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# FINANCE COMMITTEE

**Hundred and Sixtieth Session**

**Rome, 2 - 6 November 2015**

**Funding of After Service Medical Coverage (ASMC) Liabilities**

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### EXECUTIVE SUMMARY

- FAO's obligation towards meeting a share of the medical expenses of retirees (After Service Medical Coverage (ASMC)) has been recognized for many years. The presentation of these liabilities in the financial statements as part of the Organization's implementation of International Public Sector Accounting Standards (IPSAS) has further highlighted the issue of the Organization's unfunded accumulated liabilities for these benefits.
- At its 157th session in March 2015, the Finance Committee reviewed document FC 157/6 on the 2014 Actuarial Valuation of Staff Related Liabilities which included detailed information on the level of the accumulated liability for ASMC at 31 December 2014. The Committee recognized the importance of this highly complex matter and recalled that it had been regularly reviewed and discussed by the Committee during its previous sessions. The Committee encouraged the further active participation of the Secretariat in the UN common system's search for a solution to this issue, including through its membership in the UN Working Group on ASHI Liabilities.
- This document provides an update on the latest UN system discussions on this matter and further explains a number of options relating to funding and containing the costs of the ASMC liability.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is requested to review and provide any views or guidance on the information presented.

#### Draft Advice

##### **The Committee:**

- **noted the update on the work in progress of the UN ASHI Working Group;**
- **encouraged the Secretariat to continue its participation in the Working Group to explore options suitable for FAO to address the funding gap of the ASMC liability; and**
- **urged the Secretariat to continue its efforts to contain costs of the current medical insurance plan.**

## A. Introduction

1. Since the last meeting of the Finance Committee in March 2015, the Secretariat has continued in its efforts to seek an optimum solution to the ASMC issue, including through discussions with the Organizations of the United Nations common system and participation in the After Service Health Insurance (ASHI) Working Group of the Finance and Budget Network of the High-Level Committee on Management (HLCM) in June in Geneva and in September in Rome. FAO has been an active member of the Steering Committee of the Working Group.

## B. Report on the progress of the UN ASHI Working Group

2. The Working Group performed quantitative and qualitative analysis across the design of plans, including eligibility, coverage offered, demographics, costs, and valuations assumptions.

3. The Working group presented its report based on four pillars:

Pillar A: Cost analysis and administrative arrangements

Pillar B: UN system ASHI Framework review

Pillar C: Determination and disclosure of the liability

Pillar D: Funding alternatives of the liability

### PILLAR A: COST ANALYSIS AND ADMINISTRATIVE ARRANGEMENTS

4. Pillar A addressed several issues, among which: diversity of health insurance plans; development of in-house capacity versus outsourcing; joint health insurance arrangements and global consolidation; comparison of terms and conditions of insurance; structural changes to terms and conditions of insurance; and acquired rights.

5. The following recommendations were presented under Pillar A.

#### Recommendation 1: Collective negotiations with third-party administrators (TPAs)

6. UN System agencies should negotiate with TPAs collectively in order to optimize pricing for administrative services and network access. To support collective negotiation, UN system agencies should establish and maintain a common database that captures demographic and plan information; claims data; terms and conditions of TPA agreements; staff costs; and fraud information.

#### Recommendation 2: Collective negotiations with health care providers

7. Agencies with self-administered plans should identify high-volume/high-cost areas where collective negotiations with health care providers could result in material savings and/or operational improvements. These agencies should develop common standard processes enabling them to negotiate collectively with healthcare providers and provider networks in order to obtain best access to, and best pricing for quality healthcare, and to minimize pricing volatility.

8. These agencies should contribute to the UN System common database, establish a similar common database and provide additional information in relation to healthcare provider practices; terms and conditions of agreements; and quality assessments.

Recommendation 3: Underwriting reviews and negotiations with insurers

9. To provide a robust basis for challenging insurers' terms and conditions, agencies with externally insured plans should perform periodic underwriting reviews, the results of which should be shared within the UN system for benchmarking purposes.

**PILLAR B: UN SYSTEM ASHI FRAMEWORK REVIEW**

10. The Working Group conducted its work against the backdrop of social appropriateness. In recognition of the mobility of UN system staff, retired officials and their families, health insurance coverage provided under the auspices of UN system agencies replaces that provided under primary national social security systems and local supplementary health insurance schemes.

11. While considering options to contain insurance costs, the Working Group performed high-level research on national health plans in the United States, France, Switzerland, Italy, and the United Kingdom. The objective of the research was to consider whether the UN's positive experience in the United States of leveraging Medicare by requiring eligible covered persons to enrol in Medicare B could be reproduced in other locations. Where appropriate, UN system agencies could incorporate similar requirements into their health insurance plans and thus provide more cost-effective ASHI coverage with no detriment to comprehensiveness.

12. Under Pillar B two recommendations were presented.

Recommendation 1: National health insurance schemes

13. The Working Group should be requested to continue to explore the practicability and financial effects of incorporating into UN system health insurance plans the requirement to enrol, where appropriate, in a national health insurance scheme, and engage Member States regarding the eligibility of (former) officials for primary coverage under those schemes.

Recommendation 2: Broadening the United Nations Joint Staff Pension Fund (UNJSPF) mandate

14. Although the role of the UNJSPF, including the Investment Management Division, should not be broadened, the Fund should, as per the ACABQ<sup>1</sup> recommendation, be requested to share its best practice approach to, and methods for, centralization and administration of a complex multiple-employer plan with UN system agencies choosing to jointly provide ASHI coverage.

**PILLAR C: DETERMINATION AND DISCLOSURE OF THE LIABILITY**

15. The Working Group experienced difficulty in establishing the consistency of the ASHI liabilities recognized by the UN system agencies represented in the survey. The Working Group proposed that a sub-group develop a common actuarial valuation approach in relation to ASHI liabilities across the UN system.

16. The total ASHI liability across the UN system has grown from USD 12.1 billion in 2012 to USD 16.1 billion in 2014. This liability represents the present value of the accrued portion of future expected entitlements due to current and retired staff measured at the end of 2014, as accounted for under IPSAS. Obligations increase each year due to the accrual of additional rights of current staff ("current service cost") and an increase in the present value of future defined benefit obligations as they become closer to settlement ("interest cost"). Obligations are, in principle, reduced by the payment of medical costs of retired staff. These obligations are shown before deduction of any funds reserved to pay for them.

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<sup>1</sup> Advisory Committee on Administrative and Budgetary Questions (ACABQ)

**Table 1**

| Agency                                | HQ         | Total Accounting Liability (USD) | Funds Reserved for the Liability (USD) | Funds Reserved for the Liability (%) |
|---------------------------------------|------------|----------------------------------|--|--------------------------------------|
| IFAD                                  | Rome       | 95,900,000                       | Not Provided                           | Not Provided                         |
| WFP                                   | Rome       | 477,813,075                      | 389,900,000                            | 82%                                  |
| FAO                                   | Rome       | 1,239,700,000                    | 351,760,000                            | 28%                                  |
| WIPO                                  | Geneva     | 156,500,000                      | 84,600,000                             | 54%                                  |
| WHO, IARC, ICC, PAHO, UNAIDS, UNITAID | Geneva     | 1,918,060,177                    | 676,882,039                            | 35%                                  |
| UNHCR                                 | Geneva     | 545,477,000                      | 31,700,000                             | 6%                                   |
| ITU                                   | Geneva     | 519,413,374                      | 8,105,370                              | 2%                                   |
| ILO                                   | Geneva     | 1,088,200,000                    | 2,400,000                              | <1%                                  |
| WMO                                   | Geneva     | 53,740,600                       | -                                      | 0%                                   |
| ITC                                   | Geneva     | 79,845,000                       | -                                      | 0%                                   |
| IMO                                   | London     | 47,567,646                       | Not Provided                           | Not Provided                         |
| UNFPA                                 | New York   | 282,022,000                      | 162,048,000                            | 57%                                  |
| UNDP                                  | New York   | 1,141,510,000                    | 500,000,000                            | 44%                                  |
| UNICEF                                | New York   | 1,081,081,000                    | 390,092,000                            | 36%                                  |
| UN Secretariat                        | New York   | 5,552,538,000                    | -                                      | 0%                                   |
| IAEA                                  | Vienna     | 202,798,000                      | -                                      | 0%                                   |
| UNIDO                                 | Vienna     | 202,797,200                      | -                                      | 0%                                   |
| ICAO                                  | Montreal   | 112,000,000                      | 1,000,000                              | 1%                                   |
| WTO                                   | Madrid     | 18,465,093                       | 1,599,943                              | 9%                                   |
| UNOPS                                 | Copenhagen | 52,308,000                       | -                                      | 0%                                   |
| UNESCO                                | Paris      | 1,248,470,000                    | -                                      | 0%                                   |
| Total                                 |            | 16,116,206,165                   | 2,561,947,352                          | 17%                                  |

17. Under Pillar C the following recommendation was presented.

*Recommendation 1: Standardizing general valuation methodology and the establishment and application of key ASHI liability valuation factors*

18. The Working Group should coordinate its efforts with the HLCM/FB Network Accounting Standards Task Force to harmonize both the general ASHI liability valuation methodology and the establishment and application of key valuation factors.

#### **PILLAR D: FUNDING ALTERNATIVES FOR THE LIABILITY**

##### *View of the ACABQ in relation to ASHI liability funding*

19. Some agencies have accumulated assets to meet future ASHI obligations. It has been determined that assets set aside by the agencies represented in the Working Group survey to cover ASHI liabilities total just under USD 2.6 billion, resulting in a 2014 funding gap of approximately USD 13.5 billion or 17.0 percent.

20. Few agencies are actively funding the annual service and interest costs that significantly contribute to the escalation in the ASHI liability. While this approach results in lower budgetary impacts in the short-term, the longer-term implication is an increase in the volume of funding that will ultimately need to be diverted from the fulfilment of mandates to the coverage of ASHI liabilities.

21. Some agencies have developed investment and currency strategies aligned to the profile of their liabilities. The Working Group explored the possibility of establishing an interagency facility for the investment of reserves accumulated for the purpose of covering ASHI liabilities. Creating such an investment fund would require, *inter alia*, the establishment of separate and independent governance, clear investment guidelines and policy that appropriately take risks into consideration, separate reporting and accounting mechanisms, independent auditing, as well as benchmarks. Awaiting further consideration of this possibility by the Working Group, agencies can consider cooperating with UN system counterparts to leverage arrangements with external asset managers, to maximize returns and minimize management fees.

22. Under Pillar D the following recommendations were presented:

Recommendation 1: Funding of the ASHI liability

23. Agencies should move from a pay-as-you-go approach to a pay-as-you-accrue approach in relation to their ASHI liabilities.

24. More specifically, Executive Heads should manage extrabudgetary funds to ensure that no account with an unfunded ASHI liability is closed before the liability is cleared through application of available funds to the recognized liability. Agencies should consider building the standard cost for ASHI – at a minimum the service cost, plus the corresponding interest - into the employee cost. For assessed organizations, Member States should, in the future, provide for the full pay-as-you-accrue post cost to be charged against assessed budgets and to do this on a phased basis in the short- to medium-term. Alternatively, Members and other contributing stakeholders should consider providing agencies a one-off payment to cover historic shortfalls in ASHI funding.

Recommendation 2: Investment of reserves

25. Awaiting further consideration by the Working Group on the establishment of an interagency facility for the investment of reserves accumulated for the purpose of covering ASHI liabilities, UN system agencies should, where appropriate, cooperate in leveraging existing arrangements with external asset managers to maximize returns and minimize management fees.

26. Under other matters the Working group had also analysed and proposed several cost containment measures as presented in the figure below:



27. The following options for Future ASHI were also addressed during the Working group deliberations.

**Table 2**

| Option                   | Description   |
|--------------------------|---|
| Maintain Existing Plans  | Maintain 23 plans without changes to architecture, benefits, eligibility, etc.<br>Implement 4 cost containment levers<br>Require adequate funding of current liability  |
| Reform Existing Plans    | Maintain 23 plans and offer voluntary consolidation of some plans<br>Change paradigms of eligibility and benefits for new joiners after a future date<br>Maintain acquired rights and benefits for existing participants<br>Develop a new approach to enable mobility across UN System for existing participants and plan participants<br>Require adequate funding of current liability   |
| Develop New Set of Plans | Harmonize insurance plans into one set of plans for new joiners after a future date<br>Manage pooled risks and funding centrally to enable mobility across the UN System (Modelled on UNJSPF)<br>Establish new paradigms for eligibility and benefits for new joiners<br>Preserve acquired rights for existing participants and maintain existing participants on existing plans<br>Develop roadmap to fund and grandfather/phase-out existing plans as new joiners enrol in new plans<br>Require adequate funding of current liability |

### C. Next steps for the United Nations system

28. The Report of the working group will be presented to the General Assembly for decision on further steps.

#### *FAO options to Address the Funding Gap for ASMC*

29. It should be recalled that some of the Working Group's recommendations have already been implemented by FAO. Since 1 January 1998 accruing liabilities of active Regular Programme staff as a result of current service have been funded each biennium from the Regular Programme budgetary appropriation and expensed in the official accounts. Current service cost for extrabudgetary staff has been charged to Trust Fund project expense and, therefore, funded through project revenues. Additional biennial assessments on Members of USD 14.1 million have also been approved by Conference since 2004-05 to partly address the unfunded liability; these assessments are separate from and in addition to the budgetary appropriations approved to fund the programme of work. Accordingly, as presented in Table 1, funds have been reserved against approximately 28% of FAO's total accounting liability.

30. As regards the funding gap, the Secretariat proposed the following options at the 156th Session of the Finance Committee (FC 156/5), which are not mutually exclusive and could be combined in certain cases.

- a) Provide additional funding towards the liabilities
- b) Adjust Plan Design and Cost Sharing Arrangements
- c) Adopt Cost Containment Measures
- d) Settle Liabilities with an Insurer

31. While under options (a) and (d) no further steps have been taken, the Secretariat is exploring the following measures to adjust the Plan design and the Cost Sharing Arrangements:

**1. BMIP/MMBP Premium to be based on a percentage of net take home pay or full pension, rather than a fixed premium in accordance with the following percentage distribution with no CAP:**

| <b>BMIP Type</b> | <b>Percentage</b> |
|------------------|-------------------|
| Single           | 1.50%             |
| SM + 1 Dep       | 3.00%             |
| SM + 2 Dep       | 3.78%             |
| SM + 3 Dep       | 4.56%             |
| SM + 4 Dep       | 5.34%             |

**2. New staff to be recruited at the GS level in the field to be moved from BMIP/MMBP to MICS A**

- a) MICS A is a specific medical insurance plan used by WFP for its locally recruited staff. The plan has lower benefits and a very low limit (USD 60,000 limit as opposed to 1 million under BMIP).
- b) Eligibility for the MICS A is based on the Information Circular ST/IC/2009/25 on the Classification of duty stations and special entitlements for staff members serving at designated duty stations. For purposes of enrolment in MICS A, all duty stations classified as H will remain in BMIP, and the others will fall under MICS A.
- c) The duty stations which would not be affected by a switch to MICS A are: Australia, Austria, Belgium, Bulgaria, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Japan, Latvia, Lithuania, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom of Great Britain and Northern Ireland, United States of America.

32. The Secretariat is planning to further explore the possibility of a combined use of national health schemes together with the FAO plan.

33. In countries with a national health system providing reasonable coverage, the national scheme could become primary and the FAO insurance plan could be complementary to provide additional coverage and cover the gaps in the national scheme coverage. Further analysis of national legislation is required to explore this possibility.