.1%*	62.5	*6.9*	*12.4%*	55.6
SPS	52.4	*4.2*	*8.7%*	48.2	*1.3*	*2.8%*	46.9
ASMC	1,353.4	*5.2*	*0.4%*	1,348.2	*104.8*	*8.4%*	1,243.4
Total actuarial liability	**1,499.5**	***17.9***	***1.2%***	**1,481.6**	***117.1***	***8.6%***	**1,364.5**

5. As detailed in Table 1 above, the net increase in the actuarial liability between 2020 and 2019 amounted to USD 17.9 million. The variations relating to the assumptions and methods were as follows:

Table 1a

Sources of Changes of the Plans from 2019 to 2020	**Variations USD millions**
Expected change, without new entrants*	40.1
Decreases in Discount Rates	60.8
Claims, Administrative Expenses, and Trend Rate Changes	(35.8)
Updates to Annuitant Mortality Assumptions	(20.8)
Increase in Annuitant Lapse Rates from 0.2% to 0.3% Per Year	(21.6)
Decreases in Assumed General/Salary Inflation**	(6.2)
All Other Factors	1.4
Total net increase	**17.9**

** Expected increase due to Service Cost (additional benefits earned) and Interest Cost, offset by expected decrease due to actual benefit payments*
*** Excludes the impact of lower general inflation on ASMC cost increases*

6. 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. These include both 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.) assumptions. 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 Euro-United States Dollar exchange rate, the discount rate, and medical claims and anticipated medical inflation. Additionally, during 2020, the Organization moved to using headcount weighted mortality tables for the ASMC liability, from the previous pension amount weighted UNJSPF mortality tables, in line with harmonization guidance from the UN Task Force, which resulted in a lower liability.

7. The key assumptions used in the valuations of the Plans for 2020, 2019 and 2018 are presented in Table 2.

Table 2

Key Assumptions	2020	2019	2018
Economic			
Discount rate			
ASMC	1.8%	2.0%	2.9%
SPS	0.2%	0.6%	1.3%
TPF	1.4%	2.2%	3.2%
CPRF	2.7%	3.4%	4.4%
Medical cost inflation rate	4.05% during 2021, decreasing 0.05% annually to 3.45% in 2033 and later years	4.10% during 2020, decreasing 0.05% annually to 3.70% in 2028 and later years	4.6% for 2019 decreasing 0.1% every 2 years to 4.1% in 2029, and then decreasing 0.1% every year to 3.7% in 2033 and later years.
General inflation rate	Varies by plan (1.1% - 1.7%)	Varies by plan (1.8% - 2.2%)	Varies by plan (1.8% - 2.2%)
Year end spot rate €/USD	1.23	1.12	1.14

III. Current Financial Situation

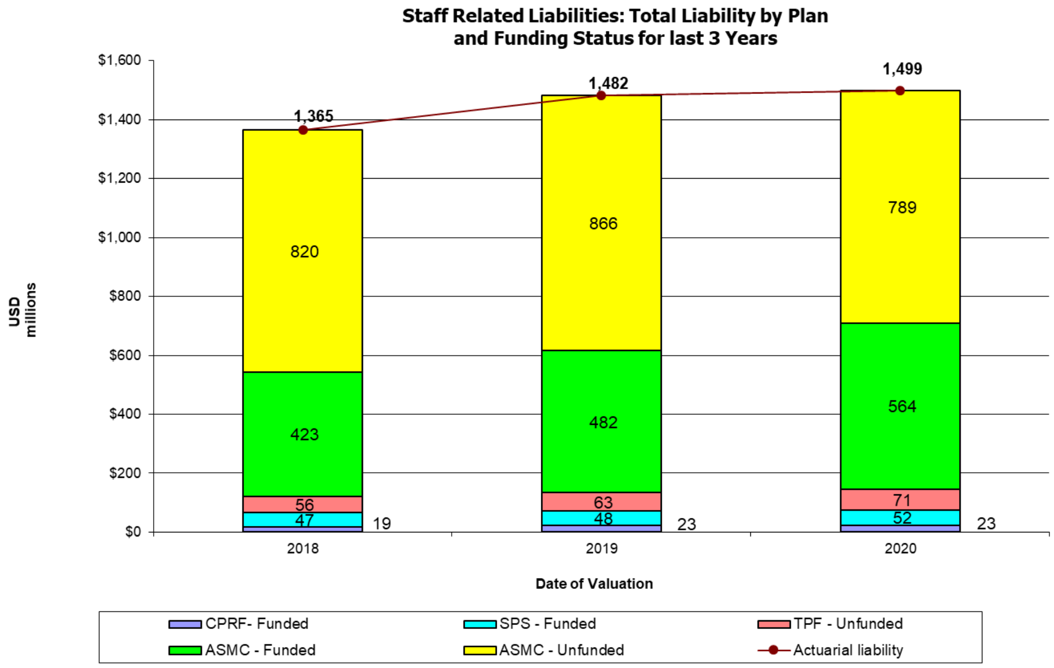
8. Table 3 below shows the total recorded liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for all Plans as compared to the fair market value of earmarked long-term assets at 31 December 2020, 2019 and 2018 respectively.

Table 3

	2020	2019	2018
	USD millions	USD millions	USD millions
Plan			
CPRF	23.0	22.7	18.6
TPF	70.7	62.5	55.6
SPS	52.4	48.2	46.9
ASMC	1,353.4	1,348.2	1,243.4
Total actuarially determined liabilities	**1,499.5**	**1,481.6**	**1,364.5**
Less: Earmarked long-term investments (at Fair Market Value)	(639.5)	(553.1)	(488.6)
Total unfunded liabilities *	**860.0**	**928.5**	**875.9**
* Of which:			
TPF	70.7	62.5	55.6
ASMC	789.3	866.0	820.3
Total unfunded liabilities	**860.0**	**928.5**	**875.9**

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

Graph 1



10. During 2020, the carrying value of long-term investments earmarked by the Organization for the Plans increased by USD 86.4 million from USD 553.1 million at 31 December 2019 to USD 639.5 million at 31 December 2020. Further details on investment are presented in the Report on Investments 2020 (document FC 185/3).

IV. Accounting and Funding

11. Table 4 and Graph 2 below show the annual Current Service Costs[1] for the three years ending 31 December 2021, which are based on the actuarial valuations for the preceding years at 31 December 2020, 2019 and 2018 respectively.

Table 4

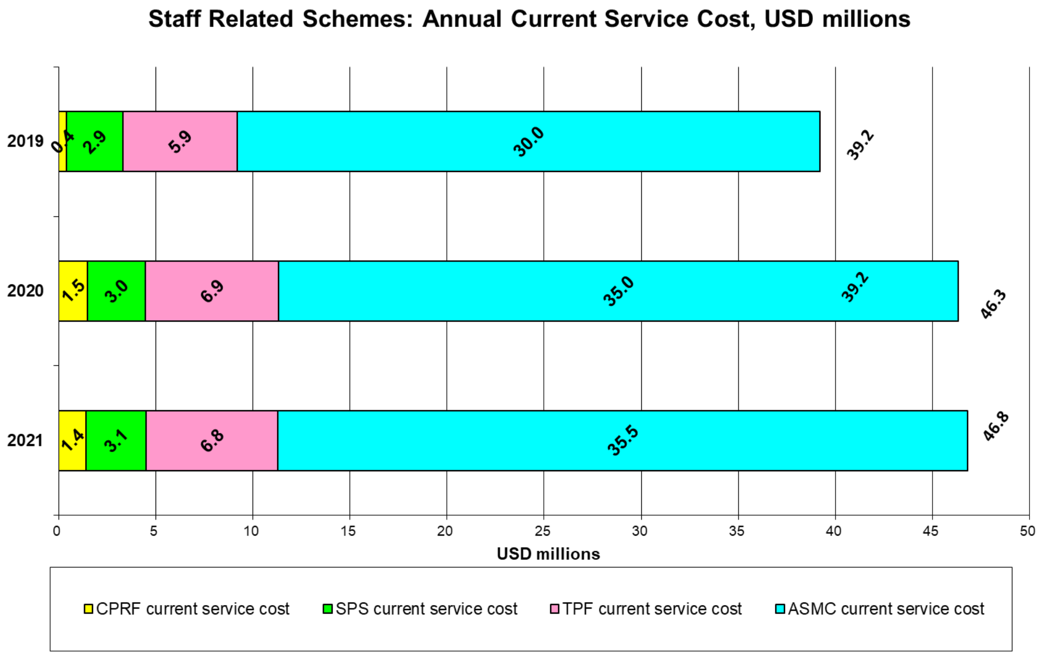
Current service costs

Plan	**2021**		**2020**		**2019**	
	USD millions	***% total expense***	**USD millions**	***% total expense***	**USD millions**	***% total expense***
CPRF	1.4	*3.0%*	1.5	*1.3%*	0.4	*1.0%*
TPF	6.8	*14.5%*	6.9	*15.2%*	5.9	*15.1%*
SPS	3.1	*6.6%*	3.0	*6.6%*	2.9	*7.4%*
ASMC	35.5	*75.9%*	35.0	*76.9%*	30.0	*76.5%*
Total	**46.8**	***100.0%***	**46.4**	***100.0%***	**39.2**	***100.0%***

[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 aforementioned costs comprise both the Regular Programme and Trust Funds.

12. Service costs presented for the years 2021 and 2020 for CPRF include a component for Non-Staff Human Resources, which were recognized during the 2019 valuation process as being covered by the plan's provisions. This cost is not included in 2018 and prior years' expenses.

Graph 2



- ➢ Overall the 2021 service costs are consistent with those for 2020, both in total and at an individual plan level.

13. 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 2020, 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 are shown in Table 5 below.

Table 5

Long term investments earmarked against the Plans			
Plan	**2020**	**2019**	**2018**
Fully funded	**USD millions**	**USD millions**	**USD millions**
CPRF	23.0	22.7	18.6
SPS	52.4	48.2	46.9
Partially funded			
ASMC	564.1	482.2	423.1
Total funded liabilities	**639.5**	**553.1**	**488.6**
Funded by:			
Earmarked long-term investments	**639.5**	**553.1**	**488.6**
Unfunded			
ASMC	789.3	866.0	820.3
TPF	70.7	62.5	55.6
Total unfunded liabilities	**860.0**	**928.5**	**875.9**
Total actuarial liability	***1,499.5***	***1,481.6***	***1,364.5***