EXECUTIVE COMMITTEE OF THE
HIGH COMMISSIONER'S PROGRAMME

Dist.
RESTRICTED

EC/60/SC/CRP.16
9 June 2009

STANDING COMMITTEE
45th meeting

Original: ENGLISH

PROGRESS REPORT ON FUNDING END-OF-SERVICE AND POST-RETIREMENT BENEFITS

I. PURPOSE

1. This document provides an update on measures taken in respect of mechanisms for funding UNHCR's liabilities for end-of-service and post-retirement benefits, i.e. repatriation grant and travel, accrued annual leave and after-service health insurance (ASHI). UNHCR would like to engage Executive Committee members in bilateral discussions and seeks their feedback on the contents of this paper.

II. BACKGROUND

2. In an information paper (EC/59/SC/INF.2), presented to the Standing Committee at its 42nd meeting in June 2008, UNHCR announced that a Staff Benefits Fund had been established and that, for the 2007 financial accounts, the full amount of the unfunded actuarial liability for ASHI and repatriation benefits, as well as the value of accrued annual leave, had been recorded in that fund. The paper further reported on an analysis that had been conducted of the funding mechanisms in use, or contemplated for use, by other UN organizations, and stated the Office's intention to be guided by the approach that the United Nations would take to address the funding of liabilities related to end-of-service and post-retirement benefits. At that time, it was expected that the United Nations would present a paper to the General Assembly for decision at its 63rd Session in late 2008; however, the subject was deferred and is now expected to be discussed in October 2009.

3. At the 42nd Meeting of the Standing Committee, UNHCR also presented its intention to pursue the analysis of the methods adopted by other UN agencies, in particular the United Nations Secretariat, in order to identify a suitable and appropriate funding mechanism. In the absence of available data on the United Nations' approach, a decision on the matter can therefore not be proposed at this point.

III. APPROACHES TO FUNDING EMPLOYEE BENEFITS LIABILITIES

4. To date, only a minority of UN organizations have funding available to cover their ASHI and other post-retirement liabilities. According to a recent survey conducted by the Secretariat of the United Nations System Chief Executives Board (CEB)[1], the International Fund for Agricultural Development (IFAD) has fully funded its total liability, the World Food Programme (WFP) has about 50 per cent funding and the Food and Agriculture Organization (FAO) has 20

---

[1] See *After Service Health Insurance (ASHI): Comparative Analysis of ASHI liability for UN system organizations, CEB/FB/2009/INF.5*, May 2009.

per cent funding, while for the majority of the survey respondents, the total liability is largely or completely unfunded. Almost all respondents still treat expenditure in respect of current retirees on a pay-as-you-go basis.

5. The review of the various mechanisms currently used by other UN agencies indicates that funding is being provided by a combination of methods: by lump-sum contributions; by creating reserves from accumulated surplus; and by applying a percentage to the net salary cost. The UNICEF model has additional elements that could be useful and suited to UNHCR's circumstances.

6. UNICEF has established two separate funds: one for ASHI and one for separation costs. The organization started funding its ASHI reserve in 2003, with an initial contribution of $30 million. Through regular transfers approved by its Executive Board, the balance of its ASHI reserve was $150 million as at 31 December 2007. It plans to set aside further amounts of $10 million per year from 2008 to 2011.[2]

7. In 2006, UNICEF's Executive Board approved an initial allocation of $10 million for the Separation Fund. Each month, at the time of payroll, a defined percentage of the net base salary, i.e. 6 per cent of the net base salary for international professionals and 4 per cent for the locally recruited staff (national officers and general service staff), is charged to the funding source of the post and credited to the Separation Fund, thereby serving to increase the reserve for separation benefits.[3] Actual end-of-service payments, excluding ASHI, for eligible staff are then made from the Separation Fund. At the end of 2007, the Separation Fund had an accumulated balance of $18 million.[4]

IV. UNHCR'S LIABILITIES AND FUNDING GAP

8. UNHCR's end-of-service and post-retirement liabilities, recorded under the Staff Benefits Fund, amounted to a total of $369 million at the end of 2008. As most other UN organizations, UNHCR currently funds these obligations on a pay-as-you-go basis.

9. The trends of an increasing retiree population and the increasing cost of medical services are driving the growth of end-of-service and post-retirement liabilities. The pay-as-you-go method does not reflect these liabilities and is not considered a sustainable modality for financing these costs. Under this method, the costs are only reflected as expenses when the payments are made, when the staff member separates or has retired. Ideally, the programmes on which a staff member is working should be charged with the cost of the current salary expense, as well as an estimate of the end-of-service and post-retirement payments that the staff member is earning over the period that he/she works. The current pay-as-you-go method results in programmes being charged more, or less, than a fair share of these costs. This concept is addressed by the International Public Sector Accounting Standards (IPSAS), which requires that the full employee benefits to staff members are charged to programmes at the time that these entitlements are being earned or incurred, and not at the time that payments are made.

---

[2] See *Medium-term strategic plan: planned financial estimates for the period 2008-2011, E/ICEF/2008/AB/L.5*, 15 July 2008.
[3] See *UNICEF document Administrative Instruction CF/AI /2006-006*, 14 June 2006.
[4] See *Medium-term strategic plan: planned financial estimates for the period 2008-2011, E/ICEF/2008/AB/L.5*, 15 July 2008.

10. UNHCR derives its income almost exclusively from voluntary contributions. A dilemma exists because the humanitarian nature of UNHCR's operational activities dictates that funds be used to implement operations worldwide, and this conflicts with the concept of using those funds to cover the employee benefit liabilities. Given the magnitude of UNHCR's employee benefits liabilities, immediate full funding is not feasible, and perhaps not necessary or desirable. Therefore, a long-term funding strategy is required to ensure that adequate funds are put aside on a regular basis to meet the costs of current participants and future benefit liabilities, while still allowing for priority funding to operational activities.

A. After-service health insurance (ASHI)

11. UNHCR's ASHI liability (representing the present value of future benefits to be paid to all current retirees and active employees expected to retire) was estimated by a consulting actuary and valued at $307.8 million as of 31 December 2008, compared to $308.0 million at end of 2007, and to $264.7 million at the end of 2006. Of the total ASHI liability recorded under the Staff Benefits Fund as at 31 December 2008, $277.5 million pertains to subscribers of the United Nations Staff Mutual Insurance Society (UNSMIS), and $30.3 million pertains to the UNHCR Medical Insurance Plan (MIP).

B. The medical insurance plan

12. The medical insurance plan (also referred to as MIP or the Plan) is a health insurance scheme operated by the United Nations and related organizations e.g. the United Nations Development Programme (UNDP), UNICEF, and UNHCR for the benefit of their locally recruited General Service and National Officer active staff members and former staff members (and their eligible family members) serving at designated duty stations away from Headquarters. Participation in MIP is automatic for all staff members holding a contract of three months or more in the General Service and National Officer categories. The premiums paid to MIP are based on the overall history of claims under the Plan, adjusted periodically to take into account actual experience. Premiums of participating staff members are deducted from their salary, and UNHCR also pays a premium in accordance with the contribution schedule presented in the MIP Statutes and Rules.

13. UNHCR's MIP Fund is a self-sustaining and self-administered fund. During the period 2003 to 2008, it posted an average annual surplus of 51 per cent. The MIP fund balance stood at $31.5 million as at 31 December 2008. This amount fully covers the ASHI accrued liability for the Plan's members of $30.3 million at the end of 2008.

C. The United Nations Staff Mutual Insurance Society against Sickness and Accident

14. International Professionals and other categories of staff that are not covered by MIP are covered by the United Nations Staff Mutual Insurance Society (UNSMIS). Under the current pay-as-you-go scheme, a budgetary component is added to the salary costs for the premium paid by the organization and the actual premiums paid by UNHCR are charged to the current posts of active participants, or to the Annual Programme budget for payments pertaining to retirees. The total accrued liability for UNSMIS-ASHI as at the end of 2008 was $277.5 million.

15. The UNSMIS was created and is administered by the United Nations Office at Geneva for the purpose of reimbursing expenses incurred by its members arising from sickness, accident or maternity. Premiums are paid by a member (a deduction from salary for staff members or a

deduction by the United Nations Joint Staff Pension Fund (UNJSPF) for retirees) along with a contribution from the organization to which the member belongs, in accordance with a scale of contributions as laid out in the UNSMIS Statutes and Internal Rules. The society is governed by an executive committee comprised of representatives from the different participating Geneva-based Secretariat entities.

D. Repatriation benefits and accrued annual leave

16. At the end of 2008, the present value of the liability pertaining to repatriation benefits was actuarially determined to be $27.7 million (an increase of $1.2 million from the 2007 valuation, which amounted to $26.5 million), and the liability for accrued annual leave was estimated at $33.5 million (an increase of $0.5 million from the estimate for 2007).

17. Under the current pay-as-you-go scheme, UNHCR's repatriation benefits and accrued annual leave are budgeted for by applying a percentage to the net salary costs according to the UN salary scales. The percentage estimate is based on previous experience. Actual payments for repatriation benefit and accrued annual leave payments are charged against the staff members' post at the time of separation. In the event that the repatriation benefit is paid more than a year after the staff member has separated, or if the staff member is not occupying a post at the time of separation, then the benefits payment is charged to the Annual Programme Fund.

V. UNHCR'S PROPOSED FUNDING STRATEGY

18. The ASHI liability for MIP subscribers could be fully funded from the surplus accumulated in the MIP Fund. UNHCR is considering either transferring the liability that is currently recorded under the Staff Benefits Fund to the MIP Fund (and paying after-service health benefits to retirees from the MIP Fund), or transferring $30.3 million of the surplus from the MIP Fund to the Staff Benefits Fund. Assuming that the level of staff serving in duty stations away from Headquarters remains stable or increases, and that the current income stream and expenditure trends continue, the MIP Fund will not be depleted by funding the entire liability. This matter will have to be taken up with the MIP Management Committee, as the MIP Statutes and Internal Rules stipulate that this Committee is responsible for determining the Plan's general administrative policy.

19. As regards the ASHI liabilities related to UNSMIS, UNHCR is considering a combination of options:

(a) solicit direct donor contributions for an initial infusion of funding (and/or any subsequent funding);

(b) make transfers from the carry-over available at the end of the year, with the amount to be determined each year according to operational requirements and projections of fresh income for the following year; and

(c) finance the amount of the annual liabilities through additional monthly charges to payroll, based on a formula. Following the method used by UNICEF for its Separation Fund, it is proposed that a levy of 4 per cent on all net base salaries (Professional and General Service staff) be applied for this purpose. Applying this modality to the 2008 net salaries for Professional and General Service staff yields $9.7 million. The percentage charge would imply an additional "salary expense", and the collected amount would be transferred to the Staff Benefits Fund. The rate could be reviewed every two years as part of the biennial planning and budget exercise and adjusted if necessary to ensure a steady funding to the Staff Benefits Fund. It should be noted that this proposal has not been reflected in the 2010-2011 biennial budget that is currently under preparation.

20. UNHCR is not considering establishing a mechanism to fund the liabilities for accrued annual leave and for repatriation. Analysis shows that, for the year 2008, the average 30 days used for estimating accrued annual leave liabilities is very close to the actual number of days paid for commutation of annual leave upon separation. In other words, the budgeted standard cost for posts adequately covers the payments for annual leave commutation as they occur. According to the actuarial report, the annual repatriation expense is expected to average $3.0 million per year over the next ten years, with amounts ranging from $2.3 in 2009 to $3.6 million in 2018. As the amounts are fairly stable and constant, UNHCR proposes to continue to finance these on a pay-as-you-go basis.

21. UNHCR may consider setting up two separate funds, one for separation costs and the other for ASHI, if it is determined that this allows for better management of the different types of liabilities.

VI. CONCLUSION

22. Staff members of the United Nations system who have met certain eligibility requirements are entitled to end-of-service benefits, including a repatriation grant and payment of accrued annual leave. The health care provided by UNHCR's after-service health insurance scheme is a vital element of social security for retiring staff members, many of whom cannot benefit from the national social security schemes in their home countries owing to their service to the organization.

23. It is therefore incumbent upon UNHCR to ensure the existence of a viable financial base to meet the Office's end-of-service and post-retirement liabilities. To this end, UNHCR is considering the following strategy:

(a) fully fund the MIP-related ASHI liabilities from accumulated surplus in the MIP Fund;

(b) gradually fund the UNSMIS-related ASHI liabilities by making transfers from the carry-over available at the end of the year, with the amount to be determined according to operational requirements and projections of fresh income for the following year, and through additional monthly charges to payroll, i.e. 4 per cent on net base salary for Professional and General Service staff; and

(c) solicit and gratefully accept any direct donor contributions for the express purpose of funding the end-of-service and post-retirement liabilities.

24. UNHCR invites feedback on this information, notably through bilateral discussions. In October 2009, the Office will be informed of the strategy being adopted by the United Nations and will then be in a position to formally submit a funding proposal to the Standing Committee in June 2010, for application under the budget of the next biennium.