Progress report on funding of end-of-service and post-retirement benefits

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I  Introduction

1. In June 2009, UNHCR provided the 45th meeting of the Standing Committee with an update and proposals on potential funding mechanisms for end-of-service liabilities and post-retirement benefits (EC/60/SC/CRP.16). The present report contains an update on the status of the funding strategy being discussed by the United Nations General Assembly and describes possible options for UNHCR. The Office would welcome feedback from the Standing Committee as to which options would be considered most suitable options for funding UNHCR’s liabilities in future years, for both After-Service Health Insurance (ASHI) and repatriation benefits. According to actuarial valuations of UNHCR’s liabilities, as 31 December 2009, UNHCR’s ASHI liability amounted to just under $347.42 million (of which $21.0 million pertains to the Medical Insurance Plan (MIP) for national staff); and the liability for repatriation benefits stood at almost $65.47 million. With the exception of the MIP liability, these liabilities are currently not funded.

II.  Background

2. The after-service health insurance provides for health insurance benefits for former staff during retirement under the same scheme as for in-service staff. Both the staff member and the organization contribute to the cost of the benefits during the staff member’s active service; and following retirement, the contributions are paid entirely by the retiree. The organization currently does not make contributions to the fund for retirees. The issue of funding came to light, in part with the introduction of the International Public Sector Accounting Standards (IPSAS), which require organizations to show employee liabilities on the financial statements and to accrue for liabilities as they occur, and also as a result of a series of recommendations from the legislative and oversight bodies of the United Nations system.

3. The United Nations Chief Executives Board (CEB) issued a comparative analysis in April 2010 showing the ASHI liability for United Nations system organizations as of 31 December 2009. The total liability reported for all United Nations agencies has increased to $7.5 billion from last year’s reported $5.0 billion. Different approaches have been adopted across the United Nations system to fund ASHI and repatriation benefits, with no organization reporting fully funded reserves for ASHI as of 31 December 2009. Eleven United Nations organizations have introduced a funding process and show differing levels of fund reserves. A number of United Nations organizations continue to apply the pay-as-you-go approach to cover benefits for current retirees under ASHI. This is discussed further in section IV below.

III.  Repatriation benefits

4. It was reported in June 2009 that, according to actuarial estimates at that time, repatriation benefits were likely to average $3.0 million per year for the next 10 years, with amounts ranging from $2.3 in 2009 to $3.6 in 2018. In June 2009, UNHCR proposed to the Standing Committee that the repatriation liabilities continue to be financed on a pay-as-you-go basis.

5. However, in the course of 2009, an actuarial valuation adjustment was made to the liability for repatriation benefits in 2008, which was increased by $36.8 million to $65.5 million, corresponding to the opening balance for 2009. Therefore, according to current
actuarial estimates, the level of repatriation benefit payments will increase to an average annual cost of $5.8 million over the next five years.

IV. Update on progress with ASHI funding in the United Nations system

6. Based on data collected from 24 United Nations-affiliated organizations, 11 organizations have set aside funds in a reserve account to cover their ASHI liability, although no organization has yet reached 100 per cent funding.

A. United Nations Secretariat

7. The Secretary-General presented his report, Liabilities and proposed funding for after-service health insurance benefits (A/64/366 dated 18 October 2009), to the General Assembly at its 64th session. Details of the proposals presented by the Secretary-General are provided in paragraph 9 below. The Assembly deferred the matter for further consideration and will review it again at its 67th session.

8. The three alternatives for funding the United Nations’ ASHI liability, as outlined by the Secretary-General in A/64/366 to the General Assembly, are summarized below:

   (a) To reach an average target of 65 per cent of funding requirements, it was proposed to apply an increase to budgeted staff costs of 16.0 per cent for regular budget costs; 6.0 per cent for extra-budgetary costs; and 5.5 per cent for peacekeeping posts - over a period of 30 years. The Secretary-General noted that this approach was complicated, and would require drawing significant additional resources from budgets during the 30-year period.

   (b) To attain a funding goal of 25 per cent over 30 years, the application of post charges of an additional 5.6 per cent for regular budget costs; 1.2 per cent for extra-budgetary costs; and 1.5 per cent for peacekeeping costs was proposed, in addition to doubling the pay-as-you-go amount expended each year. The intention was to transfer the surplus funds created from current expenditure to a reserve. Whilst this option is simpler and does not burden budgets as much as the first option, the Secretary-General noted that with the doubling of the pay-as-you-go option, resource requirements would be higher than projected requirements for the biennia concerned.

   (c) The recommended option was to fund 70 per cent of the overall liability over 30 year, by making a one-time cash injection into a reserve fund, with additional systematic annual funding during the period corresponding to an average 4.4 per cent increase in budgetary charges to posts of the respective funds: 9.6 per cent for regular budget; 2.6 per cent for extra-budgetary funds; and 1 per cent for peacekeeping funds.

9. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) responded to the Secretary-General’s recommendations in its report A/647/Add.4 dated 28 October 2009. The ACABQ noted that the issue was a policy matter for General Assembly decision; however, it did not support the proposal to transfer funds from assessed contribution funds, peacekeeping and extra-budgetary reserves - which are established for entirely different uses. It stated that transfers from assessed contributions, peacekeeping support account contributions, or extra-budgetary contributions, to a reserve fund for ASHI would represent an inappropriate financial management practice and would contravene the Financial Rules.

10. As a result of the General Assembly’s decision to defer the matter to its 67th Session, the United Nations Secretariat will continue to use the option of pay-as-you-go for the next
two-and-a-half years, as announced in General Assembly resolution A/RES/64/241, adopted on 24 December 2009.

B. United Nations Children’s Fund (UNICEF)

11. UNICEF has provided cash injections since 2003, thereby narrowing the funding requirement to 45 per cent of the total unfunded liability. UNICEF increased its reserve from $150 million to $210 million at the close of 2009 to fund a liability of $464.0 million as of 31 December 2009.

C. United Nations Development Programme (UNDP)

12. UNDP had a liability of $461.1 million as of 31 December 2009, and had accumulated a reserve fund of $373.3 million at that date, covering more than 81 per cent of the total current liability.

D. United Nations Population Fund (UNFPA)

13. UNFPA’s liability was $87.5 million as of 31 December 2009. The organization has built up a reserve of $79.0 million, through a cash injection of $53.7 million and the introduction of a charge on posts of 4.0 per cent. Hence, UNFPA had funded over 90 per cent of its liability as of 31 December 2009.

E. World Food Programme (WFP)

14. As of 31 December 2009, WFP had funded a liability of $181.8 million with a reserve value of $107.4 million, representing 59 per cent of the total liability.

F. World Intellectual Property Organization (WIPO)

15. Having introduced a post charge of 6.0 per cent per biennium to fund a liability of CHF 98.9 million, as of 31 December 2009, WIPO had generated a reserve of CHF 37.8 million, representing 38 per cent of the current liability.

G. World Meteorological Organization (WMO)

16. WMO introduced a charge on posts at a rate of 2.0 per cent of payroll costs. Thus, as of 31 December 2009, the organization had built up a reserve of $1.7 million, which is 3 per cent of the total liability of $59.5 million.

V. UNHCR’s proposed funding strategy

17. In its report JIU/REP/2007/2, the United Nations Joint Inspection Unit (JIU) recommended that all organizations should make efforts to fund their ASHI liabilities “by providing adequate financing to meet the liabilities and establish a reserve for this purpose.” This has also been the recommendation of the Board of Auditors, whose members considered that there was an urgent need to have a funding plan adopted by United Nations system organizations (A/63/5 (Vol. I) para. 66).
18. The Report of the Board of Auditors on UNHCR’s financial statements for 2008 (A/AC.96/1067, para. 61) reiterated the Board’s recommendation that “UNHCR set up specific funding for its accrued end-of-service and post-retirement liabilities, notably those related to after-service benefits.”

19. The main disadvantage and risk associated with the pay-as-you-go philosophy and practice are that the unfunded liabilities shown on the financial statements will continue to increase over time, creating a large deficit in the financial statements. Leaving the liabilities for both ASHI and repatriation benefits unfunded will expose the organization to an exponential increase in cash requirements, thereby placing a strain on future budgets.

20. Another important point to consider is the desirability of reflecting the true cost of programmes and activities. If costs are not systematically accrued, the true cost of a programme is not reflected in the expenditure data, since staff costs related to repatriation and after-service health insurance are not charged to the relevant programmes as they are incurred. Presently, the full cost of repatriation benefits is charged only to the last activity or programme to which the staff member is assigned.

A. Possible options for funding ASHI

21. UNHCR’s MIP fund for national staff members is self-sustaining at present. The MIP liability of $21.0 million was fully funded, as of 31 December 2009, from accumulated reserves of $34.4 million; therefore, no additional funds are needed. The MIP fund should be reviewed annually, based on the actuarial data gathered, in order to assess the ongoing sustainability of the reserves.

22. The options to consider in order to fund the remaining ASHI liability of $326.4 million, excluding MIP, are as follows:

   (a) One option, which requires further actuarial study and evaluation, is to continue to apply the pay-as-you-go approach for the existing liabilities as of 31 December 2010, and to fund the liability for future periods starting on 1 January 2011. Reserves for funding future liabilities would be created by applying a charge to the posts of staff members with expected future service beyond 1 January 2011;

   (b) Annual injections of funds to the reserve by transferring some of the unearmarked carry-over at the end of the year, the total amount of which would be subject to operational priorities and approval by the High Commissioner. In this case, a suggested target should be established at a recommended minimum, subject to the exigencies of operational requirements;

   (c) A monthly payroll charge of 4 per cent on the net base salary of all professional staff with effect from 1 January 2011, which would generate estimated funds of $5.0 million annually.

23. The objective is to build up the reserve to acceptable and agreed levels over the course of the next 30 years, contingent upon actual funds reserved each year, using a combination of all, or a selection of, the above options. A formal review could be undertaken every two years to assess the assumptions and projections made and the reserve balances held, and any required adjustment to the proposed funding strategy could be made on a biennial basis, in line with the budget cycle.
B. Funding strategy proposed for repatriation benefits

24. To build up a reserve to fund repatriation liabilities of $65.5 million, in line with current practice in the United Nations Secretariat and the six other funds and programmes within the United Nations system, one option would be to add a 4 per cent charge to the organizational net payroll costs for professional staff, thereby generating approximately $5.0 million per annum. Using this approach, it would take approximately 13 years to build a 100 per cent reserve fund, excluding any interest that may be earned on the fund.

VI. Conclusion

25. UNHCR is therefore seeking feedback from the Committee on the options outlined in paragraphs 22 to 24 in order to fund its ASHI and repatriation liabilities, and will submit a decision for approval at the 49th meeting of the Standing Committee, for application with effect from 1 January 2011.