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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

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FINANCE COMMITTEE

Hundred and Fifty-fourth Session

Rome, 26 - 30 May 2014

2013 Actuarial Valuation of Staff-related Liabilities

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

Mr Aiman Hija

Director, Finance Division and Treasurer

Tel: +3906 5705 4676

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 2013.
- **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 2013, 2012 and 2011 and provides the key assumptions used in those valuations. During 2013, the total liabilities of the Plans decreased by an amount totalling USD 39.4 million from USD 1,252.5 million at 31 December 2012 to USD 1,213.1 million at 31 December 2013. The various reasons for the decrease 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 2013, 2012 and 2011, respectively. The total unfunded liability of the Plans as at 31 December 2013 was USD 765.9 million compared to USD 871.0 million at 31 December 2012.
- **Section IV. *Accounting and Funding*** provides a comparison of the annual Current Service Costs for the Plans for the three years ending 31 December 2014. The total Current Service Cost for 2014 is USD 38.3 million (2013 – USD 40.8 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 24.5 million, while the funding approved by Conference for 2014 and 2015 amounted to USD 7.05 million per year leaving a shortfall of USD 17.45 million per year. The annual past-service TPF funding amortization to fully fund the liability by 2025 amounts to USD 7.0 million for which no funding has ever been approved.
- **Section V**. ***Discussions within the United Nations System*** provides an update on the considerations of this matter by the United Nations General Assembly.
- **Addendum 1** provides further information on the options presented to the 151st Session of the Committee in November 2013 to address the funding gap of the ASMC Liability.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the results of the 2013 actuarial valuation and the current financial situation, accounting and funding of the Organization's liability for staff-related plans at 31 December 2013.
- The committee is also invited to note the further information presented by the Secretariat on options to reduce FAO's unfunded ASMC liabilities in the context of the considerations of this matter by the United Nations System and to provide any views or guidance.

Draft Advice

The Committee:

- **noted that total staff related liabilities as at 31 December 2013 amounted to USD 1,213.1 million, representing a decrease of USD 39.4 million from the valuation at 31 December 2012 due mainly to an increase in the discount rate accounting assumption;**
- **noted the ongoing review of the issue of unfunded After Service Medical Coverage (ASMC) Liabilities at the United Nations General Assembly and urged the Secretariat to keep the Committee informed of the outcome of these discussions;**
- **noted the options submitted by the Secretariat to fund the ASMC liability gap**
- **encouraged the Secretariat to evaluate in greater detail the option of additional funding of ASMC liabilities, while also seeking to determine the feasibility and cost effectiveness of a fully-insured option**
- **emphasized the importance of continuing to work with others within the UN System to seek a common approach to this matter , including a common protocol for establishing assumptions such as discount rates, to be used for computing ASMC liabilities**
- **urged the Secretariat to use its best efforts to maximize cost savings under the medical insurance plan**

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) –According to the provisions of this plan the General Service category staff at Headquarters are entitled to receive a separation payment equivalent to 1/12th of the staff member's Final Net Annual Salary Rate multiplied by years of service between 1 January 1975 and 31 December 1990, plus 1/13.5th of the staff member's Final Net Annual Salary Rate multiplied by years of service after 1 January 1991.

- 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 2013, 2012 and 2011 were all performed by Aon Hewitt (www.aon.com). This document refers to the results of the actuarial valuation as at 31 December 2013 and the current financial situation, and accounting and funding of the Organization's liability with information as at 31 December 2012 and 2011 as comparatives.

II. Results of Actuarial Valuations

3. A comparison of the total actuarial liability by plan as at 31 December 2013, 2012 and 2011 is detailed in Table 1.

Table 1

(in USD Millions)

Plan	2013	Increase / (Decrease) USD m	Increase / (Decrease) %	2012	Increase / (Decrease) USD m	Increase / (Decrease) %	2011
CPRF	18.5	*(1.1)*	*-5.6%*	19.6	*0.6*	*3.2%*	19.0
TPF	72.2	*(3.2)*	*-4.2%*	75.4	*8.1*	*12.0%*	67.3
SPS	85.0	*(10.4)*	*-10.9%*	95.4	*8.7*	*10.0%*	86.7
ASMC	1,037.4	*(24.7)*	*-2.3%*	1,062.1	*83.1*	*8.5%*	979.0
Total actuarial liability	**1,213.1**	***(39.4)***	***-3.1%***	**1,252.5**	***100.5***	***8.7%***	**1,152.0**

As detailed in Table 1 above, the net decrease of USD 39.4 million in the actuarial liability between 2013 and 2012 was not significant. The variations relating to the assumptions and methods were as follows:

Sources of Changes of the Plans from 2012 to 2013	**Variations**
	USD millions
Expected change, without New Entrants*	42.1
Increase in discount rates	(84.0)
Movement in Euro-USD exchange rate	32.6
Claims and administrative expenses experience	(17.8)
Change Due to Plan Amendments during 2013	(4.6)
Others	(7.7)
Total net decrease	**(39.4)**

** 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 2013 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 2013, 2012 and 2011 are presented below in Table 2.

Table 2

Key Assumptions	2013	2012	2011
Economic			
→ Discount rate			
ASMC	4.3%	3.9%	4.3%
SPS	3.0%	2.5%	4.3%
TPF	3.7%	3.0%	4.4%
CPRF	4.6%	3.8%	4.4%
→ Medical cost inflation rate	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	4% for 2012 to 2014, and 5% thereafter
→ General inflation rate	2.5 % per year	2.5 % per year	2.5% per year
→ Year end spot rate €/USD	1.38	1.33	1.29

III. Current Financial Situation

5. Table 3 below shows the total recorded and unrecorded liabilities[1] 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 2013, 2012 and 2011, respectively.

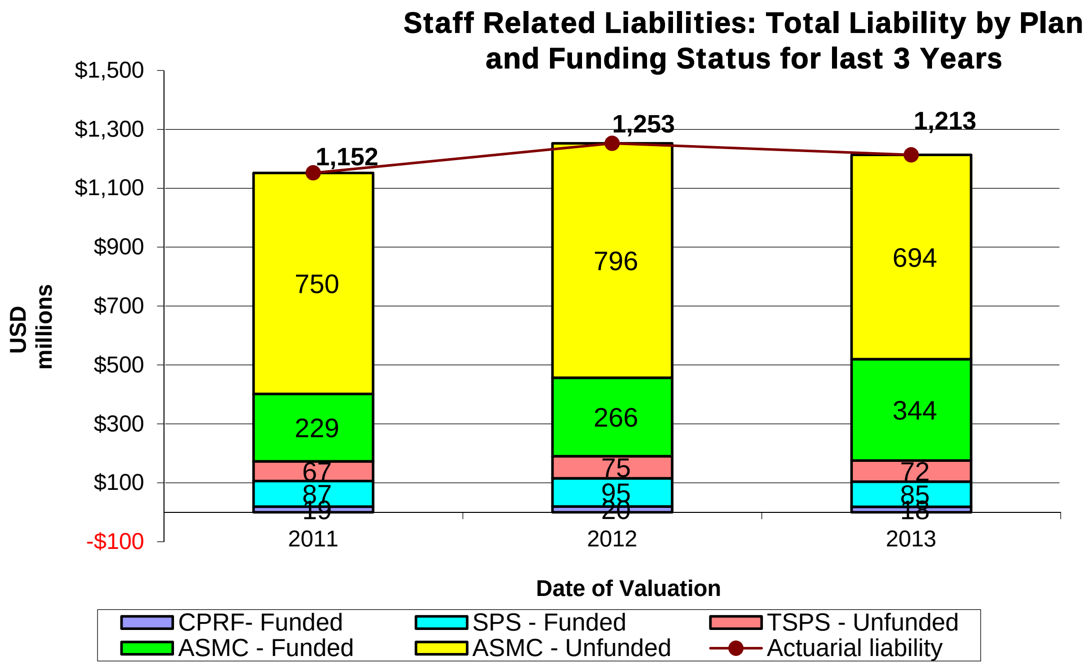
Table 3

	2013	2012	2011
	USD millions	USD millions	USD millions
Plan			
CPRF	18.5	19.6	19.0
TPF	72.2	75.4	25.9
SPS	85.0	95.4	85.2
ASMC	1,037.4	1,062.1	775.9
Total accrued liabilities	**1,213.1**	**1,252.5**	**906.0**
Add: Unrecorded liabilities	0.0	0.0	246.0
Total actuarially determined liabilities	**1,213.1**	**1,252.5**	**1,152.0**
Less: Earmarked long-term investments (at Fair Market Value)	(431.6)	(374.2)	(326.8)
Less: Advances to staff on SPS	(15.6)	(7.3)	(7.5)
Total unfunded liabilities *	**765.9**	**871.0**	**817.7**
* Of which:			
TPF	72.2	75.4	67.3
ASMC	693.7	795.6	750.4
Total unfunded liabilities	**765.9**	**871.0**	**817.7**

[1] In 2012, the Organization changed its accounting policy related to the corridor method. At 31 December 2012 the organization recorded all of its liabilities and had no unrecorded liabilities.

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

Graph 1



6. During 2013, the carrying value of long-term investments earmarked by the Organization for the Plans increased by USD 57.4 million from USD 374.2 million at 31 December 2012 to USD 431.6 million at 31 December 2013. For comments on investments, reference should be made to the Report on Investments 2013 (document FC 154/4).

IV. Accounting and Funding

7. Table 4 and Graph 2 below show the annual Current Service Costs[2] for the three years ending 31 December 2014, which are based on the actuarial valuations for the preceding years at 31 December 2013, 2012 and 2011, respectively.

Table 4

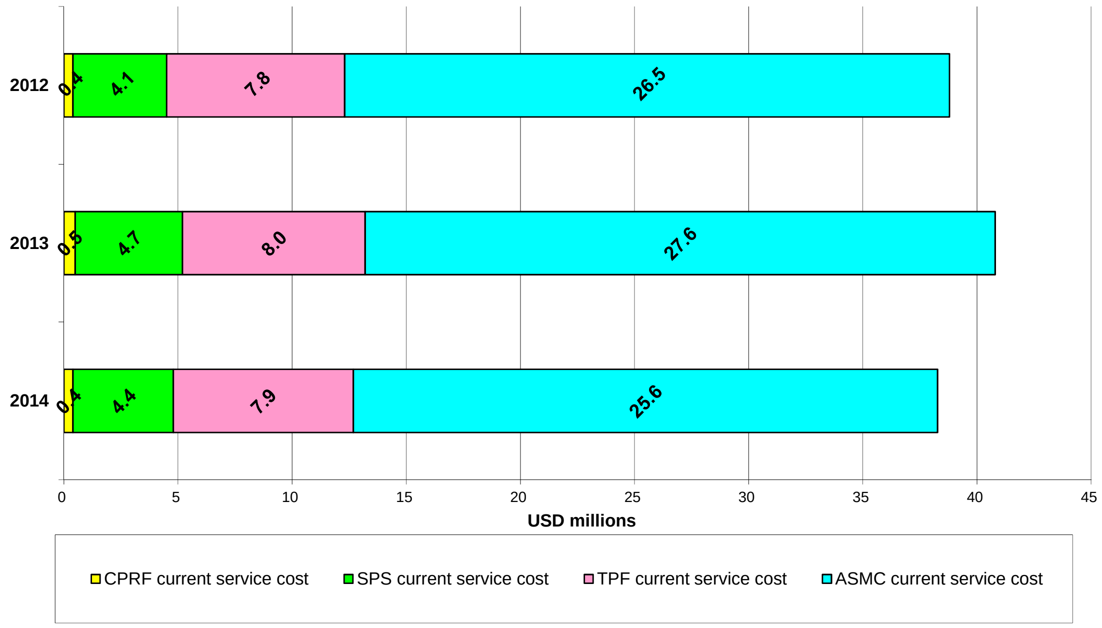
Current service costs

Plan	2014 USD millions	2014 % total expense	2013 USD millions	2013 % total expense	2012 USD millions	2012 % total expense
CPRF	0.4	*1.0%*	0.5	*1.2%*	0.4	*1.0%*
TPF	7.9	*20.6%*	8.0	*19.6%*	7.8	*20.1%*
SPS	4.4	*11.5%*	4.7	*11.5%*	4.1	*10.6%*
ASMC	25.6	*66.9%*	27.6	*67.6%*	26.5	*68.3%*
Total	**38.3**	***100.0%***	**40.8**	***100.0%***	**38.8**	***100.0%***

[2] 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

Graph 2

Staff Related Schemes: Annual Current Service Cost



8. In total, the 2014 service cost decreased by a nominal USD 2.5 million of which USD 2.0 million relates to ASMC. The reasons for the decrease in ASMC are as follows:

- ➢ decrease of USD 3.1 million due to the increase in the discount rate from 3.9% to 4.3%;
- ➢ offset by various increases of USD 1.1 million including new entrants and movement in the Year End Euro-Dollar Exchange Rate.

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 2013, 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 and advances earmarked against the Plans

Plan	**2013**	**2012**	**2011**
Fully funded	**USD millions**	**USD millions**	**USD millions**
CPRF	18.5	19.2	19.0
SPS	85.0	94.0	86.7
Partially funded			
ASMC	343.7	268.3	228.6
Unfunded			
TPF	0.0	0.0	0.0
Total funded liabilities	**447.2**	**381.5**	**334.3**
Funded by:			
Earmarked long-term investment	431.6	374.2	326.8
Advances to staff on SPS	15.6	7.3	7.5
	447.2	**381.5**	**334.3**

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 2013, in order to fully fund the TPF past service liability of USD 72.2 million (using a 15-year amortization period starting in 2010), the Organization would need to contribute an additional USD 7.0 million per year (USD 14.0 million per biennium).

12. Based on the most recent actuarial valuation as of 31 December 2013, in order to fully fund the US Dollar value of the unfunded ASMC past service liability of USD 693.7 million (using a 30-year amortization period beginning in 2010), USD 24.5 million per year (USD 49.0 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. Discussions within the United Nations System

13. At its 151st Session in November 2013, the Committee was informed of the options that were to be presented by the UN Secretariat to the 68th Session of the General Assembly to address the United Nations ASMC liability. The proposal to the UN was presented in document A/68/353 and involved two separate charges to common staff costs[3].

14. Resolution A/RES/68/244 adopted by the General Assembly on 27 December 2013 requested the Secretary-General:

- to examine the option of broadening the mandate of the United Nations Joint Staff Pension Fund, based on input from the United Nations Joint Staff Pension Board, to include the cost-effective, efficient and sustainable administration of after-service health insurance benefits, taking into account the advantages and disadvantages of this option, including its financial and legal implications, without prejudice to the outcome of the examination, and to report thereon at the seventieth session of the General Assembly; and
- to undertake a survey of current healthcare plans for active and retired staff within the United Nations system, to explore all options to increase efficiency and contain costs and to report thereon at its seventieth session.

15. The Secretariat will monitor closely the progress of discussions at the United Nations, including through its participation in the After Service Health Insurance (ASHI) Working Group of the UN Finance and Budget Network, and provide a report on progress to the next regular session of the Committee in autumn 2014.

[3] Refer to FC 151/5 paras 10-11 for details