



Funding of end-of-service and post-retirement health liabilities

(as reported in document EC/62/SC/CRP.7)

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Mr. Chair, Distinguished Delegates, Ladies and Gentlemen,

I would like to present you with UNHCR's preferred option relating to the funding of end-of-service and post-retirement health liabilities. This option has been developed after consultation with member states and on the basis of findings reported by the actuary, Mercer, on 28 February 2011.

Background

- After-service health insurance (ASHI) provides benefits to retired staff members, under the same scheme as for in-service staff.
- Regular progress reports to Standing Committee on potential mechanisms for funding liabilities for end-of-service and post-retirement benefits.
- Informal consultative meeting in September 2010.
- UNHCR previously advised that an actuarial valuation would be conducted to update figures presented previously.
- Actuarial valuation finalised by Mercer on 28 February 2011; their revised valuation is discussed in this presentation.

Since 2009, UNHCR has regularly provided the Standing Committee with progress reports, including proposals on potential mechanisms for funding liabilities for end-of-service and post-retirement benefits. The last progress report was provided at the June 2010 Standing Committee meeting (EC/61/SC/CRP.19).

On 1 September 2010, a further Informal Consultative Meeting was held, during which key points made at the June 2010 meeting of the Standing Committee were summarized, and various options for funding these liabilities were presented. Member States requested UNHCR to present a preferred option for funding, which the Conference Room Paper under discussion (EC/62/SC/CRP.7) aims to do.

UNHCR's actuary, Mercer, delivered the actuarial valuation of UNHCR's ASHI liabilities in their report dated 28 February 2011.

ASHI Liabilities

- Liabilities shown on the financial statements will remain unfunded:
 - Audit matter of emphasis for several years
 - Risk of exponential increase in cash requirements
 - True costs are not charged to the relevant programmes and activities as they are incurred.
- Current unfunded liability in UNHCR is \$267.8 million.

As explained in previous progress reports, UNHCR is currently applying a “pay-as-you-go” approach to funding ASHI liabilities. The main disadvantage of this approach is that the liabilities for ASHI shown on the financial statements will remain unfunded.

Leaving the liabilities unfunded risks exposing the Organization to an exponential increase in cash requirements, which would place a strain on future budgets. It also does not reflect the true cost of programmes and activities, since staff costs related to ASHI are not charged to the relevant programmes as they are incurred. Most importantly, the unfunded liabilities have been a matter of emphasis from the UN Board of Auditors for several years.

Other United Nations organizations are facing a similar situation, and many of those organizations have started funding their liabilities. It should be noted that UNHCR has the second largest liability of the UN organizations that have yet to commence funding their liabilities; This liability currently stands at \$267.8 million.

Mercer Valuation Results

- Actuarial valuation conducted by Mercer:
 - Decrease in Health Trend Rate from 6.00% to 4.50%
 - Decrease in UNHCR's net liability since last year's valuation of \$58.5 million to a total liability of \$267.8 million at 31 December 2010.

In December 2010, UNHCR commissioned an actuarial valuation from Mercer, in order to be able to value the liability at today's rates.

According to Mercer, who has provided the actuarial valuation for UNHCR (and the United Nations) for several years, UNHCR's net liability has decreased since last year's valuation by \$58.5 million to \$267.8 million. The reduction of the liability is the result of a decrease in the health trend rate applied by Mercer. The rate decreased from 6.00 per cent to 4.50 per cent during the period under review.

Recommended Funding Option for ASHI

- Monthly payroll charge of 4% on net salary of all professional and relevant general service staff starting 1 January 2012, generating some \$5 million annually to commence funding liability;
- Aim to gradually build up reserve;
- Formal review of the fund every two years;
- Review with Board of Auditors to test adequacy of assumptions, projections and reserve levels;
- Any required adjustment would be presented to ExCom on biennial basis.

As a result of the actuarial valuation, and based on previous discussions in this forum, UNHCR is therefore recommending to apply a 4 per cent payroll charge on the net salary of all professional staff and relevant general service staff (mostly Geneva-based) beginning 1 January 2012. The aim of this payroll charge is to gradually build up a funding reserve for the ASHI liability. It is estimated that the payroll charge of 4 per cent, if implemented, would generate funds of some \$5.0 million annually to commence the funding of the liability.

UNHCR recommends to undertake a formal review, in consultation with the United Nations Board of Auditors, every two years to assess the assumptions and projections made and the reserve balance held, in order to ensure the adequacy of the growing fund. Any required adjustment to the proposed funding strategy would be presented to the Executive Committee on a biennial basis, in line with the budget cycle.

Advantages of Proposed Option

- Systematic and predictable method for creating funding reserve;
- Simple to administer;
- Generates a guaranteed 4% of payroll costs for professional staff and relevant general service staff annually for ASHI; and
- Establishes funding for the liability as recommended by oversight bodies.

Although applying a payroll charge for ASHI funding will create a corresponding percentage increase in staff costs across all programme activities, the methodology has several clear advantages, namely:

- (i) it is a systematic and predictable method for creating a funding reserve;
- (ii) it is simple to administer;
- (iii) it generates a guaranteed 4 per cent of payroll costs for professional staff and relevant general service staff annually for ASHI; and
- (iv) it establishes funding for the liability as recommended by the oversight bodies.

Repatriation Benefits

- Results of the actuarial valuation are being evaluated;
- Assessing alternative funding methodology in place of additional payroll charges;
- Preferred funding option and draft decision will be submitted at June 2011 meeting.

Regarding repatriation benefits, the results of the actuarial valuation will be evaluated during the first quarter of 2011. On the basis of this evaluation, UNHCR will assess the funding methodologies, including alternatives to applying a further payroll charge.

Following this period, UNHCR will provide the preferred strategy to fund the liability for repatriation benefits of professional staff and present a decision to the Committee in June 2011.

Conclusion

- UNHCR needs to fund its liabilities.
- UNHCR does not need to fund the full liability at once, but can do so over a period time at an appropriate percentage.
- Risk of audit qualification if funding does not commence in 2012.

In conclusion, 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.

There is a risk of audit qualification if UNHCR does not commence in 2012, as UNHCR prepares to implement the International Public Sector Accounting Standards (IPSAS) as of 1 January 2012.

A draft decision to this effect is therefore submitted for your approval.

Thank you.