

**Executive Committee of the
High Commissioner's Programme**

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Funding of end-of-service and post-retirement benefits

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I. Introduction

1. At its 50th meeting in March 2011, the Standing Committee discussed the funding of end-of-service and post-retirement benefits. The adoption of a decision on this matter was deferred by the Committee to its 51st meeting in June 2011, as delegations had not had time to consult their Government on the question 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.

II. Proposed funding strategy for after-service health insurance

2. The conference room paper submitted to the 50th meeting presented UNHCR's preferred option for funding after-service health insurance (ASHI), i.e. to apply a monthly 4 per cent payroll charge on the net base salary of all professional staff and relevant general service staff, with effect from 1 January 2012. The actuarial valuation estimated UNHCR's net liability at \$267.8 million as at 31 December 2010.

3. UNHCR is hereby re-submitting its preferred option for ASHI funding. 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. It should be noted that the percentage charge is not activated/charged 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 is directly linked to staff incumbency rates.

III. Proposed funding strategy for repatriation benefits

4. Regarding repatriation benefits, it was explained in EC/62/SC/CRP.7 that the results of the actuarial valuation would be reviewed during the first quarter of 2011, with a preferred funding strategy being presented for decision at the 51st meeting of the Standing Committee in June 2011.

5. The results of Mercer's actuarial valuation for the period ended 31 December 2010 show UNHCR's accrued liability for repatriation benefits (repatriation grant and travel and shipment) at \$69.75 million. This is an increase of \$4.28 million from the previous year's valuation, which was \$65.47 million. The main driver for the increase is an actuarial loss of \$3.3 million, arising from a decrease in the discount rate used in the valuation, from 6.15 per cent to 5.55 per cent. Discount rates are the standard means applied to calculate the net present value of future payments.

6. Following the review of the valuation results from Mercer, UNHCR assessed the possible funding methodologies, including alternatives to applying another payroll charge. Applying a further percentage payroll charge for funding repatriation benefits, in addition to the 3 per cent charge already being proposed to fund the ASHI liabilities, would create a large increase in staff costs across all programmed activities. Therefore, in an attempt to avoid overtaxing staff costs, alternative methodologies were considered.

7. The preferred funding option will aim to establish the repatriation funding reserve through an annual allocation of \$2.0 million from unused staff costs, which is consistent with sound financial management practice.

8. The main advantage of this option is that 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 a given year.

IV. Conclusion

9. Although applying a payroll charge for ASHI funding will create a corresponding percentage increase in staff costs across all programme activities, the main advantages of this methodology are that: (i) it is a systematic and predictable method for creating a funding reserve; (ii) it is simple to administer; (iii) it generates a guaranteed 3 per cent of payroll costs for professional staff and relevant general service staff annually for ASHI, which is the largest of the two liabilities; and (iv) it establishes funding for the liability as recommended by the oversight bodies.

10. In an attempt to avoid overtaxing staff costs through the application of another payroll charge, UNHCR's preferred funding option for establishing the funding reserve for repatriation benefits is to allocate \$2.0 million from potential staff cost savings on an annual basis.

11. The sufficiency of the funding reserves for both ASHI and repatriation benefits will be reviewed every two years, in consultation with the United Nations Board of Auditors.

12. Accordingly, UNHCR is submitting a decision for approval, as included in the Annex, for application with effect from 1 January 2012.

Annex

Draft decision on funding of end-of-service and post-retirement liabilities

The Standing Committee,

Recalling the information provided by UNHCR on the funding of end-of-service and post-retirement liabilities at its previous meetings, including during the Informal Consultative Meeting held on 1 September 2010,

Conscious of the recommendations of the United Nations Board of Auditors that UNHCR establish specific funding for its accrued end-of-service and post-retirement liabilities,

Having considered the various options for funding a reserve, and taking into account best practices throughout the United Nations system,

1. *Acknowledges* that UNHCR needs to commence funding its liabilities for end-of-service and post-retirement benefits in order to mitigate against related financial risks and to avoid an audit qualification;
2. *Recognizes* that UNHCR does not need to fully fund the liabilities at once, but may do so over a period of time at a level that is considered prudent, while taking into consideration the need to maintain an adequate level of funds to meet operational priorities;
3. *Decides* that, in order to start building a reserve for funding after-service health insurance liabilities, a monthly payroll charge of 3 per cent shall be applied to the net base salary of all professional staff and of relevant general service staff, with effect from 1 January 2012;
4. *Decides* that, in order to start building a reserve for funding repatriation benefits, \$2.0 million staff costs savings will be allocated, if available, on an annual basis, with effect from 1 January 2012;
5. *Notes* that a formal review will be undertaken every two years, in consultation with the United Nations Board of Auditors, to assess the assumptions and projections against the reserves held, and to make any required adjustments on a biennial basis, in line with the budget cycle and audit recommendations.