UNHCR

48th Meeting of the Standing Committee

Agenda Item 6(c)

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

(as reported in document EC/61/SC/CRP.19)

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Mr. Chair, Distinguished Delegates, Ladies and Gentlemen,

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. At that time, no decision was presented, pending information on the funding proposal to be adopted by the UN General Assembly for the ASHI liability of the UN Secretariat.

The present report, Conference Room Paper EC/61/SC/CRP.19, contains an update on the status of the funding strategy discussed by the United Nations General Assembly and describes possible options that could be adopted by UNHCR.

Feedback is requested from the Standing Committee as to which options would be considered most suitable.

A copy of the presentation is available at the back of the room, and can also be found on the UNHCR website (www.unhcr.org/excom).

How ASHI Liabilities Arise

- After-service health insurance (ASHI) provides for health insurance benefits for former staff during retirement under the same scheme as for in-service staff
  - During active service, both s/m and organization contribute
  - Following retirement, contributions paid by retiree
  - UNHCR currently does not make contributions to the fund for retirees

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The after-service health insurance provides 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; however, after retirement, only the retiree pays contributions.

Because the organization currently does not make contributions to the fund for retirees, over time, a liability is accumulating.

UN Status - Funding of ASHI

- April 2010 comparative analysis on ASHI liability for UN system, as of 31 Dec 2009: $7.5 billion
- Different funding approaches across the UN:
  - No organization with fully funded reserves
  - 11 organizations have introduced a funding process, with different levels of funding
  - Some organizations continue to “pay-as-you-go” for retiree benefits

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The United Nations Chief Executives Board (CEB) issued a comparative analysis in April 2010 showing the ASHI liability of 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, with no organization reporting fully funded reserves for ASHI as of 31 December 2009.

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, while a number continue to apply the pay-as-you-go approach.

UN Status - Funding of ASHI *(cont.)*

- UN organizations funding status:
  - UN Secretariat -> under review following SG's proposal with three options. Will "pay-as-you go" until re-consideration by the General Assembly
  - UNICEF: 45% funded liability; UNDP: 81%; UNFPA: 90%; WFP: 59%; WIPO: 38%; WMO: 3% coverage of their total liabilities

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The UN Secretary-General presented a report on the subject of "Liabilities and proposed funding for after-service health insurance benefits" (reference A/64/366 dated 18 October 2009) to the General Assembly at its 64th session. The report outlined three options for funding the liability of the United Nations Secretariat. The General Assembly decided to defer the issue to its 67th session. As a result, the United Nations Secretariat will continue to use the option of pay-as-you-go for the next two-and-a-half years.

The level of funds put aside by selected other UN Agencies to finance these liabilities is reflected in section IV of the present CRP.

Repatriation Benefits Liability

- As reported in June 2009, repatriation benefits were expected to average $3 million per year over the next 10 years
  - Proposal to Standing Committee to finance on “pay-as-you-go” basis
- In 2009, the liability was adjusted by actuarial valuation to average approximately $5.8 million per annum

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It was reported in June 2009 that, according to actuarial estimates at that time, UNHCR’s repatriation benefits were likely to average $3.0 million per year for the next 10 years, with amounts ranging from $2.3 million in 2009 to $3.6 million 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.

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

Context

- Recommendations made by JIU and Board of Auditors: need to provide adequate financing to meet liabilities
- Under pay-as-you-go approach, unfunded liabilities on financial statements create a deficit

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The issue of funding of these liabilities came to light, in part, with the introduction of IPSAS, which requires organizations to show employee liabilities on the financial statements as they occur, and also as a result of a series of recommendations from the legislative and oversight bodies of the United Nations system.

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 (A/AC.96/1067, para. 61), 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).

Under the current pay-as-you-go approach, unfunded liabilities shown on the financial statements creates a large deficit situation.

ASHI Funding Options

- Options to fund the ASHI liability of $326.4 million:
  - Continue to apply pay-as-you-go approach for existing liabilities as of 31 Dec 2010, and fund future liabilities starting 1 Jan 2011. Apply charge to staff with expected future service beyond 1 Jan 2011
  - Annual injections of funds by transferring unearmarked carry-over at end year (with recommended minimum)
  - Monthly payroll charge of 4% on net salary of all professional staff starting 1 Jan 2011, generating $5 million annually
- Aim to build up reserve over next 30 years, using combination or selection of above options
- Review every two years

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Three options are presented in the CRP to fund the ASHI liability of $326.4 million, excluding MIP:

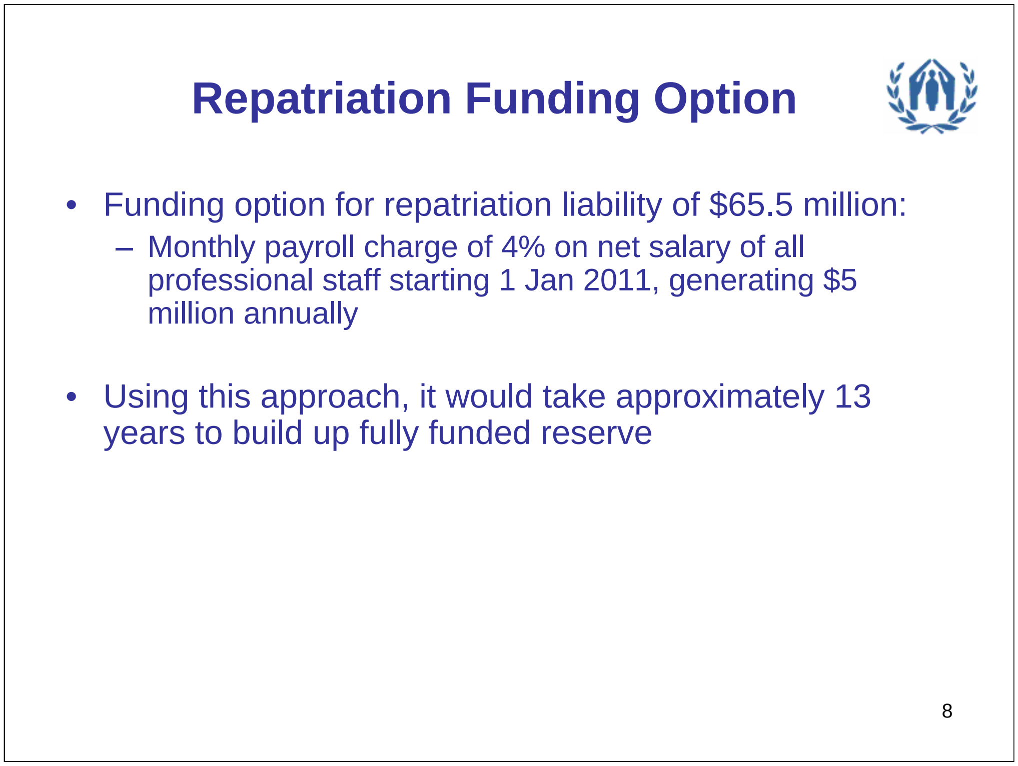
(1) Continue to apply the pay-as-you-go approach for the existing liabilities as of 31 December 2010, and fund the liability for future periods starting on 1 January 2011. Reserves to fund future liabilities could be created by applying a charge to the posts of staff members with expected future service beyond 1 January 2011. An actuarial study and valuation would be needed to estimate the cost.

(2) Inject funds into a reserve by transferring some of the unearmarked carry-over at the end of the year. The annual transfers would be subject to operational priorities and approval by the High Commissioner. In this case, a suggested target could be established at a recommended minimum, subject to the exigencies of operational requirements;

(3) Apply a systematic monthly payroll charge of 4 per cent to the net base salary of all professional staff with effect from 1 January 2011. This would generate estimated funds of $5.0 million annually.

The objective is to build up the reserve to acceptable levels over the course of the next 30 years, using a combination of all, or a selection of some, of the above options.

A formal review could be undertaken every two years to assess the assumptions and projections made against the reserves held, and make any required adjustment, on a biennial basis in line with the budget cycle.



In June 2009, it was recommended that UNHCR continues its pay-as-you-go approach for repatriation liabilities, because there was little difference between the pay-as-you-go and full accrual.

Given the significant actuarial adjustment in the most recent report, the CRP presents a funding option to build up a reserve by adding a 4 per cent charge to the net payroll costs of professional staff. This would generate approximately $5.0 million per year.

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.

Conclusion

- UNHCR is seeking feedback from Standing Committee on the options presented

- Decision for approval will be presented at the 49th meeting of the Standing Committee, for application with effect from 1 Jan 2011

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In conclusion, Mr. Chair, UNHCR is seeking feedback from the Standing Committee on the options presented. in order to fund its ASHI and repatriation liabilities.

A decision for approval will be submitted at the 49th meeting of the Standing Committee, for application with effect from 1 January 2011.

Mr. Chair, Distinguished delegates,

Your views on the issue would be much appreciated.