



## **FUNDING OF END-OF-SERVICE AND POST-RETIREMENT BENEFITS**

(as reported in document EC/62/SC/CRP.23)

Presentation by Ms. Karen Farkas, Controller and Director, Division of Financial and Administrative Management (DFAM)

Standing Committee, 51<sup>st</sup> meeting, 23 June 2011

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Mr. Chair, Distinguished Delegates, Ladies and Gentlemen,

I would like to present to you a decision relating to the funding of end-of-service and post-retirement benefits. In March 2011, the adoption of a decision on this was deferred to the current meeting, as delegations had not had time to consult with their Governments as a result of the late availability of the conference room paper (EC/62/SC/CRP.7). This was due to the fact that the actuarial valuation that UNHCR commissioned from Mercer Actuaries in December 2010 was only received on 28 February 2011.

The decision currently proposed also includes, besides UNHCR's preferred option for funding after-service health insurance (ASHI), our funding proposal for repatriation benefits.

A copy of the presentation will be made available on UNHCR's website at  
<http://www.unhcr.org/excom>.

## Background

- Funding of end-of-service and post-retirement benefits under discussion since 2009
- Regular progress reports provided to Standing Committee, most recently for June 2010 and March 2011 meetings, and Informal Consultative Meeting on 1 September 2010
- UNHCR is required to pay these staff benefits, as per contractual status based on UN Staff Regulations and Rules
- UN General Assembly has deferred the issue until its 67<sup>th</sup> session
- UNHCR is dependent on voluntary contributions rendering future income flows difficult to predict

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The need to establish a funding reserve for end-of-service and post-retirement benefits has been under discussion in this Committee since 2009.

Regular progress reports have been provided to the Standing Committee, most recently during the June 2010 (EC/61/SC/CRP.19) and March 2011 (EC/62/SC/CRP.7) meetings. In addition, an Informal Consultative Meeting was organized on 1 September 2010. Concrete proposals for funding mechanisms were presented and subsequently amended to take into account comments made by delegations.

End-of-service and post-retirement benefits are based on the UN Staff Regulations and Rules, which are adopted by the UN General Assembly. The benefits are therefore applicable to all UN staff, including UNHCR, employed under these regulations and rules.

The UN General Assembly, which has also discussed the funding of end-of-service and post-retirement benefits at length, has postponed the adoption of any funding mechanism until its 67<sup>th</sup> session in September 2012. While UNHCR will review the outcome of any decision made by the General Assembly with interest, UNHCR is a different organisation insofar as it is almost fully funded from voluntary contributions. Voluntary annual contributions do not allow for the determination of predictable future income as is the case with accessed contributions.

## Requirement to commence funding

- Repeated recommendations from Joint Inspection Unit and Board of Auditors to provide adequate financing to meet liabilities
- Current “pay-as-you-go” practice leaves unfunded liabilities on the financial statements with annual payments against the liability expected to increase
- Sound financial management to plan for future payments becoming due

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Having raised the liability for end of service and post-retirement benefits on the balance sheet since 2007, several factors need to be considered:

- (a) Repeated recommendations have been made by the United Nations Joint Inspection Unit (JIU) and the United Nations Board of Auditors, to provide adequate financing to meet payments against the liabilities as they fall due. Consequently, the issue also features in the Board's draft report on the 2010 financial statements and therefore, continuing with the “pay-as-you-go” approach for these liabilities, instead of establishing a funding reserve, could have consequences for future opinions on our financial statements.
- (b) Retaining the current “pay-as-you-go” practice will place a growing burden on future budgets, as annual related costs are projected to rise due to increased retirements.

In conclusion, sound financial management requires advance financial planning for amounts falling due in future years.

## UN organizations' funding status - ASHI

Total funding in place as at 2009 and percentage of total liability:  
(Total % funded highest to lowest – 2009 figures)

• IFAD	98%	\$ 60.0 million funded
• UNFPA	90%	\$ 79.0 million funded
• UNDP	81%	\$373.3 million funded
• WFP	59%	\$107.4 million funded
• UNICEF	55%	\$210.0 million funded
• WHO	45%	\$450.0 million funded
• UNESCO	42%	\$ 27.2 million funded
• FAO	20%	\$186.7 million funded
• PAHO	11%	\$ 22.3 million funded
• ILO	7%	\$ 36.2 million funded
• WMO	3%	\$ 1.7 million funded

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During the ICM held on 14 June, member states requested information on the funding status of ASHI in other UN organisations. This information was previously provided in the ICM of September 2010.

The UN organisations shown in the slide, use various methods to fund ASHI liabilities, the most preferred methods being (1) a percentage charge to payroll ranging from 2% to 8%; and (2) lump sum transfers of funding at year-end (subject to operational and funding situation from year to year).

## Proposed funding strategy for after-service health insurance

- Net liability at \$267.8 million as at 31 December 2010
- Preferred funding option:
  - Apply 3% payroll charge on net base salary of all professional staff and relevant general service staff, with effect from 1 January 2012
  - Estimate that payroll charge would generate some \$5.0 million annually to commence funding of the liability
  - Objective to gradually build reserve to acceptable level
  - Formal review every two years, in consultation with the United Nations Board of Auditors, to assess assumptions and projections made and reserve balance held
  - Any required adjustment to proposed funding strategy to be presented to Executive Committee biennially

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The actuarial valuation done by Mercer estimated UNHCR's net liability for after-service health insurance (ASHI) at \$267.8 million as at 31 December 2010.

UNHCR is re-submitting its preferred funding option for ASHI, namely to apply a payroll charge to the net base salary of all professional staff and relevant general service staff, with effect from 1 January 2012. In the March 2011 proposal, the percentage for the payroll charge was set at 4 per cent. New projections, using updated 2011 staffing details, indicate that the amount generated from a 4 per cent payroll charge would provide up to \$6.6 million per year. In order to cap this amount at approximately \$5 million per year, UNHCR is now proposing to apply a lower, i.e. 3 per cent, payroll charge to the 2012 and 2013 budgets and overtime gradually build up the reserve to an acceptable level. It should be noted, that the percentage charge is not activated until there is a staff member placed against a post and on the payroll. Therefore, the exact amount of funding actually generated during the year will be directly linked to post incumbency rates.

Furthermore, UNHCR proposes that a formal review be undertaken every two years, in consultation with the United Nations Board of Auditors, to assess the assumptions and projections made and the reserve balance held. Following this review, any required adjustment to the proposed funding strategy will be presented to the Executive Committee biennially.

## Proposed funding strategy for repatriation benefits

- Accrued liability for repatriation benefits (repatriation grant and travel and shipment) at \$69.75 million as at 31 December 2010
- Assessment of possible funding methodologies, including alternatives to applying another payroll charge
- Preferred funding option:
  - Allocate \$2.0 million annually, from unused staff costs
  - Formal review, with the United Nations Board of Auditors
- Based on assumption that there will be staff cost savings at the end of a given year

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The results of Mercer's actuarial valuation for the period ended 31 December 2010 show UNHCR's accrued liability for repatriation benefits, which comprises of repatriation grant and travel and shipment, at \$69.75 million.

To avoid overtaxing staff costs by applying another payroll charge (in addition to the one for ASHI), UNHCR assessed possible funding methodologies for the repatriation benefits. As a result, the preferred funding option will aim to establish the repatriation funding reserve through an annual allocation of \$2.0 million from unused staff costs. This methodology will also be formally reviewed every two years, in consultation with the United Nations Board of Auditors, with any required adjustments being presented to the Executive Committee biennially.

The main advantage of this funding option is that it does not overtax staff costs through the application of another payroll charge. The disadvantage, however, is that it relies on the assumption that there will be staff cost savings at the end of any given year. This means that the funding is not guaranteed. However, given that there is a significant number of UNHCR's professional positions located in evolving situations and that \$2 million represents 0.4% of total staff costs at 31 December 2010, it is reasonable to expect that some staff cost savings will be generated each year. The current proposal is thus a more economical one, while still being consistent with sound financial management practices.

## Conclusion

- UNHCR needs to commence funding its liabilities for end-of-service and post-retirement benefits
- Funding of the liability can be done so progressively over time at an appropriate percentage
- Risk of adverse future audit opinions if funding does not commence in 2012

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In conclusion, Mr. Chair, UNHCR needs to establish funding for its end-of-service and post-retirement liabilities. Various oversight bodies, most notably the United Nations Board of Auditors and the United Nations Joint Inspection Unit have urged UNHCR to commence soonest.

UNHCR does not need to fund the full liability at once, but can do so over a period time at an appropriate percentage.

Given the opinion of the Board of Auditors expressed in several audit reports (2007-2009), there is a risk of adverse future audit opinions if UNHCR does not commence funding soon.

A draft decision on the funding of end-of-service and post-retirement benefits is therefore submitted for approval.

Thank you.