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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

منظمة الأغذية والزراعة للأمم المتحدة

FINANCE COMMITTEE

Hundred and Ninety-first Session
Rome, 16-20 May 2022
2021 Actuarial Valuation of Staff Related Liabilities

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EXECUTIVE SUMMARY

- This document is presented in two parts: Part A and Part B.
- **Part A** of this document updates the Finance Committee (the "Committee") on the preliminary results of the actuarial valuation of the Organization's liability for staff-related plans (the "Plans") as at 31 December 2021. It contains four sections as follows:
- *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 Valuations* summarizes the total liability of the Plans as at 31 December 2021, 2020 and 2019 and provides the key assumptions used in those valuations. During 2021, the total liabilities of the Plans increased by an amount totalling USD 40.3 million from USD 1 499.5 million at 31 December 2020 to USD 1 539.8 million at 31 December 2021. The various reasons for the increase are detailed in this section.
- *Section III. Current Financial Situation* provides the total recorded 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 2021, 2020 and 2019, respectively. The total unfunded liability of the Plans as at 31 December 2021 was USD 868.3 million compared with USD 860.0 million at 31 December 2020.
- **Part B** of this document responds to the request of the Committee at its 188th Session for Management to review options to address the funding gap in the context of the considerations of this matter by the United Nations General Assembly, while noting the importance of adopting a common approach amongst the Members of the United Nations Common System. It contains six sections as follows:
- *Section I. Introduction* describes the BMIP/MMBP plans, providing a further breakdown of the components of ASMC liability and how these have evolved in recent years.
- *Section II. HR Initiatives* describes the various cost containment initiatives that have lowered the claims cost and thus the increase in actuarial projections of ASMC liability.
- *Section III. Comparative Analysis of Liabilities of ASMC plans within the UN system* provides a comparison of the ASMC liabilities and funding available in other UN system organizations.
- *Section IV. Position of the United Nations* will provide an update on the latest information presented and discussed by the UN General Assembly following the report of the Secretary-General on managing after-service health insurance (A/76/373).
- *Section V. Long-Term Strategies* highlights the strategies that have been considered by the Organization and by various UN agencies. These involve the use of national health insurance schemes, increased payroll deductions, increased budget allocations and cash injections.
- *Section VI. Going Forward* identifies studies around proposals aimed at reducing the amount of unfunded liabilities the Organization will commission, with the aim to report results at a subsequent session of the Finance Committee.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to note the results of the 2021 actuarial valuation and the current financial situation, accounting and funding of the Organization's liability for staff-related plans as at 31 December 2021.

- The Finance Committee is invited to acknowledge the ongoing efforts to review alternative strategies and options for funding staff related liabilities and report to Council accordingly.

Draft Advice

The Finance Committee:

- **noted that total staff related liabilities as at 31 December 2021 amounted to USD 1 539.8 million, representing an increase of USD 40.3 million from the valuation as at 31 December 2020;**

- **further noted that the net increase in the valuation as at 31 December 2021 was driven mainly by expected changes in the value of the liabilities due to the changes in the actuarial assumptions;**

- **noted that the After Service Medical Coverage (ASMC) liability remains seriously underfunded;**

- **welcomed the minimal increase in the liability as a result of cost containment measures and urged the Secretariat to continue with these efforts;**

- **noted that medical insurance plans of the Organization are generally in line with those of other UN system organizations in terms of eligibility and coverage; and**

- **noted the results of the study of alternative strategies and options for funding staff related liabilities and that further studies of the identified proposals would be reported by the Secretariat at a subsequent session of the Committee.**

PART A

I. Introduction

1. FAO (the "Organization") 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): a medical insurance plan for retired staff and their families meeting certain eligibility criteria. The in-service equivalent of ASMC is the Basic Medical Insurance Plan (BMIP) for active staff members. Both ASMC and BMIP provide partial reimbursement for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The premium of the ASMC 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 obtains annually a valuation of all plans from an external actuarial firm. This allows the Organization 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.
d) Obtain information necessary to meet financial reporting requirements.

3. The actuarial valuations for 2021, 2020, and 2019 were all performed by Aon Hewitt (www.aon.com). This document refers to the results of the actuarial valuation as at 31 December 2021 and the current financial situation, and accounting and funding of the Organization's liability with information as at 31 December 2020 and 2019 provided as comparisons.

II. Results of Actuarial Valuations

4. A comparison of the total actuarial liability by plan as at 31 December 2021, 2020 and 2019 is detailed in Table 1.

Table 1

(in USD Millions)							
		Increase/ (Decrease)			**Increase/ (Decrease)**		
Plan	**2021**	***USD m***	***%***	**2020**	***USD m***	***%***	**2019**
CPRF	23.1	*0.1*	*0.4%*	23.0	*0.3*	*1.3%*	22.7
TPF	75.8	*5.1*	*7.2%*	70.7	*8.2*	*13.1%*	62.5
SPS	47.5	*(4.9)*	*-9.4%*	52.4	*4.2*	*8.7%*	48.2
ASMC	1,393.4	*40.0*	*3.0%*	1,353.4	*5.2*	*0.4%*	1,348.2
Total actuarial liability	**1,539.8**	***40.3***	***2.7%***	**1,499.5**	***17.9***	***1.2%***	**1,481.6**

5. The net increase in the actuarial liability between 2021 and 2020 amounted to USD 40.3 million. The breakdown of this variation in value is broken down as follows:

Table 1a

Sources of Changes of the Plans from 2020 to 2021	**Variations USD millions**
Expected change, without new entrants*	36.7
Increase in discount rates	(126.0)
0.4% Increase in Assumed Annual Medical Growth	115.1
Claims, administrative expenses, and Trennd rate changes **	6.1
Decrease in Assumed General/ Salary Inflation ***	7.9
Updates to Annuitant Mortality Assumptions	1.6
All Other factors	(1.1)
Total net increase	**40.3**

** Expected increase due to service cost and Interest Cost, offset by expected decrease due to actual benefit payments*
*** Includes the effect of the movement in the spot euro-dollar exchange rate in the prior year*
**** 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. 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 Euro-United States Dollar exchange rate, the discount rate, and medical claims and anticipated medical inflation.

7. The key assumptions used in the valuations of the Plans for 2021, 2020 and 2019 are presented in Table 2.

Table 2

Key Assumptions	2021	2020	2019
Economic			
Discount rate			
ASMC	2.2%	1.8%	2.0%
SPS	0.7%	0.2%	0.6%
TPF	2.0%	1.4%	2.2%
CPRF	3.0%	2.7%	3.4%
Medical cost inflation rate	4.4% during 2022, decreasing 0.05% annually to 3.85% in 2033 and later years	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
General inflation rate	Varies by plan (2.1% - 2.5%)	Varies by plan (1.1% - 1.7%)	Varies by plan (1.8% - 2.2%)
Year end spot rate €/USD	1.14	1.23	1.12

III. Current Financial Situation

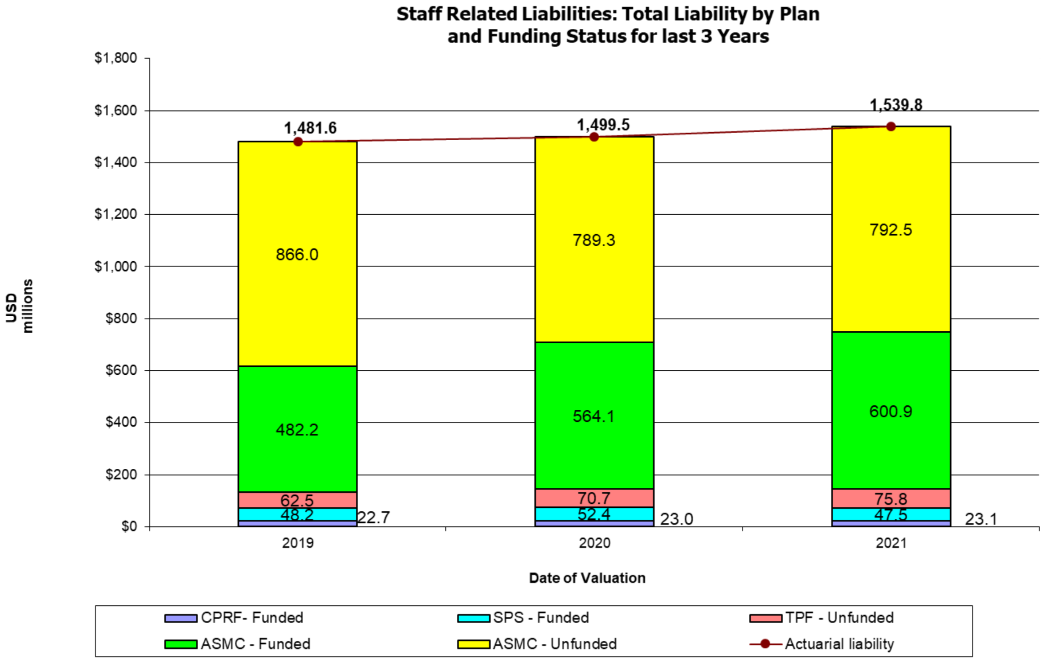
8. Table 3 below shows the total recorded liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for all Plans as compared with the fair market value of earmarked long-term assets as at 31 December 2021, 2020 and 2019 respectively.

Table 3

Long term investments earmarked against the Plans			
Plan	**2021**	**2020**	**2019**
Fully funded	**USD millions**	**USD millions**	**USD millions**
CPRF	23.1	23.0	22.7
SPS	47.5	52.4	48.2
Partially funded			
ASMC	600.9	564.1	482.2
Total funded liabilities	**671.5**	**639.5**	**553.1**
Funded by:			
Earmarked long-term investments	**671.5**	**639.5**	**553.1**
Unfunded			
ASMC	792.5	789.3	866.0
TPF	75.8	70.7	62.5
Total unfunded liabilities	**868.3**	**860.0**	**928.5**
Total actuarial liability	***1,539.8***	***1,499.5***	***1,481.6***

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 2021, both the ASMC and TPF continue to be underfunded as shown in Graph 1.

Graph 1



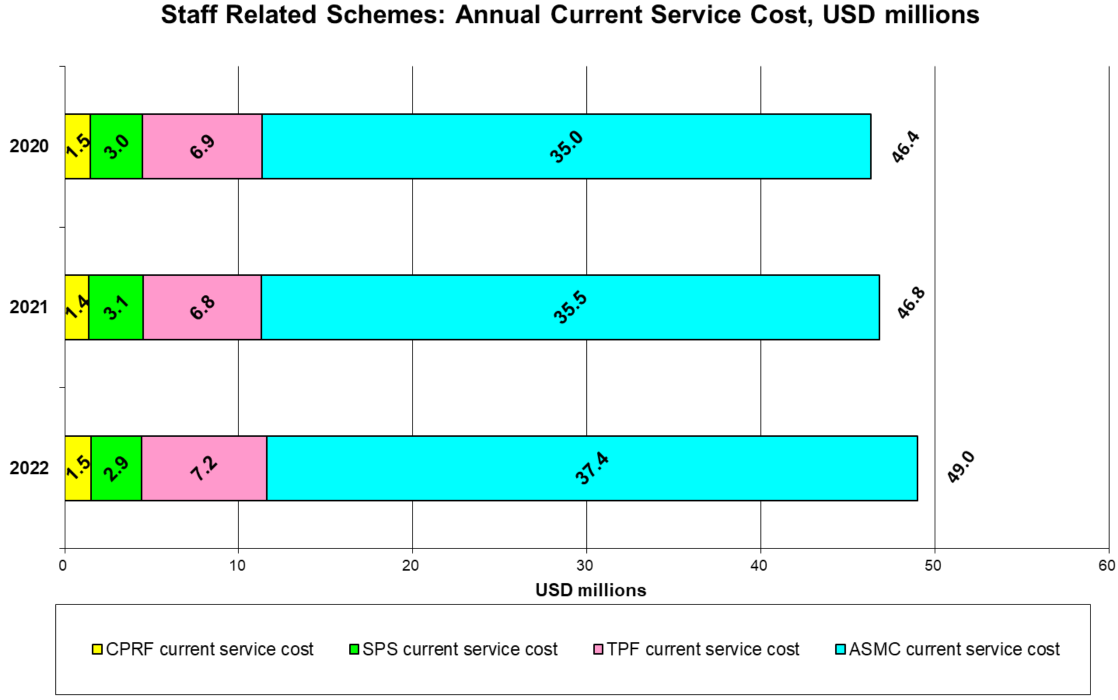
10. During 2021, the carrying value of long-term investments earmarked by the Organization for the Plans increased by USD 32.0 million from USD 639.5 million as at 31 December 2020 to USD 671.5 million as at 31 December 2021. Further details on these investments are presented in the Report on Investments 2021 (document FC 191/3).

11. In addition to the unfunded past liabilities, all schemes contain a current service cost. 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. Only the Regular Programme portion of the current service cost is met from the budgetary appropriations of the Programme of Work (PWB). The PWB is prepared on the basis of the last available estimate of current service cost as prepared by the external actuaries. The Trust Fund portion is charged to Trust Fund projects.

12. Graph 2 shows the annual Current Service Costs[1] for all schemes for the three years ending 31 December 2022. These costs are based on the actuarial valuations for the preceding years as at 31 December 2021, 2020 and 2019 respectively.

[1] Service costs 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.

Graph 2



PART B

13. Part B of the document responds to the request of the Committee at its 188th Session for Management to continue to review options to address the funding gap in the Organization's Staff Related Liabilities, while emphasizing the importance of adopting a common approach amongst the members of the United Nations Common System.

14. *Section I. Introduction* describes the BMIP/MMBP plans, providing a further breakdown of the components of ASMC liability and how these have evolved in recent years.

15. *Section II. HR Initiatives* describes the various cost containment initiatives that have lowered the claims cost and thus the increase in actuarial projections of ASMC liability.

16. *Section III. Comparative Analysis of Liabilities of ASMC plans within the UN system* provides a comparison of the ASMC liabilities and funding available in other UN system organizations.

17. *Section IV. Position of the United Nations* provides an update on the latest information presented and discussed by the UN General Assembly following the report of the Secretary-General on managing after-service health insurance (A/76/373).

18. *Section V. Long-Term Strategies* highlights the strategies that have been considered by the Organization and by various UN agencies. These involve the use of national health insurance schemes, increased payroll deductions, increased budget allocations and cash injections.

19. *Section VI. Going Forward* identifies studies around proposals aimed at reducing the amount of unfunded liabilities the Organization will commission, with the aim to report results at a future session of the Finance Committee.

I. Introduction

20. The medical insurance coverage for staff and retirees of the Organization is a medical insurance plan extended to retired staff and their families meeting certain eligibility criteria through two plans, a Basic Medical Insurance Plan (BMIP) and a complementary and optional Major Medical Benefit Plan (MMBP). BMIP and MMBP are further split into two schemes based on the currency of the premiums; a United States Dollar scheme and a Euro scheme.

21. The BMIP provides partial reimbursements for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The cost of the BMIP is shared between the participants and the Organization whereas the MMBP is at the sole cost of the insured. Consequently, the MMBP does not factor into the ASMC liabilities.

22. The ASMC liability represents the present value of the Organization's share of the cost of medical insurance coverage that it will be required to pay for both active and retired employees over their expected remaining lifetimes. It should be distinguished from current service cost[2] which is a standard component of staff costs and is covered in each biennium's Regular Programme budgetary appropriations.

23. The ASMC liability varies year on year and is subject to varying macroeconomic factors, some of which are beyond the control of the Organization. The cost of the medical plans is shared between the Organization and staff. However, the costs have increased over time due to increased life expectancy as well as the increased costs of medical services.

24. As at 31 December 2021, the net underfunding of the ASMC liability amounted to USD 792.5 million. Amortization would be the required yearly cost of funding this net past service liability over a time period prescribed by the Governing Bodies. If full amortization costs are provided over this period, the past service liability would be fully funded by that date. The amortization cost is separate from the requirement to fund the current service cost, and has been calculated as annual contribution of USD 42.4 million based on a target date for full funding of 31 December 2039.

25. Past decisions of the Governing Bodies have enabled some progress to be made in reducing the unaccrued and unfunded liabilities of the ASMC. For example, the amortization of past service ASMC liabilities had been partially funded by a special assessment on Member Nations by the amount of USD 14.1 million per biennium. However, Members voted to discontinue this assessment following the 2016-17 biennium end (see paragraph 42). Consequently, the unfunded liability has continued to grow.

26. As detailed in Graph 3 below, the factors that have affected the valuation of ASMC liabilities can be broadly classified as:

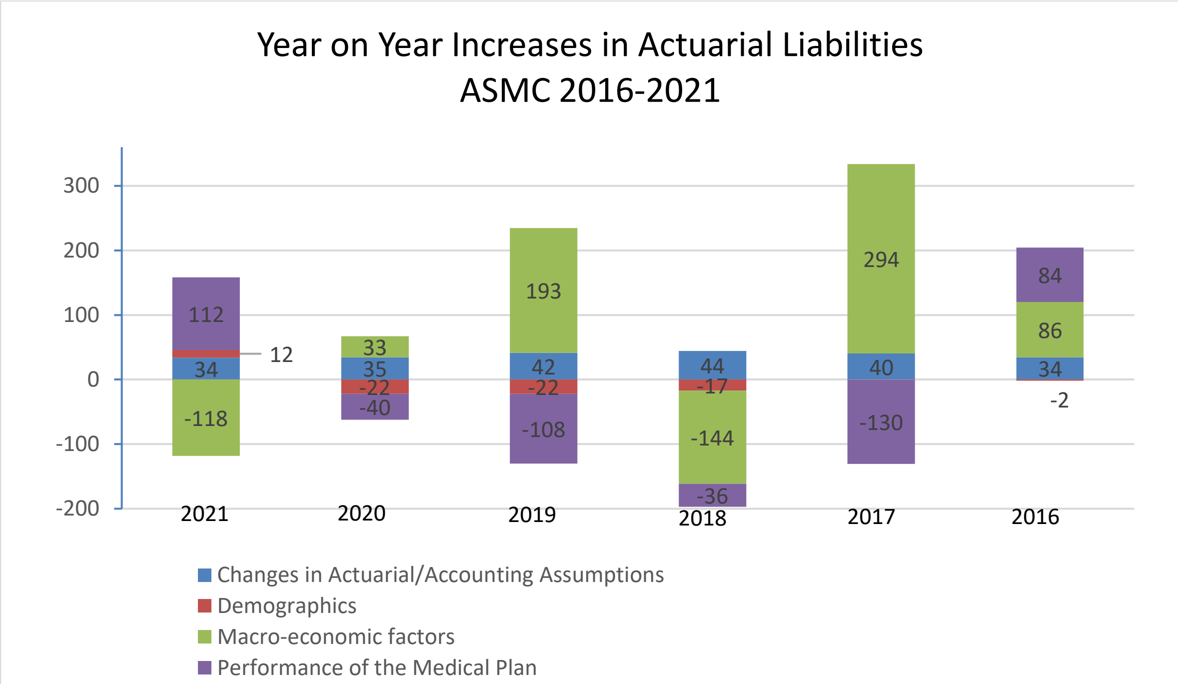
a) Changes in Actuarial/Accounting Assumptions beyond the control of the Organization.[3]
b) Demographics (new hires, early retirement and general age composition).
c) Macroeconomic factors (such as discount rates and exchange rate).
d) Performance of the Medical Plan.

[2] See paragraphs 9, 10 and Graph 2.
[3] Changes in Actuarial/Accounting Assumptions beyond the Organization's control refers to the actuarially calculated current year service cost, interest on (surplus)/deficit and the actual net benefit payments made during the year. Assumptions include factors such as the current interest rate, expected medical inflation, life expectancy changes and changes in the exchange rate between United States Dollars and Euros.

27. Between 31 December 2015 and 31 December 2021, ASMC liabilities have increased from USD 989.6 million to USD 1 393.4 million, an increase of USD 403.8 million, which breaks down as follows:

a) Increase of USD 229.2 million due to change in Actuarial/Accounting Assumptions beyond the control of the Organization.
b) Decrease of USD 51.3 million due to demographics.
c) Increase of USD 343.2 million due to macroeconomic factors.
d) Decrease of USD 117.3 million due to performance of the Medical Insurance Plan

Graph 3



II. HR Initiatives

28. The reduction in the ASMC liability attributable to the performance of the medical insurance plans (USD 117.3 million) is the result of a clear strategy aimed at cost containment. The strategy on cost containment can be best summarized as a three-pronged approach:

a) Competitive Insurance Contract Terms.
b) Mitigation of Increase in Treatment Costs (Claims).
c) Continuous Review of the Plan Design and Structure.

<u>Competitive Insurance Contract Terms</u>

29. Through the tender process for a global medical insurance provider, Cigna was selected as the new medical insurance provider for the BMIP and the MMBP in 2020. The Organization minimized the increase in premium from an initial Cigna-proposed increase of 9.19 to 5.25 percent. As a result, the Organization saves approximately USD 1.8 million annually.

30. The contract with Cigna also stipulates an annual renewal formula capped at 6 percent in order to ensure the sustainability and affordability of the plan and to mitigate any possible and unexpected premium increase.

Mitigation of Increase in Treatment Costs (Claims)

31. The mitigation of claims' costs is an integral part of the contract, which entails inflation-specific Service Level Agreement targets placed on the claims administrator and insurer. Initiatives that have contained costs include:

a) Pre-approval of planned hospitalizations and expensive outpatient treatments above USD 1 000.
b) Promotion of generic drugs. Plan participants are encouraged to seek generic drugs whenever such drugs are widely available and approved in their country.
c) Establishment of enhanced preferred in-network providers in strategic duty stations. In 2020, the Organization requested Cigna to focus on the development of preferred in-network providers in strategic duty stations, starting with Italy and then expanding to other locations such as Chile and Thailand. As Cigna already has a large and competitive network in the United States of America, it is expected that the majority of care claimed will be in-network. This will result in savings through the negotiation of better discounts and establishment of a preferred list of in-network providers and steerage of insured persons to said providers. Estimated in-network savings achieved for the top five countries of care (Chile, Italy, Switzerland, Thailand, United States of America) amounted to USD 3.9 million in 2020 and USD 5.1 million in 2021.
d) Expanding the preferred provider's network in hardship duty stations such as Yemen, in partnership with local Third Parties Administrator (TPA). This guarantees easier access to care in these locations.
e) Telehealth and Well-being Campaigns. The Telehealth services were newly introduced in 2020 and are free of charge to participants. During 2021, there has been a steady increase in the utilization of these services and efforts to promote telehealth culture will continue.
f) Encouraging participants who are eligible for a national health insurance scheme or other private medical coverage to use the BMIP/MMBP plan as a complementary insurance (i.e. top-up cover in addition to the national health insurance scheme/private medical coverage). As an incentive, when opting for alternative medical coverage as primary insurance and using BMIP/MMBP as top-up coverage, eligible members benefit from 100 percent reimbursement of the out-of-pocket expenses not reimbursed by the primary insurance.
g) Encouraging the service provider to invest in smart technologies in order to drive efficiencies and increase clinical savings in case revision.
h) Dedicated case management. As a result of the proactive and dedicated case management introduced in the most recent BMIP/MMBP contract with Cigna, effective 1 January 2020, the Organization has realized savings of USD 0.9 million in 2020 and USD 0.8 million in 2021. Table 4 details extracts from the 2020 and 2021 Case Management Reports which highlight the various initiatives and breaks down the overall savings obtained during 2020 and 2021.

Table 4

YEAR 2020	EUR Plan		USD Plan	
	FULL YEAR		FULL YEAR	
	#Nr of cases	Savings USD	#Nr of cases	Savings USD
Pre-authorization			236	183,037
Case coordination	15	93,921	32	135,482
Clinical case management	86	154,479	141	226,135
Decision support	3	2,700	7	-
Chronic condition management	1	-	1	-
Claim review			22	13,375
USA Specific				112,265
TOTAL	105	251,100	439	670,294
TOTAL CONSOLIDATED SAVINGS EUR/USD Plans 2020				921,394

Table 5

YEAR 2021	EUR Plan		USD Plan	
	FULL YEAR		FULL YEAR	
	#Nr of cases	Savings USD	#Nr of cases	Savings USD
Medical Necessity Review			100	136,613
Cost Review	62	169,683	45	110,975
Steerage	4	70,491	2	75,222
Clinical case management	77	75,343	64	87,140
Decision support	-	-	-	-
USA specific			-	75,716
TOTAL	101	315,517	211	485,665
TOTAL CONSOLIDATED SAVINGS EUR/USD Plans 2021				801,182

Continuous Review of the Plan Design and Structure

32. Additional measures currently under consideration by the Organization, as a result of feedback provided by plan participants and the FAO Advisory Committee on Medical Coverage (FAC/MC), include the following:

a) Bi-yearly audits and valuations of risk profile and liabilities of the BMIP/MMBP plan conducted by an external audit firm. This would allow an impartial and transparent assessment of the plan and would provide guidance on the better contractual conditions in future tenders to ensure the financial sustainability of the medical plan.
b) As of June 2022, any BMIP participant will be able to switch, on a voluntary and irrevocable basis, to the MICS plan which provides similar coverage conditions to colleagues in field offices. This solution would mainly be of interest to locally recruited participants, especially those who have access to a national health insurance scheme or other private medical coverage and use the plan provided by the Organization as top-up

coverage. This is expected to reduce associated liabilities of the Organization in the long term.

c) The Organization has also streamlined the turnaround time for withdrawal from the BMIP plan for the retiree population. No waiting period is now required.

III. Comparative Analysis of the Liabilities of ASMC plans within the UN System

33. Medical insurance plans of the Organization are generally in line with those of other UN system organizations in terms of eligibility, coverage and cost-sharing. The continuation of health insurance coverage under the BMIP/MMBP, as provided by the after-service health insurance programme, is a vital element of social security for retiring staff members, most of whom are not covered by national health insurance schemes.

34. As shown in Table 6, the funding of ASMC liabilities within the UN system ranged from 0 to 100 percent with an average of 38 percent. In comparison, available funding of the Organization as per 2020 Actuarial Valuation stood at 42 percent (43.1 percent as at 31 December 2021). The ASMC liability of the Organization is, in absolute terms, the fourth largest reported amongst UN system organizations.

35. While some are strictly pay-as-you-go,[4] and others may be fully funded, most self-define as “partly”, meaning they contain a pay-as-you-go element along with a mix of funding strategies that include contributions from budget allocations, annual assessments, the allocation of budgetary surpluses and/or investment returns as well as the application of payroll charges on active staff.

36. A few examples of strategies employed, in general terms, are:

a. WFP – Funding of current service costs by charging relevant funds and programmes, interest costs through realized investment income returns, and of past unfunded liabilities by allocating additional funding of USD 7.5 million/year through 2025. Investments for “After-Service Benefits” are targeted to protect the funded status and generate sufficient returns to help cover current and future obligations. They include a mix of equity and fixed income.

b. IFAD – Fully funded in actuarial terms through a combination of IFAD Member resources and investment income. A Trust Fund for ASMC purposes was established in 2003 and is invested in a mix of fixed income funds.

c. WHO – Funding consists of first tier of contributions received in respect of both active and former staff (of which one third is paid by the participants and two thirds by the WHO). Also, a decision was made in 2011 to ensure long-term sustainability of the health insurance fund by increasing the rates of contributions by a fixed percentage each year. Until 2019, contribution rates had increased by 4 percent/year. As of 2020, this increase was lowered to 2 percent annually.

[4] Only the current service cost is paid under this funding methodology. In this regard, a certain amount of the budget is allocated to pay out health benefits only as they occur. Pay-as-you-go does not include any payment for future benefits earned by employees.

Table 6

Comparative analysis of ASMC liability for UN system organizations

Organization	Currency	31 December 2020 (Millions)		Percentage of Funding	Current Retirees Pay-as-you-go
		Total Liability	Funding Available		
FAO	USD	1,353.4	564.0	42%	Partly
IAEA	EUR	346.3	-	0%	Yes
ICC	EUR	46.9	-	0%	Yes
IFAD	USD	159.1	100.1	100%	Yes
ILO	USD	2,046.1	10.7	1%	Partly
IMO	USD	43.9	12.9	21%	Yes
IOM	USD	65.5	248.4	100%	Partly
ITU	CHF	631.8	13.0	2%	Partly
UN Women	USD	93.4	71.8	77%	No
UNAIDS	USD	150.7	112.0	74%	Partly
UNCCD	USD	29.5	0.2	1%	Yes
UNDP	USD	1,174.0	918.0	78%	No
UNEP	USD	273.1	73.2	27%	Yes
UNESCO	USD	778.8	29.6	4%	Yes
UNFCCC	USD	150.7	3.8	3%	Partly
UNFPA	USD	0.4	0.3	87%	No
UNHCR	USD	1,121.9	377.5	37%	Partly
UNICEF	USD	1,540.9	773.9	50%	No
UNIDO	EUR	223.0	-	0%	Yes
UNODC	USD	96.1	45.4	47%	Yes
UNOP 5	USD	84.1	84.1	100%	Partly
UNRWA	USD	0.8	-	0%	Yes
UNWTO	EUR	30.0	1.9	6%	No
WFP	USD	1,077.2	984.0	91%	No
WHO	USD	3,862.7	1,391.2	36%	No
WIPO	USD	512.7	222.4	43%	Partly
WMO	USD	95.9	2.2	2%	Partly

IV. Position of the United Nations

37. During the 73rd session of the UN General Assembly held in September 2018, the Secretary-General submitted report A/73/662 on managing after-service health insurance. The Secretary-General reported on the findings and recommendations of the Working Group on After-Service Health Insurance (ASHI) and recommended approval of the application of charges on salary costs to begin to meet the long-term funding needs of the organization associated with the accrued liability for after-service health insurance.

38. The General Assembly, in its resolution 73/279 B, noted that the proposed payroll charge would entail an assessment on Member States and decided to maintain the pay-as-you-go funding of the United Nations after-service health insurance obligations. Additionally, the Assembly requested the Secretary-General to further explore options for the improvement of efficiency and the

containment of costs and liabilities associated with the Organization's health insurance obligations and to present to the Assembly comprehensive proposals on the funding of the accrued liability for after-service health insurance benefits. As at 31 December 2020 that liability stood at USD 7.5 billion.

39. The Secretary-General responded to the request for further information and proposals in his report (A/76/373) presented at the 76th General Assembly in September 2021, providing information on medical cost containment (sect. II), actuarial valuation of after-service health insurance liabilities (sect. III), funding and investment proposals (sect. IV), after-service health insurance premium distribution (sect. V) and projections regarding staff in peacekeeping operations (sect. VI).

40. The Secretary-General requested the General Assembly to consider the following recommendations with respect to funding the after-service health insurance liabilities pertaining to the United Nations:

a) That the pay-as-you-go funding of the United Nations after-service health insurance obligation in respect of staff members recruited before 1 January 2023 be maintained.
b) That the funding of the obligation in respect of officials recruited from 1 January 2023 be achieved through pay-as-you-accrue[5] by implementing a payroll charge corresponding to a level 6 percent of salary costs and the establishment of a dedicated financial reserve.
c) That the payroll charge be reviewed every three years and adjusted to accommodate variances against the projected accumulation of the dedicated reserve.

41. Regarding recommendation b), for staff recruited from 1 January 2023, the UN Secretary-General had proposed that the United Nations begin to accumulate a reserve to cover up to 75 percent of projected cash-flow requirements once those staff members retire by applying a 6 percent charge to staff costs (gross salary plus post adjustment costs). It was noted in the report that with regard to extrabudgetary resources, in addition to the pay-as-you-go financing for existing retirees, the United Nations already applies a 6 percent charge against the salary costs of extrabudgetary staff. This has been used to create a reserve which has been invested in a diversified portfolio of fixed income securities.

42. In the Advisory Committee's review of the recommendations presented in the report A/76/373, concerns were raised regarding how the pay-as-you-go and the pay-as-you-accrue funding of after-service health insurance benefits would be implemented, irrespective of staff member's recruitment time and contract types. Additionally, the Advisory Committee requested justification for proposing to fund only up to 75 percent of cash-flow requirements, compared with the full funding of the previous proposal.

43. The Advisory Committee did not approve of the Secretary-General's proposals outlined in report A/76/373 and has requested further review be undertaken to determine opportunities with national governments in countries with a significant population of Secretariat retirees, including the possibility of introducing further incentives or mandating retirees to participate in national plans, and to report on the outcome.

V. Long-Term Strategies

44. In addressing the issue of unfunded ASMC liabilities, the Organization has already implemented some of the United Nations ASHI Working Group's recommendations. 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 were approved by Conference and collected during the period 2004-2017 to partly address the unfunded liability; these assessments were separate from and in

[5] Including both current service costs as well as amortization costs of the future liability.

addition to the budgetary appropriations approved to fund the Programme of Work. However, the Conference did not approve this separate line in any of the subsequent biennial budgets for the 2018-19 PWB (C 2017/REP), 2020-21 PWB (C 2019/REP) and 2022-23 PWB (C 2021/REP).

45. At the 160th Session of the Finance Committee (FC 160/5), the Secretariat discussed progress made on the following options presented to Members at the 154th Session (FC 154/3 Addendum) and the 156th Session of the Finance Committee (FC 156/5), which were identified as not being mutually exclusive:

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.

46. Option a) Provide Additional Funding Towards the Liabilities: Whilst the PWB provides funding for the current service costs, any additional funding towards the liabilities would require additional budgetary resources, similar to the approach previously followed of approving partial funding towards the After-Service Medical Coverage past service liability as a separate additional assessment for the biennium.

47. Further discussion and an evaluation of the possibility of increasing charges for newly hired staff is expected to be included in a proposed review by actuaries in 2022.

48. Some UN system organizations have also looked at this alternative, which is addressed in the UN Secretary-General's report A/73/662 on managing after-service health insurance. This is still under review and has not yet been approved by the General Assembly. This approach is geared at reducing the amount of unfunded liabilities, rather than the overall liability itself. The increased payroll charge can be funded in one of the following three ways:

i) through increased charges to budgets, fully funded by the Organization or donors in case of extrabudgetary staff;
ii) through increased deductions from the remuneration of active staff; or
iii) through the combination of the above two, cost-shared between participants and the Organization or donors.

49. Option b) Adjust Plan Design and Cost Sharing Arrangements: The cost-sharing methodology of the Organization is aligned with the common approach of other Rome-Based Agencies, as well as best practices in the United Nations common system on transparent apportionment of premiums between the Organization and staff. Currently, the Organization's contribution towards the ASMC premium is comparable to that of other UN-system agencies.

50. Option c) Adopt Cost Containment Measures: The Organization has implemented a variety of measures, as outlined under Section II, *HR Initiatives* and will continue to explore all avenues to generate cost containments.

51. Option d) Settle Liabilities with an Insurer: Under this option, the Organization would contract with an insurance company to pay future health liabilities of both active and retired staff against a negotiated annual payment. However, it should be noted that active staff and their dependents tend to have fewer medical claims on average and thus subsidize the retiree population. As a result, payments to an insurer would likely exceed the current service costs currently funded. Nevertheless, the feasibility of insuring the liabilities externally would be further assessed as part of the external review of BMIP/MMBP recently authorized by the FAO Advisory Committee on Medical Coverage, to be conducted in 2022.

52. National Health Insurance Schemes: An additional proposal aimed at reducing the funding gap between reported liabilities and available funding is the option to leverage national health insurance schemes (presented to the 143rd Session of the Finance Committee in FC 143/4), similar to the

United Nations Secretariat's proposal to require retirees residing in the United States of America to enrol in Medicare Part B. While the Organization has encouraged usage of its health plans as a supplement to National Health Care Systems, previous analysis showing the per capita BMIP/MMBP costs incurred by the Organization tend to be lower than annual costs of Government Health Care expenditures, in United States Dollars purchasing power parity, in many countries, based on data extracted from the OECD website. Additional concerns arose regarding the disparities in the level of care afforded by national health insurance schemes depending where staff members work or where retirees reside. Nonetheless, the Organization would be willing to adhere to an initiative undertaken jointly at the UN level. To achieve this, action would need to be taken at the national level of each country and would imply a revision of agreements between the national governments and UN system organizations.

53. The Organization will commission an external financial modelling study in order to prepare a detailed report on the possible structure and financial implications of implementing alternative and feasible funding strategies. The Organization has taken note of the General Assembly's response to the United Nations report on managing after-service health insurance (A/76/373), and will consider its findings and implications for the upcoming study. The Secretariat will report the findings of the detailed report and proposals to the Finance Committee at a future date.

VI. Going Forward

54. The importance of the medical insurance plans in the overall employment package offered by the Organization and other UN system organizations cannot be underestimated. Reducing the coverage of the medical insurance plan offered by the Organization would likely encounter resistance from staff members and be detrimental to the Organization's ability to recruit and retain high-calibre personnel. Furthermore, any potential changes to coverage and the structure of the medical insurance plan would likely affect only new entrants to the plan, having a minimal impact on the ASMC liability.

55. As outlined in earlier sections of this report, the Organization is constantly reviewing options on how best to address the escalating issue of underfunded after service medical coverage. Efforts have been made to address the Plans' structure and benefits provided with a view to containing costs and ensuring maximum value for money. There has been a drive to encourage the use of cost saving initiatives, including the incentive for staff and retirees to avail themselves of national health insurance schemes, where possible.

56. During 2022, the Organization will commission studies around identified proposals, individually or collectively, aimed at reducing the amount of unfunded liabilities and exploring the best practices in the market and report such results at a subsequent session of the Finance Committee. The studies will include options such as:

a) A new cost distribution between newly hired staff and the Organization with higher payroll charge and deductions to supplement and progressively fund a reserve dedicated to any future ASMC liabilities for new staff.
b) A comprehensive and more financially beneficial medical insurance plan for retirees who have access to high-quality national health insurance schemes to encourage the retirees to use the medical insurance plan of the Organization as a supplementary plan.
c) A policy to fully or partially subsidize the contribution to the national health systems in high-cost medical care locations, such as Italy or the United States of America, followed by a feasibility study in strategic countries in which a large number of retirees reside.
d) Settlement of liabilities with an Insurer.
e) Review of other best practices within UN system organizations, including comparative reviews of investment funding policies.

57. The Organization remains committed to containing the costs of its health plans that are within its controls and to work with the Members to provide long-term solutions to the growing unfunded ASMC liability.