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Funding of after-service health insurance and repatriation benefit liabilities

Summary

This paper reviews UNHCR's strategies to fund the liabilities for after-service health insurance (ASHI) and repatriation benefits, which were adopted in 2011, and provides an update on their impact. It also proposes to revise the strategies, accelerating the funding reserves and decreasing the liabilities.

Contents

I. Introduction

1. At its fifty-first meeting in May 2011, the Standing Committee adopted a decision on the funding of end-of-service and post-retirement liabilities, as contained in A/AC.96/1104.

2. The decision approved the following:

(a) the establishment of a reserve for funding after-service health insurance liabilities, by applying a monthly payroll charge of 3 per cent to the net base salary of all professional staff and of relevant general service staff, with effect from 1 January 2012;

(b) the establishment of a reserve for funding repatriation benefits, by allocating US$2 million in staff costs savings, if available, on an annual basis, with effect from 1 January 2012.

It also noted that a formal review would be undertaken every two years, in consultation with the United Nations Board of Auditors[1], 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. As noted by UNHCR's Controller at the sixty-seventh meeting of the Standing Committee in September 2016, this review was deferred pending the outcome of system-wide deliberations on the issue of after-service health insurance liabilities (ASHI), the results of which are elaborated upon in section II.

3. With respect to health insurance, it should be noted that UNHCR staff members are covered by either the United Nations Staff Mutual Insurance Society (UNSMIS) or the Medical Insurance Plan (MIP). Whereas UNSMIS covers all professional staff and locally recruited staff in certain locations, including Geneva, the MIP covers all locally recruited staff members not covered by other plans. The decision referred to in paragraph 2 (a) above established a funding mechanism for the ASHI liability related to staff covered under UNSMIS only.

4. The decision referred to in paragraph 2 (a) above did not apply to staff covered under the MIP. Up until now, funding for the ASHI liability related to staff under the MIP has been obtained through transfers from the reserve of the MIP fund, as and when approved by the MIP Management Committee. At the time of the decision of the Standing Committee in 2011, this was seen as adequate. However, the Office of Internal Oversight Services (OIOS) recommended in its recent report (2016/150) on the subject that UNHCR develop a systematic funding plan for the unfunded ASHI liabilities associated with the MIP (see section IV below).

5. This conference room paper provides an update on the status of UNHCR's funding strategy to manage these liabilities and makes proposals on the way forward, taking into consideration developments within the United Nations system.

II. Funding requirement for after-service health insurance liabilities for staff funded from voluntary contributions

6. Pursuant to General Assembly resolution 68/244 (2013), the Finance and Budget Network of the United Nations High-level Committee on Management of the Chief

[1] In its financial report and audited financial statements on the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2011, the Board of Auditors reiterated the importance of establishing funding for end-of-service liabilities and took note of the decision taken by the Standing Committee, A/67/5/Add.5, paras 54-55.

Executives Board for Coordination (CEB) established a working group to examine the issue of after-service health insurance liabilities. The working group's findings were presented to the General Assembly at its seventieth session[2], proposing a shift from the current "pay-as-you-go" approach to a "pay-as-you-accrue" approach.

7. Despite this recommendation, the General Assembly, following advice from the Advisory Committee on Administrative and Budgetary Questions (ACABQ)[3], expressed the view that the "pay-as-you-go" approach should be continued. It is important to note that the conclusions of the General Assembly and the ACABQ were made in respect to the liabilities related to staff funded from assessed contributions. However, ASHI liabilities related to staff funded from voluntary contributions[4] do not carry a commitment by the General Assembly to settle future obligations and, thus, cannot rely on future funding through assessed contributions.

8. Following the General Assembly decision, the Secretary-General expressed concern about the level of the unfunded ASHI liability, which would place financial pressure on future budgets. In recognition of this, on 29 November 2016 the Controller of the United Nations issued an instruction with respect to the funding of ASHI liabilities for staff funded from voluntary contributions and other non-assessed resources. To ensure compliance with United Nations financial regulation 3.12, it was decided that the United Nations would begin systematically setting aside a reserve for unfunded employee benefits arising from posts funded by voluntary contributions. Thus, UNHCR is required to comply with financial regulation 3.12 and, therefore, to set aside funding for the ASHI liability incurred for its staff funded by voluntary contributions covered by both insurance schemes, UNSMIS and the MIP.

9. The United Nations Controller estimates that a 9 per cent of gross salary plus post adjustment charge is needed for all categories of staff funded from voluntary contributions in order to safeguard the future financial health of the organization and provide a proportionate contribution towards the actual cost of the entitlement. However, mindful of the challenges facing organizations that depend on voluntary contributions, the new policy will be implemented in a phased manner, so as to minimize the impact on ongoing projects and programme delivery. Thus, effective 1 January 2017, a monthly accrual equivalent of 3 per cent of gross salary plus post adjustment is to be applied through the payroll to all posts funded by voluntary contributions.

III. Update on the impact of the funding strategy for after-service health insurance related to staff insured by United Nations Staff Mutual Insurance Society (UNSMIS)

10. Table 1 below presents the evolution of the actuarial valuation of the liabilities for ASHI related to UNHCR staff covered by UNSMIS and the corresponding funding already secured against these liabilities, between 2012 and 2016, as reflected in the annual financial statements of UNHCR.

[2] See the report of the Secretary-General on managing after-service health insurance liabilities, A/70/590.

[3] See A/68/550.

[4] UNHCR staff are predominantly funded from voluntary contributions (of which net salaries in 2016 totalled some US$ 483.4 million), with the exception of a small number of posts funded by the United Nations regular budget (of which net salaries in 2016 totalled some US$ 27.3 million).

Table 1

Thousands of US$/year	*2012*	*2013*	*2014*	*2015*	*2016*
Actuarial liability for UNSMIS as at 31 December	302,628	306,281	423,780	425,636	453,927
Accumulated funding towards the liability, through 3% charge	7,606	15,804	24,801	34,351	44,712
Net liability UNSMIS	295,022	290,477	398,979	391,285	409,215

11. The financial situation presented in the table above reveals that the liability for ASHI continues to grow, irrespective of the current charge of 3 per cent on the net salary base for applicable staff. As such, the ASHI liabilities for staff under UNSMIS are accumulating and growing at a faster pace than that at which the organization is currently setting aside funding.

12. In order to continue building a reserve for funding ASHI liabilities for staff under UNSMIS, UNHCR can retain the strategy of applying a monthly payroll charge to the net base salary of all professional staff and relevant general service staff, which currently stands at 3 per cent. To address the increasing funding gap, however, UNHCR is proposing to accelerate the current funding strategy for its ASHI liability, by applying an increased monthly payroll charge of 4 per cent to the net base salary of all professional staff and of relevant general service staff. Table 2 below presents the financial impact of the two options.

Table 2

	Thousands of US$	*% of net liability*	*Estimated years to fully fund liability*
Actuarial liability as at 31 December 2016	453,927		
Accumulated funding towards the liability	44,712		
Net liability as at 31 December 2016	409,215		
3% charge on net salaries of applicable posts (UNSMIS)	10,131	2.5%	40
4% charge on net salaries of applicable posts (UNSMIS)	13,508	3.3%	30

Note:

- All benefits and liabilities are considered net of participant contributions.
- It is assumed that UNHCR will continue providing funding for benefit payments ("pay as you go").
- UNHCR currently charges all annual service costs and interest costs to staff costs, as introduced in the 2017 budget. Returns on plan assets will offset the charge for interest costs. This will continue for future budget years, limiting the growth of the current ASHI liability.
- Future actuarial gains and losses have not been included in the estimates.

IV. Funding for after-service health insurance liabilities related to staff insured by the Medical Insurance Plan (MIP)

13. In December 2016, the OIOS conducted an audit of the MIP at UNHCR. In its report (2016/150), OIOS recommended that UNHCR develop a systematic funding plan for the unfunded ASHI liabilities associated with the MIP, taking into consideration that the funding strategy adopted by the Standing Committee at its fifty-first meeting only provided such a strategy for the unfunded ASHI liabilities associated with UNSMIS.

14. Table 3 below presents the evolution of the actuarial valuation of the liabilities for ASHI related to staff insured by the MIP and the corresponding funding secured against these liabilities from 2012 to 2016, through transfers from the MIP fund, as reflected in the annual financial statements of UNHCR.

Table 3

Thousands of US$/year	*2012*	*2013*	*2014*	*2015*	*2016*
Actuarial liability for the MIP as at 31 December	118,959	111,309	121,697	120,849	127,679
Accumulated funding towards the liability	3,310	6,892	6,892	6,892	15,108
Net liability MIP	115,649	104,417	114,805	113,957	112,571

15. The financial situation presented in table 3 above reveals that although the gross ASHI liability for staff covered by the MIP has grown in previous years, the authorized transfers from the MIP fund helped maintain the net liability at a relatively stable amount. At the same time, the funding approach through transfers from the MIP fund does not present a sustainable funding strategy for ASHI liabilities and, instead, draws resources from the staff-funded premium.

16. In line with the recommendations of OIOS, and in compliance with the United Nations financial regulations, UNHCR needs to introduce a sustainable funding strategy for ASHI liabilities related to the MIP. The Office, therefore, proposes to apply a monthly payroll charge to the net base salary of applicable staff, consistent with the proposed funding strategy of ASHI for staff under UNSMIS. Table 4 below presents the financial impact of a 3 per cent or 4 per cent payroll charge.

Table 4

	Thousands of US$	*% of net liability*	*Estimated years to fully fund liability*
Actuarial liability as at 31 December 2016	127,679		
Accumulated funding towards the liability	15,108		
Net liability as at 31 December 2016	112,571		
3% charge on net salaries of selected posts (MIP)	4,384	3.9%	26
4% charge on net salaries of selected posts (MIP)	5,845	5.2%	19

Note:

- All benefits and liabilities are considered net of participant contributions.
- It is assumed that UNHCR will continue providing funding for benefit payments ("pay as you go").
- UNHCR currently charges all annual service costs and interest costs to staff costs, as introduced in the 2017 budget. Returns on plan assets will offset the charge for interest costs. This will continue for future budget years, limiting the growth of the current ASHI liability.
- Future actuarial gains and losses have not been included in the estimates.

V. Update on the impact of the funding strategy for repatriation benefits

17. Table 5 below presents the evolution of the value of the actuarial liabilities for the repatriation benefits and accumulated funding towards this liability, resulting from the application of the annual transfer of a fixed amount of US$ 2 million funded from staff cost savings, when available.

Table 5

Thousands US$/year	*2012*	*2013*	*2014*	*2015*	*2016*
Actuarial liability as at 31 December	83,796	78,864	89,234	82,419	86,152
Accumulated funding towards the liability, through annual fixed charge (US$ 2,000,000)	2,000	4,010	6,025	8,040	10,094
Net liability as at 31 December	81,796	74,854	83,209	74,305	76,058

18. The financial situation presented in table 5 reveals that the net liability has not grown significantly; the changes in the net liability are mainly a result of actuarial gains and losses. At the same time, the funding set aside in previous years did not contribute to a significant reduction of the unfunded amount.

19. In order to continue building a reserve for funding repatriation grants, UNHCR can retain the strategy of setting aside funding on an annual basis, which currently stands at a maximum amount of US$ 2 million funded from staff costs, when available. To reduce the liability, however, UNHCR proposes to increase the maximum amount of the funding from US$ 2 million to US$ 3 million annually to accelerate the funding of the liability for repatriation benefits.

VI. Conclusion

20. Although applying a payroll charge for funding the ASHI liability creates a corresponding percentage increase in staff costs across all programme activities, the revised funding strategy will:

(a) ensure a systematic and predictable method for creating funding reserves;

(b) generate a guaranteed percentage of annual payroll costs for all staff funded from voluntary contributions for ASHI, which makes the annual cost predictable;

(c) establish funding for the liabilities in line with the recommendations of the United Nations oversight bodies, including the Board of Auditors and OIOS, and the United Nations financial regulations;

(d) provide a predictable timeline to fully fund the ASHI liability incurred in prior periods, taking into account the annual funding of service and interest costs for ASHI.

21. The sufficiency of the funding reserves for both ASHI and the repatriation benefits will continue to be reviewed periodically, in consultation with the United Nations Board of Auditors.

22. Accordingly, UNHCR is submitting the draft decision contained in the annex to this document, for consideration by the Standing Committee at its sixty-eighth meeting in March 2017, which would take immediate effect once adopted.

Annex

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

The Standing Committee,

Recalling the approval granted for the funding of end-of-service and post-retirement liabilities at its fifty-first meeting in May 2011 (A/AC.96/1104),

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 proposals for strengthening UNHCR's funding strategy, and taking into account best practices throughout the United Nations system,

1. *Acknowledges* that UNHCR needs to continue 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 funding to meet operational priorities;

3. *Recalls* that, in order to start building a reserve for funding after-service health insurance liabilities, approval was granted for UNHCR to apply a monthly payroll charge of 3 per cent to the net base salary of all professional staff and of relevant general service staff, with effect from 1 January 2012;

4. *Recalls* that, in order to start building a reserve for funding repatriation benefits, approval has been granted to allocate a maximum of US$2 million in staff costs savings, if available, on an annual basis, with effect from 1 January 2012;

5. *Decides* that UNHCR should continue to build the reserve for funding the after-service health insurance liability through a charge of a fixed percentage to be applied to the net base salary of all staff funded from voluntary contributions, with effect from the date of the decision of the Standing Committee at its sixty-eighth meeting in March 2017. The charge remains at 3 per cent annually for all professional staff and relevant general service staff covered by the United Nations Staff Mutual Insurance Society. The charge is set at 3 per cent annually for all general service staff covered by the Medical Insurance Plan;

6. *Recognizes* that UNHCR's current approach for the reserve for funding repatriation benefits is appropriate, but that the current maximum funding level of US$ 2 million annually does not contribute to a substantial reduction of the unfunded amount of the liability;

7. *Decides* that UNHCR should increase the maximum funding level provided for funding repatriation benefits from US$ 2 million annually to US$ 3 million annually;

8. *Requests* that UNHCR keep abreast of any relevant United Nations General Assembly discussions on funding after-service liabilities, report periodically on the use of the reserves and their replenishment needs and examine immediately specific measures for increasing efficiencies and containing costs to reduce after-service health insurance liabilities for UNHCR and report back to the Committee.