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

Distr. : Restricted
18 February 2011*
English
Original : English and French

Standing Committee
50th meeting

**Proposal on methodology for funding end-of-
service and post-retirement liabilities****Contents**

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* Deadline of 8 February 2011 for document availability not met owing to late submission of text to the Committee Secretariat

I Introduction

1. 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).
2. On 1 September 2010, an 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, with a view to soliciting comments from Member States. Member States requested UNHCR to present a preferred option, with an analysis of costs and risks, in order to reach a decision at the March 2011 meeting of the Standing Committee.

II. Background

3. After-service health insurance (ASHI) provides benefits to retired staff members, 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.
4. UNHCR is currently applying a "pay-as-you-go" approach to funding ASHI liabilities, as well as for the funding of repatriation benefits. The main disadvantage of this approach is that the unfunded liabilities shown on the financial statements will continue to accrue, creating an ever-larger deficit in the financial statements. Leaving the liabilities for both ASHI and repatriation benefits 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 after-service health insurance and repatriation benefits are not charged to the relevant programmes as they are incurred.
5. As highlighted in the June Standing Committee conference room paper referenced above, both the United Nations Board of Auditors and the United Nations Joint Inspection Unit have expressed concern on several occasions regarding the increasing liability for after-service health insurance, and have urged UNHCR to begin funding it, as a number of other United Nations organizations have done.
6. Out of a total of 24 UN organizations, the United Nations Secretariat has the largest liability (\$2.3 billion for 2009) and has yet to commence funding this. The United Nations Secretariat has deferred its decision on the matter and will present it again to the General Assembly, at UN Member States' request, during the sixty-seventh session. UNHCR has the second largest liability of the unfunded group (\$267.8 million for 2010).
7. The most preferred method of funding for ASHI liabilities being used by other UN entities is to add a percentage charge to payroll, ranging from 2 to 8 per cent, and/or a lump sum year-end transfer of funding (subject to the operational and funding situation from year to year). At the September 2010 Informal Consultative Meeting, ExCom Member States did not indicate a strong preference for any of the funding options, but rather requested UNHCR to present a preferred option, backed up by an analysis of costs and risks.

III. Funding of reserves

After-service health insurance (ASHI)

8. In December 2010, UNHCR commissioned an actuarial valuation from Mercer Actuaries LCC, in order to be able to determine the possible size of a funding reserve for ASHI, using a monthly payroll charge of 4 per cent on the net base salary of all professional staff and relevant general service staff, with effect from 1 January 2012. The estimated actuarial valuation of UNHCR's net liability has decreased by \$58.5 million to \$267.8 million since 2009. The reduction of the liability is the result of a health trend rate decrease applied as a result of an actuarial study and valuation conducted by Mercer. The rate decreased from 6.00 per cent to 4.50 per cent during the period under review. 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

9. The objective of the 4 per cent payroll charge is to gradually build the reserve up to an acceptable level. A formal review, undertaken in consultation with the United Nations Board of Auditors, would be undertaken 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.

Repatriation benefits

10. Regarding repatriation benefits, the results of the actuarial valuation will be evaluated during the first quarter of 2011. 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.

IV. Conclusion

11. Although applying payroll charges for ASHI funding will create a corresponding percentage increase in staff costs across all programme activities, the main advantages of this methodology are: (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.

12. UNHCR is submitting a decision for approval, as included in the attached Annex, for application with effect from 1 January 2012. An update on the strategy for funding UNHCR's liability for repatriation benefits will be submitted to the Standing Committee in June 2011.

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 previous meetings of the Committee, including the Informal Consultative Meeting held on 1 September 2010,

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

Having considered the various options for funding a reserve, 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 fund the full amount of the liability 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 4 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. *Notes* that UNHCR will provide information on its preferred option for funding the liabilities related to repatriation benefits at the June 2011 meeting; and
5. *Further notes* that a formal review will be undertaken every two years 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.
