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FINANCE COMMITTEE

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2009 Actuarial Valuation of Staff-Related Liabilities

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EXECUTIVE SUMMARY

- This document updates the Finance Committee on the results of the actuarial valuation of the Organization’s liability for staff-related plans at 31 December 2009.
- Section ***I. Introduction*** describes the four 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*** provides the key assumptions used in the actuarial valuations for the last three years and provides a comparative illustration of the actuarial liabilities by plan as at 31 December 2009, 2008 and 2007, respectively. The moderate increase in the overall liability during 2009 is mainly due to an increase in the After Service Medical Coverage (ASMC) liability. The key drivers of changes in this liability are the expected net change in the liability related to accrual of current service and interest cost, less actual benefit payments; change in the discount rate; movement in EUR-USD exchange rates; introduction of a new assumption regarding withdrawal of retirees from the plan; and miscellaneous demographic experience as compared to previous actuarial estimates.
- 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 all Plans as at 31 December 2009, 2008 and 2007, respectively. The total liability of the four plans as at 31 December 2009 was USD 1,110.8 million of which USD 805.9 million was unfunded.
- Section ***IV. Accounting and Funding*** provides a comparison of the annual Current Service Costs for all plans for the three years ended 31 December 2010 and explains the reason for the USD 4.2 million increase in 2010 based on the 2009 actuarial valuation. Current Service Cost for 2010 is USD 31.2 million. This section also includes full funding proposals for the After-service Medical Coverage plan and Terminal Payments fund based on revised target dates of 2040 and 2025, respectively, and provides a comparative illustration of the required funding amortization based on the most recent actuarial valuation as compared to the actual funding level authorized by Conference. The annual past-service ASMC funding amortization to fully fund the liability by 2040 amounts to USD 24.8 million, while the funding approved by Conference for 2010 and 2011 amounted to USD 7.0 million each year giving a shortfall of USD 17.8 million for each year beginning 1 January 2010. Finally, the section discusses the funding requirements for the Terminal Payments Fund based on the most recent actuarial valuation.
- Section ***V. Other Funding Considerations*** provides key considerations for any plan to fully fund the ASMC liability. In particular, this section discusses the significant EUR component of the liability noting that while the ASMC is reported in US Dollars, approximately 67% of the liability is EUR. Consequently, to have a clearer view of the liability with an aim to funding it requires valuing it in its underlying currencies. At 31 December 2009, the value of the ASMC is estimated at EUR 478 million and USD 239 million. This section also highlights that the valuation for financial reporting purposes follows United States actuarial standards, which assume that the entire amount of the liability will be funded by FAO; however, because of the cost sharing arrangement between FAO and all health care plan participants, a significant portion of the retiree health claims are in fact funded through a portion of active staff contributions. Based on the current level of active staff contributions this source of funding is estimated to be approximately USD 231.2 million of the actuarial liability at 31 December 2009. Therefore, including the active staff contribution, the gross amount of the ASMC liability at 31 December 2009 required to be funded by FAO is USD 703.3 million. This section also highlights the challenges to maintaining the Organization’s current cost sharing ratio with active and retiree staff, and provides a schedule illustrating a comparison of the value of the liability, current service cost and funding requirements inclusive of the active

staff subsidy for 2009 and 2008. Finally, this section includes a schedule illustrating the total amount of TPF funding required for the three years ended 2010 that contributed directly to the General Fund structural cash deficit.

- Section ***VI. Comparison with other UN Organizations*** provides the Committee with a summary of recent actions taken by the United Nations to deal with its end-of-service plan liabilities. In particular, the Secretary General's proposal of 18 October 2009, at the request of the UN General Assembly, of various measures to contain the cost of the after-service health insurance (ASHI) liability, as well as his recommendation for funding the liability. The section includes the UNGA's Advisory Committee on Administrative and Budgetary Questions' (ACABQ) response to these proposals of 28 October 2009 in which the ACABQ was of the view that 1) the cost containment measures should be further explored by the UN System in a coordinated manner; 2) full funding versus "pay-as-you-go" is a policy matter for the General Assembly; and, 3) the Secretary General's funding proposal did not provide sufficient explanation for his recommendation. This section also highlights the UNGA's response to these two reports of 28 December 2009 in which the General Assembly requests that the Secretary General submit a follow-up report, including specific information and analysis as outlined by the UNGA. Finally, this section provides the Committee with an updated table comparing the status of the After-service Medical Coverage liabilities at various UN agencies.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the results of the annual actuarial valuation and the current financial situation, accounting and funding of the Organization's liability for staff-related plans at 31 December 2009. The Committee is invited to provide any guidance as deemed necessary.

Draft Advice

- **The Finance Committee notes the results of the annual actuarial valuation of the Organization's liability for staff-related plans at 31 December 2009 and makes specific note of the following points:**

1. The growth in the value of the overall liability for after-service benefit plans has stabilized owing to several refinements made to the actuarial calculation over the past few years and to the relative stability since 2008 of external factors, such as EUR/USD exchange rate and discount rate, that affect the reported value of the liability.
2. The ASMC liability remains seriously underfunded. In the case of the TPF, no funding sources of past service liability have ever been approved and, therefore, all TPF payments in excess of funding received for current service cost add to the structural cash deficit of the Organization.
3. The Organization faces a number of challenges in containing the growth in the ASMC liability to be funded by FAO, including pressure on the cost sharing ratio between the Organization and participants over the long term due to the growth in the ratio of retirees to active staff members.
4. The Committee looks forward to receiving information on the 2010 actuarial valuation of the liabilities for staff-related plans in order to make funding recommendations to Council in the context of the PWB 2012-13.

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)** – Within the UN common system, the terms and conditions of staff in the General Service category are established to reflect the best prevailing local employment conditions (the Flemming principle). Accordingly the General Service category staff at HQ 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 cost of the Basic insurance is nominally shared between the retired staff member and the Organization. Refer to paragraph 18 for further details of ASMC cost sharing.
- **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. On an annual basis, FAO 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) quantify recommended rates of contributions to fully fund the liabilities;
c) obtain information necessary to meet financial reporting requirements; and,
d) calculate the current service cost which is included in the Programme of Work and Budget.

The previous actuarial valuation of *all Plans* reported to the Finance Committee was that as at 31 December 2008[1]. This document refers to the results of the actuarial valuation as at 31 December 2009 and the current financial situation and accounting and funding of the Organization's liability with comparative information as at 31 December 2009, 2008 and 2007.

Results of Actuarial Valuations

3. The actuarial valuation of the Plans requires FAO to make certain assumptions in order to best estimate the cost of providing these benefits to its staff members. Such assumptions are 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

[1] FC 126/8 refers.

costs, etc.). Owing to changes in factors, both internal and external, FAO, 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 FAO'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. The key assumptions used in the valuations of the Plans for 2009, 2008 and 2007, respectively, are presented below in Table 1.

Table 1

	Key Assumptions	2009	2008	2007
	Economic			
1	Discount rate			
	ASMC	5.4%	5.6%	5.6%
	SPS	5.1%	5.6%	5.6%
	TPF	5.8%	5.6%	5.6%
	CPRF	5.9%	5.6%	5.6%
2	Medical cost inflation rate	6% during 2010, and 5% thereafter	7% during 2009, 6% during 2010, and 5% thereafter	5.0% per year
3	General inflation rate	2.5% per year	2.5% per year	2.5% per year
4	ASMC exchange rate for claims costs (4-year average of USD per Euro for 2007. Year end spot rate for 2008 & 2009)	1.44	1.43	1.28
5	Year-end exchange rate used to convert SPS from Euro to USD	1.44	1.43	1.44
6	Variation of per capita Claims Cost by Age	6% per year of age before age 65 and 3% from age 65 to age 89, with no increases after age 90	6% per year of age before age 65 and 3% from age 65 to age 89, with no increases after age 90	N/A
	Demographic			
7	Mortality	Actual 2007 UNJSPF Mortality Table with mortality improvements projected through 2027	Actual 2007 UNJSPF Mortality Table with mortality improvements projected through 2027	Estimated 2007 UNJSPF Mortality Table with mortality improvements projected through 2027

4. There were two changes in actuarial assumptions that had an impact on the reported values of the liabilities in 2009. The first was the change in selection of the discount rate. FAO's Plan liabilities are reported at their discounted, present value in accordance with the time value of money principle. The time value of money is a financial concept that assumes that a dollar today will be worth more in the future owing to the fact that it can be invested and generate a return of interest (e.g. USD 100 invested at 5% annual interest will increase to USD 105 at the end of one year). In order to determine the present value of FAO's Plan liabilities, the actuaries first calculate their future value (i.e. the total amount FAO can expect to pay out over the life of the liabilities) and then "discount" these to their present value by imputing an interest rate, also called the discount rate. Thus, while the present value (i.e. the reported value) of the Plan liabilities will change with variations in the discount rate, their future value (i.e. their ultimate cash cost) will not. FAO, consistent with the other organizations of the UN System, selects its discount rate by reference to financial indices based on the interest rates of high quality corporate bonds in various

economies. Since FAO's liabilities are ultimately incurred in Euro or US Dollars (including currencies assumed to be correlated with the US Dollar), FAO's actuaries look to corporate bond indices in either the Euro-zone or the USA. In previous valuations, the actuaries employed a simplified assumption and used the same discount rate for all Plans based on the currency composition of the ASMC liability. Beginning with the 2009 valuation, FAO has adopted Plan-specific discount rates in recognition of the fact that each of the Plan liabilities is comprised of different proportions of currency mix (e.g. the ASMC liability is comprised of 2/3 Euro and 1/3 US Dollar or US Dollar-linked currencies, while the SPS liability is 100% Euro).

5. In addition to the change in discount rate selection, FAO introduced a further refinement in the calculation of ASMC liability. While previous valuations assumed that eligible retirees remained within the plan for the duration of their retirement, FAO Social Security Office determined that, in fact, a small percentage of retirees actually withdraws from the plan in favor of national health insurance schemes. Based on an analysis of withdrawals to date, this valuation assumes that 0.1% of inactive participants will withdraw from coverage each year. This results in an estimated USD 13.1 million decrease in the value of the ASMC liability as of 2009 (refer also to paragraph 7 below). FAO and its actuaries will continue to monitor this trend to determine whether future withdrawal rates change.

6. Table 2 below is a comparison of the actuarial liability by plan as at 31 December 2009, 2008 and 2007, respectively.

Table 2

(in USD Millions)		**Increase/ (Decrease)**			**Increase/ (Decrease)**		
Plan	**2009**	***$***	***%***	**2008**	***$***	***%***	**2007**
CPRF	$18.0	*(2.5)*	*-12.2%*	$20.5	*3.8*	*22.8%*	$16.7
TPF	58.2	*7.6*	*15.0%*	50.6	*21.4*	*73.3%*	29.2
SPS	100.1	*6.6*	*7.1%*	93.5	*(3.6)*	*-3.7%*	97.1
ASMC	934.5	*56.9*	*6.5%*	877.6	*301.5*	*52.3%*	576.1
Total actuarial liability	**$1,110.8**	***68.6***	***6.6%***	**$1,042.2**	***323.1***	***44.9%***	**$719.1**

7. As reflected in Table 2 above, the net increase of USD 68.6 million in the overall liability between 31 December 2008 and 31 December 2009 is mainly due to an increase in the ASMC of USD 56.9 million. A description of the components of the net increase follows:

Increases totaling USD 75.7 million, comprised of

- expected net change in the liability of USD 39.9 million related to accrual of current service and interest cost for 2009, less actual benefit payments;
- change in discount rate from 5.6% to 5.4% of USD 30.6 million; and,
- movement in EUR-USD exchange rate of USD 5.2 million.

Decreases totaling USD 18.8 million, comprised of

- introduction of new assumption regarding withdrawal of retirees of USD 13.1 million;
- miscellaneous demographic experience as compared to previous actuarial estimates of USD 4.8 million; and,
- other factors totaling USD 0.9 million.

Current Financial Situation

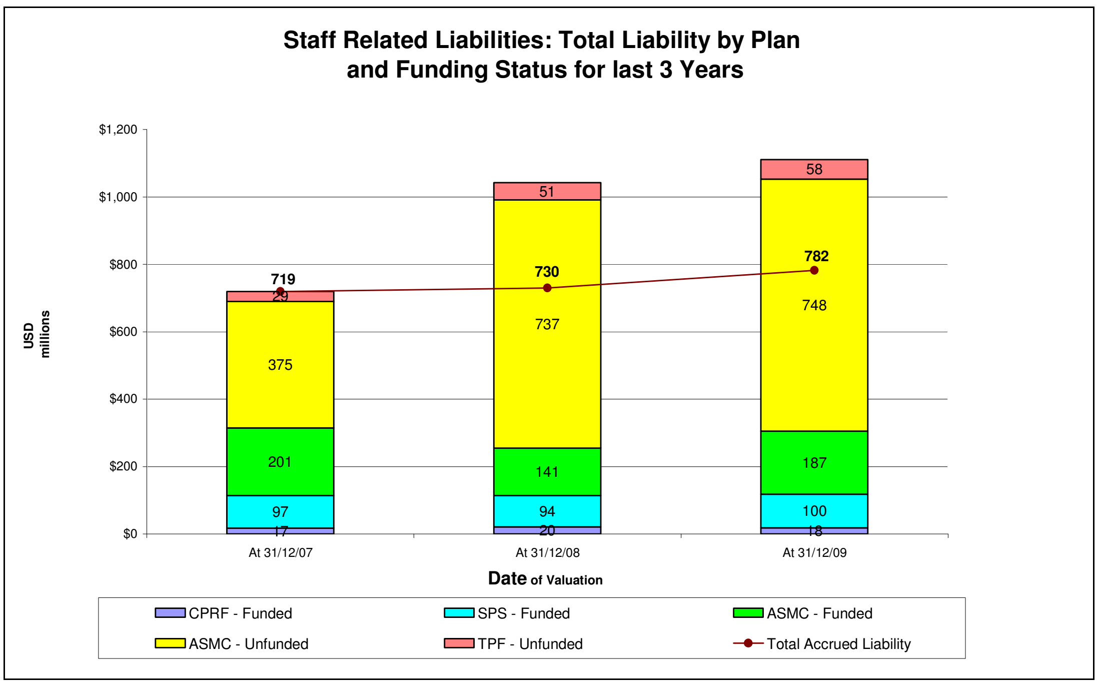
8. Table 3 and Graph 1 below show the total recorded and unrecorded liabilities[2] for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities[3] for all Plans as compared to the fair market value of earmarked long-term assets[4] at 31 December 2009, 2008 and 2007, respectively.

Table 3

(in USD Millions)

Plan	2009	*% total liability*	2008	*% total liability*	2007	*% total liability*
CPRF	$18.0	*1.6%*	$20.5	*2.0%*	$16.7	*2.3%*
TPF	21.1	*1.9%*	20.4	*2.0%*	29.2	*4.1%*
SPS	89.6	*8.1%*	92.5	*8.9%*	97.1	*13.5%*
ASMC	653.7	*58.8%*	596.5	*57.2%*	576.1	*80.1%*
Total accrued liabilities	**782.4**	*70.4%*	**729.9**	*70.0%*	**719.1**	*100.0%*
Add: Unrecorded liabilities	328.4	*29.6%*	312.3	*30.0%*	0.0	*0.0%*
Total actuarially determined liabilities	**$1,110.8**	*100.0%*	**$1,042.2**	*100.0%*	**$719.1**	*100.0%*
Less: Earmarked long-term investments (at Fair Market Value)	*-294.8*	*26.5%*	*-242.3*	*23.2%*	*-299.7*	*41.7%*
Less: Advances to staff on SPS	*-10.1*	*0.9%*	*-12.5*	*1.2%*	*-14.9*	*2.1%*
Total unfunded liabilities *	**805.9**	*72.6%*	**787.4**	*75.6%*	**404.5**	*56.3%*
* Of which:						
TPF	58.2		50.6		29.2	
ASMC	747.7		736.8		375.3	
Total unfunded liabilities	**805.9**		**787.4**		**404.5**	

Graph 1



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[2] Recorded liabilities totaled USD 782.4 million at 31 December 2009. Unrecorded liabilities of USD 328.4 million reflect the use of the corridor method for recognising actuarial gains and losses, in accordance with IPSAS (refer to para. 9 for discussion of corridor method).

[3] Unfunded liabilities totaled USD 805.9 million at 31 December 2009.

[4] Earmarked long-term assets include outstanding advances to staff members on final Terminal Emoluments of USD 10.1 million, USD 12.5 million and USD 14.9 million at 31 December 2009, 2008 and 2007, respectively.

9. As shown in Table 3, the Organization has deferred recognition of USD 328.4 million of the actuarially determined liability as at 31 December 2009. In accordance with FAO's move toward full implementation of IPSAS, the Organization has adopted the policy of utilizing the corridor method to recognize actuarial gains and losses. Under this method, actuarial gains and losses that exceed 10 per cent of the value of the actuarial liability are deferred and recognized over the expected average remaining working lives of the employees participating in the plan, which is currently estimated from 9.4 to 11.4 years. FAO opted for this method over immediate full recognition as it mitigates significant volatility in the reported value of the Plan liabilities caused by external factors, such as movements in the EUR-USD exchange rate and discount rates, which are entirely out of FAO's control and which may ultimately offset over time. Of the total amount deferred, USD 280.8 million relates to ASMC; USD 37.1 million relates to TPF; and, USD 10.5 million relates to SPS.

Accounting and Funding

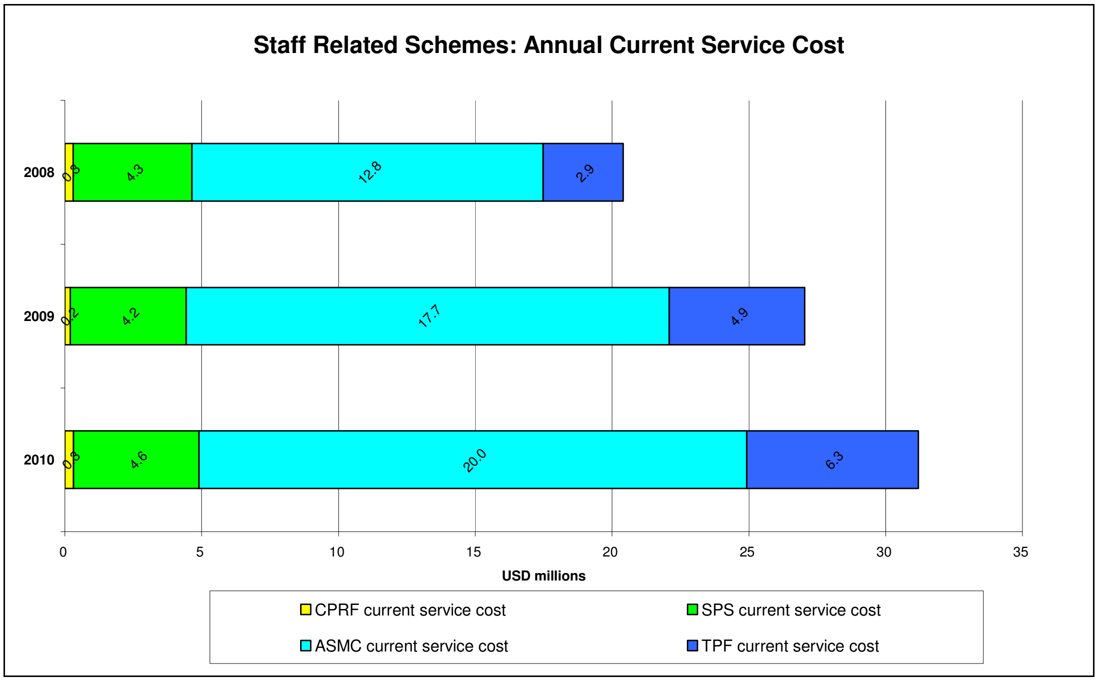
10. Table 4 and Graph 2 below show the annual Current Service Costs[5] for the three years ended 31 December 2010, which are based on the actuarial valuations for the preceding years at 31 December 2009, 2008 and 2007, respectively.

[5] 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. Reported amounts represent total current service cost for staff members working on both Regular Programme (RP) and Extra-budgetary (EB) activities. In 1997 the Governing Bodies recognized that current service cost related to RP staff members be funded each biennium from the Regular Programme Budgetary appropriation and expensed in the official accounts among costs to deliver the current programme of work of FAO. Current service cost for EB staff members is charged to trust fund project expense and, therefore, funded through project revenues. Funding of actuarial losses (i.e. increases in the liability as a result of adverse experience as compared to actuarial estimates) is considered in the overall funding requirements for past service liabilities (please refer to Table 6 for details of ASMC funding requirements).

Table 4

(in USD Millions)						
Plan	**2010**	***% total expense***	**2009**	***% total expense***	**2008**	***% total expense***
CPRF	$0.3	*1.0%*	$0.2	*0.8%*	$0.3	*1.5%*
SPS	4.6	*14.7%*	4.2	*15.6%*	4.3	*21.3%*
ASMC	20.0	*64.2%*	17.7	*65.3%*	12.8	*62.9%*
TPF	6.3	*20.1%*	4.9	*18.3%*	2.9	*14.3%*
Total	**$31.2**	***100.0%***	**$27.0**	***100.0%***	**$20.4**	***100.0%***

Graph 2



11. The increase of USD 4.2 million in the annual Current Service Cost from USD 27.0 million in 2009 to USD 31.2 million in 2010 is principally the result of the following changes:

ASMC

- Change in the discount rate
- Increase in the number of active participants, with vested after-service medical benefits, transfering into FAO from other UN System organizations

TPF

- Increase in the number of active participants eligible for this benefit
- Increase in assumed accrued leave and repatriation travel/removal costs
- Expected net decrease in service cost related to payments of benefits in excess of new benefits earned

12. 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 2009, both the ASMC and TPF continue to be underfunded (refer also to Table 3 and Graph 1).

13. In accordance with Finance Committee and FAO Council guidance[6], the Secretariat has obtained from FAO's actuaries the annual amounts required to fully fund the ASMC and TPF liabilities using revised target dates of 31 December 2040 and 31 December 2025, respectively.

14. Based on the most recent actuarial valuation as of 31 December 2009, in order to fully fund the past service liability associated with the TPF of USD 58.2 million (using a revised 15-year amortization period starting in 2010), the Organization would need to contribute an additional USD 4.9 million per year (USD 9.8 million per biennium).

15. Based on the most recent actuarial valuation as of 31 December 2009, in order to fully fund the US Dollar value of the ASMC past service liability (using a revised 30-year amortization period beginning in 2010), USD 24.8 million per year (USD 49.6 million per biennium) would need to be contributed (refer to Other Funding Considerations section and Table 6 for further details regarding funding requirements and considerations). By comparison, assessments on Member Nations towards funding of the past service ASMC liability for the biennium 2010-11 currently amount to USD 7.05 million per year (USD 14.1 million per biennium) as approved by Conference in November 2009[7]. 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.

Other Funding Considerations

16. **EUR Liability Funding** – Following the adoption of split-assessments effective with the 2004-05 biennium, FAO pays all EUR liabilities with EURs. While the reported overall USD value of the liability will vary based on movements in the EUR/USD exchange rate, this does not change the underlying EUR funding requirement. Consequently, in order to have a clearer picture of FAO's obligation related to the ASMC, the liability and associated funding requirements should be viewed in terms of their separate EUR and USD components. Below is a comparison of the estimated split of the liability by currency for 2009 and 2008

Table 5

(in Millions)			Increase/(Decrease)	
	2009	**2008**	**Amount**	**%**
Euro	478.0	460.0	18.0	3.9%
US Dollar	239.0	220.0	19.0	8.6%

17. **Cost-sharing Assumption** - FAO, together with the other Rome-based agencies, offers a health insurance scheme (Basic Medical Insurance Plan or BMIP) in which both active staff members and retirees (together "plan participants") participate. Based on the amount of contributions that active and retired staff members are currently required to make, the cost of medical claims incurred under this plan are effectively borne approximately 60 per cent by FAO and 40 per cent by plan participants. While the individual contributions that plan participants are required to make to fund their 40 per cent of the costs are the same regardless of whether they are active staff or retirees, the overall cost of medical claims is in fact higher for retirees than for active staff members. As a result, active staff member contributions comprise a greater percentage

[6] The Finance Committee and FAO Council both highlighted the need to ensure that significant liabilities of the Organization are fully funded (CL 136/8 paras. 34 – 41 and CL 137/9 paras. 21 - 26 refer).

[7] Conference Resolution 3/2009 refers.

of their actual medical claims costs than retirees' contributions and there is an inherent cross-subsidization of retiree medical claims costs by active staff member contributions, which maintains the overall plan cost sharing ratio of approximately 60/40 between FAO and all plan participants.

18. For the purposes of preparing the actuarial accounting valuation of the liability, the actuaries isolate the expected gross cost of retiree medical claims, net of estimated retiree contributions only. This methodology, which is consistent with standard actuarial practice in the United States, does not recognize the inherent cross-subsidization of funding that will be provided through future active staff member contributions. Excluding the future active staff contributions from the actuarial valuation of the ASMC liability implies that FAO will fund the remaining 80 per cent of the cost of retiree claims (i.e. 80 per cent of the gross actuarial liability) not funded through retiree contributions. It is, however, FAO's view that both plans for active and retired staff should reflect the Organization's commitment to overall cost sharing, which currently amounts to approximately 60 per cent FAO and 40 per cent plan participants. This view is supported by over 20 years of experience, during which FAO has maintained this ratio of cost sharing. While FAO has stated that it is committed to maintaining this cost sharing for the foreseeable future, regardless of changes to the demographics of FAO's active and retired staff, there remain risks to achieving this goal in the long term (refer to para. 20 below for further discussion).

19. While, owing to accounting rules, FAO is unable to recognize the active staff contribution in the actuarial value of the ASMC that is reflected in its Financial Statements, it does take this amount into consideration in calculating the liability to be funded in the future. Were FAO to consider the full, estimated active staff contribution as a component of ASMC funding it would reduce the ASMC liability reported in the actuarial valuation as at 31 December 2009 by an estimated USD 231.2 million from USD 934.5 million to USD 703.3 million. Table 6 shows the funding requirements as at 31 December 2009 and 2008 by including the full estimated active staff subsidy.

Table 6

*(in USD Millions)**	2009	2008	Increase/(Decrease)	
Net Liability			*$*	*%*
Net ASMC, including future retiree and active staff contributions	$703.3	$660.1	$43.2	6.5%
Less: Plan Assets	(186.7)	(140.7)	(46.0)	32.7%
Net ASMC to be funded by FAO	$516.6	$519.4	(2.8)	-0.5%
Annual Contributions as of 31 December 2009 and 2008				
Service Cost	$20.0	$17.7	$2.3	13.0%
Amortization Cost	24.8	35.8	(11.0)	-30.7%
Total Required Annual Contributions	44.8	53.5	(8.7)	-16.3%
Less:				
Service Cost	(20.0)	(17.7)	(2.3)	13.0%
ASMC Past Service Funding	(7.1)	(7.1)	0.0	0.0%
Total Approved Funding	(27.1)	(24.8)	(2.3)	9.3%
Funding Shortfall	$17.8	$28.8	(11.0)	-38.3%

** USD figures are calculated using historical rates of exchange in effect for the respective periods presented.*

20. It is important to note that there are three challenges in applying the 60/40 cost sharing principle:

a) ***Barriers to Maintaining Cost Sharing*** – The actuarial valuation assumes that medical costs at each age will increase at rates of 6% in 2010 and 5% in 2011 and subsequent years. Assuming stable participant demographics, participant contributions must grow at the same rate. However, pay and pension amounts are assumed to grow at lower rates. Therefore, maintaining the 60/40 cost sharing principle requires participants to contribute an ever-increasing share of their pay or pension. Based on a study by FAO's actuaries, which was completed in 2007, participant contributions would need to increase approximately 2 per cent more per annum than the increase in medical costs in order to retain the 60/40 cost sharing ratio. FAO Office of Social Security has engaged the actuaries to perform a follow-up study to assess a proposal to change future contribution rates, and which will affect the overall cost-sharing.

b) ***Possible Increase in Dependency Ratio*** – While point a) above assumes stable demographics, the reality is that the number of retirees has increased and the number of active staff members decreased in every FAO actuarial valuation for the past decade, resulting in an increasing dependency ratio (number of retired staff divided by the number of active staff) from 60% in 1998 (Retired Staff – 3,413; Active Staff – 5,646) to 118% in 2009 (Retired Staff – 4,218; Active Staff – 3,582). Therefore, a continued increase in the dependency ratio would require additional increases in participant contributions to maintain the 60/40 cost sharing principle.

c) ***Possibility of Adverse Experience*** – The analysis in Table 6 presumes that all actuarial assumptions from the 31 December 2009 valuation will be realized. However, as with any long-term actuarial projection, there is inherent uncertainty relating to the ultimate cost of the plan. Adverse deviations from the valuation assumptions could reduce the sustainability of the current cost sharing or require greater contributions.

21. As regards the unfunded Termination Payment Fund liability, it is noted that funding sources have never been established. Cash outflows in excess of the funding provided for TPF current service costs generate a structural cash deficit in the General Fund, pending establishment of a funding approach for this liability. Table 7 below shows the annual cash requirements for the three years ended 31 December 2010, which were never funded.

Table 7

(in USD Millions)	Funding Period*		
	2010	2009	2008
Service Cost	6.3	4.9	2.9
Deficit Amortization	4.9	13.9	6.5
Total Annual Contribution	11.2	18.8	9.4

** Based on actuarial valuations as at 31 December 2009, 2008 and 2007, respectively. Funding period 2010 reflects the revised target of 31 December 2025. Funding period 2008 and 2009 reflect original target of 31 December 2012.*

Comparison with other UN Organizations

22. At its 61st session[8], the United Nations General Assembly (UNGA), requested that the Secretary-General submit a report aimed at identifying strategies to better manage the UN's end-of-service liabilities. In particular, the the Secretary-General was asked to review the various components of the after-service health insurance benefit (ASHI) liability and to evaluate strategies for alternative funding and cost containment of same. In response to this request, the Secretary-General noted[9] the importance of ASHI for retiring staff members, many of whom cannot benefit from the national security schemes of Member States owing to their service with the United Nations. He further noted that the liability continues to grow owing in particular to increases in the population of retirees covered and because of the increased cost of medical services worldwide in excess of general inflation, and that, while the current pay-as-you-go financing arrangement provides the resources needed to fund the current cash cost of benefits utilized by retirees, this approach is not sustainable in the long term, and will potentially compromise the financial viability of the programme of work in future years.

23. In addition, the Secretary-General provided the following proposals:

Cost containment
1. Changes to after-service health insurance eligibility provisions for new staff members recruited on or after 1 July 2007 to contain the growth in the liability;
2. Changes in the insurance platform;
3. The appointment of a third-party administrator for the medical insurance plan for locally recruited staff at duty stations away from Headquarters;
4. Revisions to benefit provisions related to cost-sharing; and,
5. The incorporation of disease-management and wellness programmes into the United States-based plans.

[8] UN Genaral Assembly resolution 61/264 of April 2007 refers.

[9] UN Secretary-General's report A/64/366 refers.

Funding

1. While the Secretary General outlined three funding alternatives, his recommendation for the UNGA consisted of a one-time infusion of USD 425 million, comprised of USD 290 million in surpluses in the peacekeeping budget and USD 135 million in other reserves, plus systematic funding for the long term aimed at attaining 70 per cent funding in 30 years.

24. The UNGA's Advisory Committee on Administrative and Budgetary Questions (ACABQ) considered the Secretary General's report. With regard to cost containment initiatives, the ACABQ was of the view that such measures should be further explored by the UN system as a whole in a coordinated manner. The ACABQ expressed its belief that whether to establish a reserve fund to finance the after-service health insurance liabilities of the UN up front or to continue the "pay-as-you-go" approach is a policy matter for the UNGA. The ACABQ also noted that the Secretary General did not propose any funding alternatives that would provide full funding for the after-service health plan, as requested by the UNGA, nor did he provide reasons for why certain funding percentages had been proposed. With respect to the initial funding of USD 425 million, the ACABQ was against using the USD 290 million of budgetary surplus, however, it was in support of the use of USD 135 million of reserves in light of the Secretary General's assurances that this would not endanger those reserves.

25. In response to the above, the UNGA, at its 64th session held in December 2009, considered both the Secretary General's report and the ACABQ's recommendations and requested that the Secretary General submit, for its priority consideration, a report on managing ASHI liabilities to the 67th session of the UNGA, bearing in mind that the "pay-as-you-go" principle is also one of the viable options, including information and analysis on the following issues:

- Scope and coverage of existing ASHI plans;
- Administration costs related to alternative financial options;
- Arrangements for ensuring accurate funding from the different sources of funding;
- Options for contribution levels to ASHI plans by its participants and by the UN;
- Comprehensive long-term strategies of financing ASHI liabilities;
- Further measures to reduce the UN costs related to healthcare plans;
- ASHI plans for retired public sector employees offered by their respective Governments;
- The financial and legal implications of changing, for current retirees and active staff members, (i) the scope and coverage of the ASHI plan; and (ii) the contribution levels.

26. For information purposes, Table 8 below shows a comparison of the ASMC liability and funding at FAO, WFP and IFAD as at 31 December 2009 and at other UN organizations as at 31 December 2008 (or at latest date available). [**NOTE**: An updated schedule will be provided at the 132nd FC Session.]

Table 8

Comparative analysis of ASMC liability for UN system organizations												
Organization	Total Liability (USD million)			Funding Available (USD million)			Liability recorded on the Balance Sheet (USD million)			Liability not yet recorded on the Balance Sheet (USD million)		
	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-07	31-Dec-08	31-Dec-09
FAO	576.1	878.0	934.5	200.7	141.0	186.7	576.1	596.0	653.6	-	282 (a)	280.9 (a)
IAEA	207.0	225.0		-	-		-	-		207.0	225.0	
ICAO	55.2	46.8		-	-		-	-		55.2	46.8	
IFAD	41.0	50.0	61.3	46.0	57.0	60.4	41.0	50.0	61.3	-	-	-
ILO	415.0			-	-		-	-		415.0		
IMO	22.1	22.7		-	-		-	-		-	-	
ITC	50.8	53.8		-	-		50.8	53.8				
ITU	181.3			-	-		-	-		181.3		
PAHO												
UN	2,433.0	2,596.0		-	-		2,431.0	2,596.0		-	-	
UNDP												
UNESCO	614.0			30.0			-	-		614.0		
UNFPA	72.8			61.2			72.8			-		
UNHCR	308.0	307.8		-	-		308.0	307.8		-	-	
UNICEF	292.0	483.0		150.0	180.0		-	-		292.0	483.0	
UNIDO	104.9	104.9		-	-		-	-		104.9	104.9	
UNRWA												
UNWTO	3.2	3.2		-	-		-	-		3.2	3.2	
UPU	6.0			-			-			6.0		
WFP	150.5	165.2	181.8	87.5	93.5	107.4	150.5	165.2	181.8	-	-	-
WHO	649.0			384.0			341.0			308.0		
WIPO	74.1	73.9		-	-		33.8	36.8		40.4	37.1	
WMO	75.0	75.0		1.0	1.3		-	-		75.0	75.0	

(a) Liability not yet recorded on the Balance Sheet reflects FAO's use of the corridor method, as permitted under IPSAS 25, for deferring recognition of a portion of actuarial liabilities.