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منظمة الأغذية والزراعة للأمم المتحدة | 联合国粮食及农业组织 | Food and Agriculture Organization of the United Nations | Organisation des Nations Unies pour l'alimentation et l'agriculture | Organización de las Naciones Unidas para la Agricultura y la Alimentación

FINANCE COMMITTEE

Hundred-and-tenth Session

Rome, 19 – 23 September 2005

Costs of the Medical Insurance Plans

I. Introduction

1. At its 104th session, the Finance Committee raised several specific issues regarding the FAO Medical Insurance Plans, as follows: (a) comparability of benefits and cost sharing with other UN agencies, (b) competitiveness and reasonableness of the provided benefits, and (c) performance of the Medical Plans Administrator.

2. In response to these concerns, at the 107th session, the secretariat presented and the Finance Committee took note of a document that focused on the findings of a comprehensive study undertaken by a recognized consulting actuarial firm in 2001[1/]. The Committee noted that the FAO medical coverage was comparable to and competitive with that of other UN organizations in both benefits and cost-sharing arrangements at that time. The Committee also noted the consultants' findings on the performance of the Medical Plans Administrator, which were summarized as follows: "*In general, we found that Vanbreda is providing high quality and effective administrative services for the FAO plans.*"

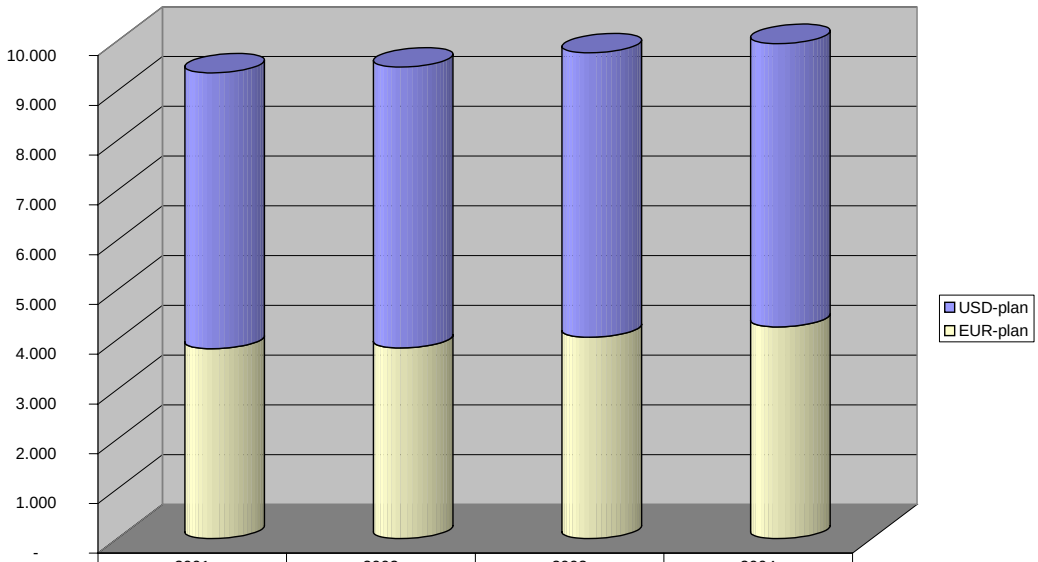
3. The Finance Committee at its 109th session expressed concern about the escalating medical premiums and the resulting cost to the Organization. The Committee inquired as to the comparability of the increase in cost of the FAO medical insurance plan with other similar UN plans, and requested the secretariat to prepare a paper (a) showing the recent trends in premiums of similar UN system medical insurance plans and (b) analyzing the principal factors affecting FAO's medical insurance premiums.

[1/] *FAO's Medical Insurance Schemes* (ref. FC 107/13)

II. FAO Medical Insurance Plans (BMIP/MMBP)

4. The medical insurance coverage for FAO/WFP staff and retirees is provided through two plans: a Basic Medical Insurance Plan (BMIP) and a complementary (optional) Major Medical Benefits Plan (MMBP). The premium rates for the BMIP are shared on a 50/50 basis between the participants and the Organization (with limits for lower income subscribers), while the cost of the MMBP is borne entirely by the participants. These plans are further split into two schemes based on the currency of the premiums: a US dollar scheme and a Euro (originally Italian lira) scheme. While Headquarters staff members participate in the Euro scheme, the US dollar scheme is extended to all staff in the field. Additionally, retirees – subscribers in the After Service Medical Plan – residing in Italy have the choice of either the Euro or the US dollar scheme; all other retirees are covered under the US dollar scheme. (See Figure 1)

Number of Subscribers (Staff Members and Retirees)



	2001	2002	2003	2004
USD-plan	5.542	5.643	5.712	5.690
EUR-plan	3.815	3.832	4.047	4.255

Figure 1

5. In 2002, subsequent to an international competitive tendering process, Association Générale de France (AGF) was selected as the FAO Plan Insurer with Vanbreda International as Claims Administrator. While maintaining segregation between both currency schemes for the purpose of benefits and premiums analysis, the contract stipulated the overall premiums payable to the Insurer to be in US dollars, similar to previous contracts.

6. A review of the changes in the premiums payable for the medical insurance plan in the ten-year period from 1995 to 2004 shows an average yearly increase of 6.1% per annum (see Table 1). Indeed, six of the past ten years have seen only modest increases – and sometimes decreases – in premiums (expressed in US dollars), while at the same time general medical insurance costs were escalating with worldwide medical inflation ranging between 4% and 10% per annum.

Table 1	
Percentage BMIP/MMBP PREMIUM RATES CHANGE - 1995 TO 2004	
1995	3.8%
1996	0.0%
1997	15.1%
1998	13.7%
1999	-3.6%
2000	3.7%
2001	-1.0%
2002	14.0%
2003	0.0%
2004	15.0%[2/]
Average	6.1%

7. It should be noted that in accordance with the contract provisions, yearly premium rates are determined based on the prior year claims reimbursements, to which an estimate for medical inflation for the year is added.

III. Premium Rate Increases of Similar Plans at Other UN Agencies

8. A survey of the increase in premiums of the medical insurance plans of other UN agencies has shown that the premium increases experienced at FAO over the past year are not unusual when compared to similar plans. The FAO plan premium rate increase in 2005 was within the range of the four international agencies responding to the survey recently conducted by the secretariat as shown in the following table:

Table 2	
Medical Plan Contribution Increase for the year 2005	
UN Geneva	8.0%
UNIDO Vienna	18.6%
UN New York	11.0%
FAO Rome	15.0%[3/]

9. A more detailed comparison between the medical insurance plan of FAO and that of the UN New York – the plan with similar retiree composition – shows that over the last five years, the increase in premiums of the FAO plan was lower than that of the UN New York with an 8.6% versus 10.6% yearly average increase. Whereas both plans demonstrated large fluctuations in the premiums from year to year, FAO's plan had greater fluctuations in part attributable to a stronger influence of the exchange rate changes (US$ vs. Euro) affected by claims and benefit reimbursements, but also attributed to increases in medical consumption and inflation.

[2/] capped by contract
[3/] (capped by contract)

Table 3		
Year	**Plan: Vanbreda International**	**Average of UN NY Plans**
2001	-1.0%	7.0%
2002	14.0%	15.0%
2003	0.0%	11.0%
2004	15.0% (capped)	9.0%
2005	15.0% (capped)	11.0%
Total increase	43.0%	53.0%
5 year average	8.6%	10.6%

IV. Factors Affecting FAO's Medical Insurance Plan Cost

10. The increases in the overall plan cost for the past several years were analyzed in a study conducted in 2005 and attributed to the five factors indicated in the following tables:

Table 4			
FACTORS EXPLAINING EVOLUTION IN REIMBURSEMENTS OF CLAIMS	**US DOLLAR**		
	2001-2002	2002-2003	2003-2004
a. Exchange rate effect	2.2%	8.7%	7.3%
b. Family growth	1.8%	1.2%	-0.4%
c. Insured per family	-0.9%	-0.3%	0.4%
d. Bills per insured	1.5%	1.4%	6.1%
e. Reimbursement per bill	-5.4%	3.7%	8.2%
Total evolution	**-1.0%**	**14.8%**	**22.1%**

Table 5			
FACTORS EXPLAINING EVOLUTION IN REIMBURSEMENTS OF CLAIMS	**EURO**		
	2001-2002	2002-2003	2003-2004
a. Exchange rate effect	-0.2%	-0.6%	-0.6%
b. Family growth	0.4%	5.6%	5.1%
c. Insured per family	-0.8%	-0.7%	0.7%
d. Bills per insured	0.3%	0.8%	7.9%
e. Reimbursement per bill	4.5%	1.6%	2.4%
Total evolution	**4.3%**	**6.7%**	**14.7%**

11. The impact of each these factors on the increases in 2003 (14.8% for the US Dollar and 6.7% for the Euro) and in 2004 (22.1% for the US Dollar and 14.7% for the Euro) is explained below.

a) Exchange Rate

12. Premiums are paid to the insurer in US dollars and in Euro. This greatly neutralizes the major exchange rate risk for premiums paid to the insurer. However, all retirees in Europe outside of Italy (and most of the retirees in Italy) pay their premiums in US dollars while they incur their expenses predominantly in Euro. This results in a substantial increase in claims reimbursements paid in US dollars from the plan. An exchange rate loss occurs within the plan when the Euro is strong versus the US dollar and expenses are incurred in Euro but reimbursed in US dollars. As the Euro has strengthened against the US Dollar since 2002, the plan has seen an increase in costs in terms of claims reimbursements that in turn has created an imbalance versus premiums paid, pushing the premiums up. The exchange rate effect on submitted claims versus premiums paid resulted in an 8.7% increase in US dollar benefits paid during 2003 and a 7.3% increase in 2004[4/].

b) & c) Family Growth and Insured per Family

13. While the varying demographic factors of the insured population affect the total cost of the plan, these factors are seasonal and are largely offset by premiums levied on additional family members. The 2004 premiums were affected by the previous year's demographic factors resulting in an increase of 4.4% in Euro premiums.

d) Number of bills submitted per insured person

14. This represents changes in usage or consumption of the Plan by the participants. Increasing morbidity in the covered population results in an increase in the average number of medical expense bills submitted for reimbursement per person. This factor, which could be attributed to the aging of the overall population in the plan, represented an increase of 7.9% for the Euro scheme and 6.1% increase for the US Dollar premium scheme in 2004.

e) Amount of reimbursement per bill

15. In a relatively unchanged benefits plan, the reimbursed amount per bill received is the closest measure of a plan's medical inflation in any one year; as medical fees rise, the amounts reimbursed per bill increase. However, a seasonal ill-health of the population during any one year could also influence the nature of the expenses submitted by the population. This factor contributed to increases of 2.4% and 8.2% in the 2004 claims for the Euro and US Dollar schemes, respectively.

16. Several member states in the Governing Bodies of UN system organizations have raised concerns regarding the escalating costs of the respective medical insurance plans. In response to these concerns, the United Nations Joint Inspection Unit (JIU) has started an investigative study to provide member states with a comprehensive overview of United Nations system staff medical coverage, including a comparison with best practices in non-United Nations entities. The study is intended to present a number of viable options for more effectively controlling the concomitant budgetary outlays without negatively affecting this important element of the overall conditions of service in the United Nations system. FAO has been requested to participate in the study and would benefit from sharing its findings with the other sister agencies.

V. Conclusions

17. In summary, the premium rate increases for the FAO plan have been comparable to other UN agencies. While there is a range of such increases, in comparison to the UN New York programme which has a similar composition of retirees and staff and is also located in an open

[4/] The reverse is, of course, true when the US dollar is strong or strengthening, there is a gain to the plan. This is evident from the previous period, 1999-2001, when a strengthening US dollar versus the Italian lira resulted in a decrease or very modest increase in the plan cost for those years.

medical market (without legislated price controls), the FAO increases over the past five years average 8.6% in comparison to the UN New York at 10.6%. Within Europe, the increase at FAO is in the middle of other agencies responding to the survey. With respect to the source of the increases at FAO, the two largest factors are the exchange rate losses, which are cyclical and offset by gains in other years, and medical inflation and consumption. The inflation factors continue to be troubling with increases in 2004 of 14.3% for the US dollar premiums and 10.3% for the Euro premiums.

18. Finally, to address the concerns of its member states and pending the results of the system-wide review by the JIU, FAO has commissioned an actuarial review of the Staff Medical Insurance Plans (BMIP/MMBP). The study will result in a detailed analysis of the major sources of claims' costs for the various categories/groups of participants (e.g. headquarters versus field staff, active versus retired staff, etc.), including currency related issues. The review will also look into the cost sharing formula which includes contributions of both the participants (i.e. staff and retirees) and the Organization. It is anticipated that this review will further assist FAO in assessing the plan, which will be tendered in a competitive international bidding in 2006, to ensure maintaining a sustainable approach in the foreseeable future.