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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 Продовольственная и сельскохозяйственная организация Объединенных Наций Organización de las Naciones Unidas para la Alimentación y la Agricultura منظمة الأغذية والزراعة للأمم المتحدة

FINANCE COMMITTEE

Hundred and Seventy-fifth Session
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2018 Actuarial Valuation of Staff Related Liabilities

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EXECUTIVE SUMMARY

- This document updates the Finance Committee on the results of the actuarial valuation of the Organization's liability for staff-related plans (the "Plans") at 31 December 2018.

- **Section I**. ***Introduction*** describes the Plans, which provide distinct benefits to staff either on completion of service or as a result of work-related illness or injury. It also explains the purpose of annual actuarial valuations.

- **Section II. *Results of Actuarial Valuation*** summarizes the total liability of the Plans as at 31 December 2018, 2017 and 2016 and provides the key assumptions used in those valuations. During 2018, the total liabilities of the Plans decreased by an amount totalling USD 162.9 million from USD 1 527.4 million at 31 December 2017 to USD 1 364.5 million at 31 December 2018. The various reasons for the decrease are detailed in this section.

- **Section III. *Current Financial Situation*** provides the total recorded, unrecorded and net balance sheet liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for the Plans as at 31 December 2018, 2017 and 2016, respectively. The total unfunded liability of the Plans as at 31 December 2018 was USD 875.9 million compared with USD 993.1 million at 31 December 2017.

- **Section IV. *Accounting and Funding*** provides a comparison of the annual Current Service Costs for the Plans for the three years ending 31 December 2019. The total Current Service Cost for 2019 is USD 39.2 million (2018 – USD 46.4 million). This section also includes full funding proposals for the After Service Medical Coverage (ASMC) plan and Terminal Payments Fund (TPF). The annual past-service ASMC funding amortization to fully fund the liability by 2039 amounts to USD 39.8 million, while no funding was approved by Conference for 2018 and 2019. The annual past-service TPF funding amortization to fully fund the liability by 2024 amounts to USD 9.6 million for which no funding has ever been approved.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the results of the 2018 actuarial valuation and the current financial situation, accounting and funding of the Organization's liability for staff-related plans at 31 December 2018.

Draft Advice

The Committee:

- **noted that total staff related liabilities as at 31 December 2018 amounted to USD 1 364.5 million, representing a decrease of USD 162.9 million from the valuation at 31 December 2017;**
- **further noted that the net decrease in the valuation at 31 December 2018 was primarily due to changes in the following actuarial assumptions: an increase in the discount rates applied; the movement in the year-end Euro-United States Dollar exchange rate; and a change in the claims and administrative expenses experience.**

I. Introduction

1. FAO has four staff-related plans (the "Plans") that provide benefits to staff members either upon completion of service or as a result of work related illness or injury. The Plans are as follows:

- Separation Payments Scheme (SPS): the provisions of the SPS apply only to staff members in the General Service category at headquarters and are paid on separation from the Organization or on promotion to the Professional category;
- Termination Payments Fund (TPF): the TPF comprises benefits payable to staff upon separation from service, specifically Repatriation Grant, Repatriation Travel and Removal, Commutation of Accrued Leave, Termination Indemnity, and where applicable, Death Grant;
- After Service Medical Coverage (ASMC): is a medical insurance plan for retired staff and their families meeting certain eligibility criteria. The Basic Medical Insurance Plan provides partial reimbursement for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The premium of the Basic Medical Insurance is nominally shared between the retired staff member and the Organization; and
- Compensation Plan Reserve Fund (CPRF) – the CPRF provides benefits subject to certain limitations to staff members (including, *inter alia*, consultants and persons holding Personal Service Agreements) in the event of injury, illnesses, or death attributable to the performance of official duties. The benefits include annuities or lump-sum payments (supplementing the UN Pension benefits, if applicable) in the event of death or disability, and reimbursement of reasonable medical, hospital and directly-related expenses.

2. All of the abovementioned Plans are treated by the Organization as defined benefit plans. To meet the financial reporting requirements the Organization annually obtains from an external actuarial firm a valuation of all the Plans in order to:

a) determine the Organization's overall liabilities associated with the Plans;
b) establish the annual expense related to the Plans' maintenance;
c) quantify recommended rates of contributions to fully fund the liabilities; and
d) obtain information necessary to meet financial reporting requirements.

The actuarial valuations for 2018, 2017 and 2016 were all performed by Aon Hewitt (www.aon.com). This document refers to the results of the actuarial valuation as at 31 December 2018 and the current financial situation, and accounting and funding of the Organization's liability with information as at 31 December 2017 and 2016 as comparatives.

II. Results of Actuarial Valuations

3. A comparison of the total actuarial liability by plan as at 31 December 2018, 2017 and 2016 is detailed in Table 1.

Table 1

(in USD Millions)		Increase/ (Decrease)			Increase/ (Decrease)		
Plan	**2018**	***USD m***	***%***	**2017**	***USD m***	***%***	**2016**
CPRF	18.6	*(2.4)*	*-11.4%*	21.0	*3.4*	*19.3%*	17.6
TPF	55.6	*(2.5)*	*-4.3%*	58.1	*(1.8)*	*-3.0%*	59.9
SPS	46.9	*(5.6)*	*-10.7%*	52.5	*3.1*	*6.3%*	49.4
ASMC	1,243.4	*(152.4)*	*-10.9%*	1,395.8	*203.5*	*17.1%*	1,192.3
Total actuarial liability	**1,364.5**	***(162.9)***	***-10.7%***	**1,527.4**	***208.2***	***15.8%***	**1,319.2**

As detailed in Table 1 above, the net decrease of USD 162.9 million in the actuarial liability between 2018 and 2017 was significant. The variations relating to the assumptions and methods were as follows:

Table 1a

Sources of Changes of the Plans from 2017 to 2018	**Variations USD millions**
Expected change, without new entrants*	43.7
Increase in discount rates	(104.0)
Movement in Euro-USD exchange rate	(46.9)
Claims and administrative expenses experience	(30.5)
Change in Per Capita Costs Aging Factors	(20.8)
New Entrants in Past Year	3.3
Accounting Benefit Payments Different Than Expected in Past Year	(4.7)
Other demographic experience	1.1
Others	(4.1)
Total net decrease	**(162.9)**

** Expected increase due to Service Cost (additional benefits earned) and Interest Cost, offset by expected decrease due to actual benefit payments*

4. The actuarial valuation of the Plans requires the Organization to make certain assumptions in order to best estimate the cost of providing these benefits to its staff members. Such assumptions include demographic (e.g. mortality rates/estimates, rates of staff member turnover, claim rates under medical plans, etc.) and financial (e.g. discount rate, future salaries and benefits, future medical costs, etc.). Owing to changes in factors, both internal and external, the Organization, together with the actuaries, performs an annual review of the assumptions used in the actuarial valuation and adjusts them where it is deemed necessary for a more accurate calculation of the Plan liabilities. Like most actuarial calculations, annual valuations are subject to significant uncertainty and unpredictability. In particular, the values of the Organization's liabilities for the Plans are highly sensitive to changes in the Euro-United States Dollar exchange rate, the discount rate, and medical claims and anticipated medical inflation. The key assumptions used in the valuations of the Plans for 2018, 2017 and 2016 are presented in Table 2.

Table 2

Key Assumptions	2018	2017	2016
Economic			
→ Discount rate			
ASMC	2.9%	2.5%	2.7%
SPS	1.3%	1.1%	1.2%
TPF	3.2%	2.7%	2.8%
CPRF	4.4%	3.7%	4.1%
→ Medical cost inflation rate	4.6% for 2019 decreasing 0.1% every 2 years to 4.1% in 2029, and then decreasing 0.1% every year to 3.7% in 2033 and later years.	4.6% for 2018 decreasing 0.1% every 2 years to 4.1% in 2029, and then decreasing 0.1% every year to 3.7% in 2033 and later years.	5.0% for 2017 decreasing 0.1% every 2 years to 4.4% in 2029, and then decreasing 0.1% every 3 years to 4% in 2041 and later years.
→ General inflation rate	Varies by plan (1.8% - 2.2%)	2.5 % per year	2.5 % per year
→ Year end spot rate €/USD	1.14	1.20	1.05

III. Current Financial Situation

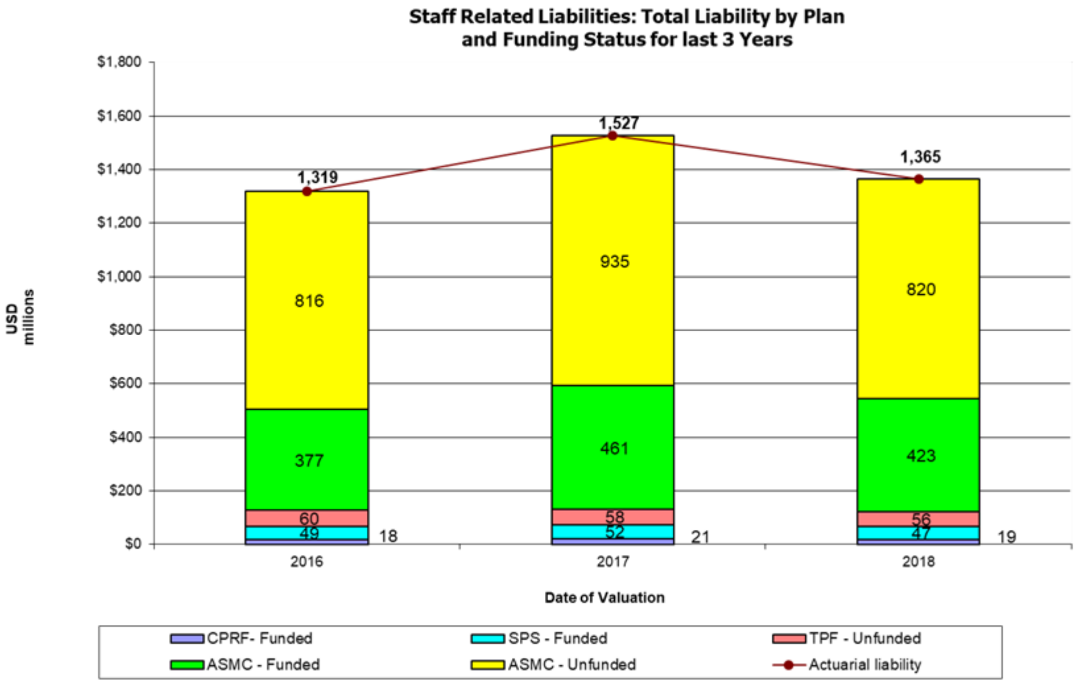
5. Table 3 below shows the total recorded liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for all Plans as compared to the fair market value of earmarked long-term assets at 31 December 2018, 2017 and 2016 respectively.

Table 3

	2018	2017	2016
	USD millions	USD millions	USD millions
Plan			
CPRF	18.6	21.0	17.6
TPF	55.6	58.1	59.9
SPS	46.9	52.5	49.4
ASMC	1,243.4	1,395.8	1,192.3
Total actuarially determined liabilities	**1,364.5**	**1,527.4**	**1,319.2**
Less: Earmarked long-term investments (at Fair Market Value)	(488.6)	(534.3)	(443.6)
Total unfunded liabilities **	**875.9**	**993.1**	**875.6**
** Of which:			
TPF	55.6	58.1	59.9
ASMC	820.3	935.0	815.7
Total unfunded liabilities	**875.9**	**993.1**	**875.6**

Graph 1 below details the total liability by plan and its funding status:

Graph 1



6. During 2018, the carrying value of long-term investments earmarked by the Organization for the Plans decreased by USD 45.7 million from USD 534.3 million at 31 December 2017 to USD 488.6 million at 31 December 2018. For comments on investments, reference should be made to the Report on Investments 2018 (document FC 175/3).

IV. Accounting and Funding

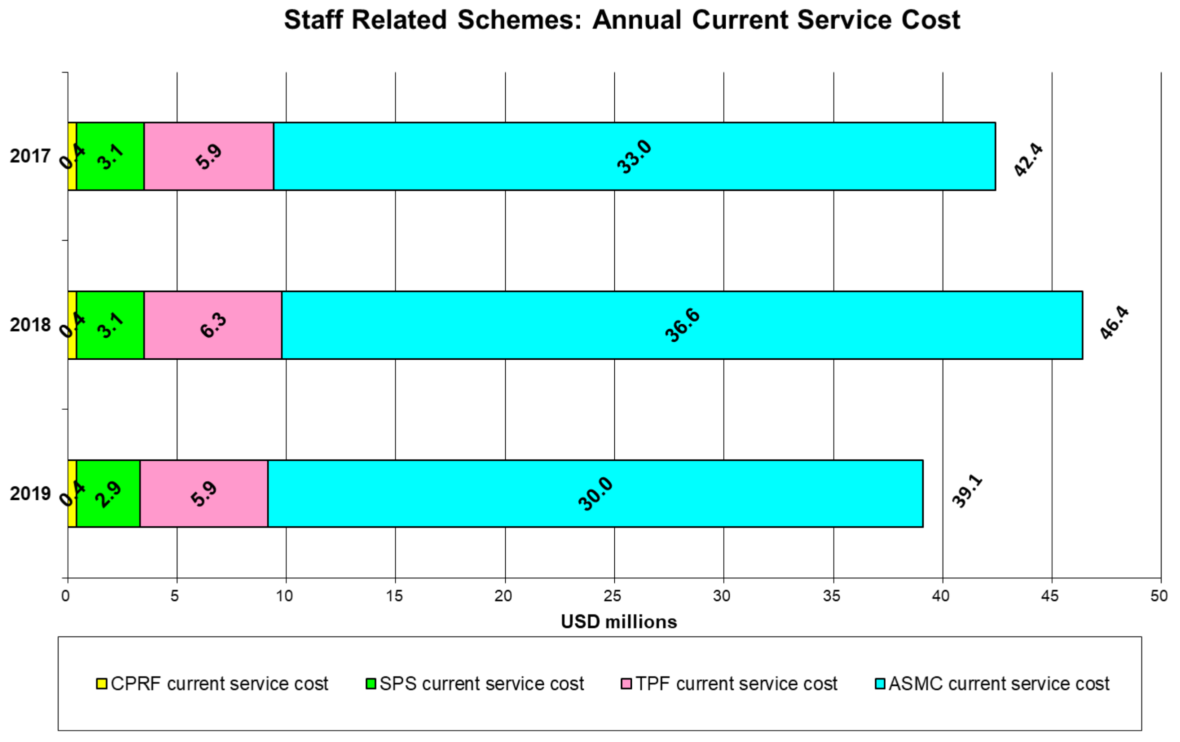
7. Table 4 and Graph 2 below show the annual Current Service Costs[1] for the three years ending 31 December 2019, which are based on the actuarial valuations for the preceding years at 31 December 2018, 2017 and 2016 respectively.

[1] The current service cost is a standard component of staff costs and arises each year as active staff members provide their services in exchange for these benefits to be paid in the future. The aforementioned costs comprise both the Regular Programme and Trust Funds.

Table 4

Current service costs						
Plan	**2019**		**2018**		**2017**	
	USD millions	***% total expense***	**USD millions**	***% total expense***	**USD millions**	***% total expense***
CPRF	0.4	*1.0%*	0.4	*0.9%*	0.4	*0.9%*
TPF	5.9	*15.1%*	6.3	*13.6%*	5.9	*13.9%*
SPS	2.9	*7.4%*	3.1	*6.7%*	3.1	*7.3%*
ASMC	30.0	*76.5%*	36.6	*78.9%*	33.0	*77.8%*
Total	**39.2**	***100.0%***	**46.4**	***100.0%***	**42.4**	***100.0%***

Graph 2



8. In total, the 2019 service cost will decrease by USD 7.3 million, of which USD 6.6 million relates to a decrease in ASMC. The reasons for the decrease in ASMC service cost include:

- a decrease of USD 4.1 million due to the increase in the discount rate from 2.5 percent to 2.9 percent;
- a decrease of USD 1.1 million due to the change in the Euro-United States Dollar exchange rate;
- a decrease of USD 3.4 million due to changes in claims and administrative expenses, ageing factors and other demographic experiences;
- offset by an increase of USD 2.0 million due to new entrants.

9. Conference resolutions 10/99 and 10/2001 provide that long-term investments and any income which they generate are to be applied first to ensure the adequacy of funding of the SPS and CPRF. The resolutions also provided that any additional investments and related income then be earmarked for the ASMC and subsequently for the TPF. As of 31 December 2018, both the ASMC and TPF continue to be underfunded (refer also to Table 3 and Graph 1). The earmarking of the long-term investments and the SPS advances to the Plans are shown in Table 5 below.

Table 5

Long term investments earmarked against the Plans

Plan	2018 USD millions	2017 USD millions	2016 USD millions
Fully funded			
CPRF	18.6	21.0	17.6
SPS	46.9	52.5	49.4
Partially funded			
ASMC	423.1	460.8	376.6
Unfunded			
TPF	0.0	0.0	0.0
Total funded liabilities	**488.6**	**534.3**	**443.6**
Funded by:			
Earmarked long-term investments	**488.6**	**534.3**	**443.6**

10. In accordance with Finance Committee and FAO Council guidance, the Secretariat has obtained from FAO’s actuaries the annual amounts required to fully fund the ASMC and TPF liabilities using target dates of 31 December 2039 and 31 December 2024, respectively.

11. Based on the most recent actuarial valuation as of 31 December 2018, in order to fully fund the TPF past service liability of USD 55.6 million (using a 15-year amortization period starting in 2010), the Organization would need to contribute an additional USD 9.6 million per year (USD 19.2 million per biennium).

12. Based on the most recent actuarial valuation as of 31 December 2018, in order to fully fund the United States Dollar value of the unfunded ASMC past service liability of USD 820.3 million (using a 30-year amortization period beginning in 2010), USD 39.8 million per year (USD 79.6 million per biennium) would need to be contributed, while no funding was approved by Conference for 2018 and 2019.

13. In accordance with the Finance Committee's request at its 170th Session, the Secretariat has reviewed the option to decrease the frequency of performing actuarial valuations.

14. The Secretariat is obliged to ensure that the annual financial statements present fairly, in all material respects, the financial position of FAO. Given the significant value of the Organization’s liability for staff-related plans and its materiality to the financial position, the Secretariat considers that annual actuarial valuations will continue to be required to meet this obligation.