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FINANCE COMMITTEE

Hundred and Sixty-fourth Session
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Funding of After Service Medical Coverage (ASMC) Liabilities

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- At its 161st session in May 2016, the Finance Committee requested an update at its next regular session on the decisions taken by the United Nations General Assembly following its consideration of the Report of the After Service Health Insurance (ASHI) Working Group of the Finance and Budget Network, and on efforts being made by the Secretariat to contain the costs of the Scheme.
- This document gives details of UN system discussions, and provides additional information on the cost containment measures undertaken by FAO, for consideration by the Committee.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- This document has been prepared to provide an update on the discussions held at the UN ASHI working group level and the cost containment measures undertaken by FAO. It is presented for information and for any guidance the Committee may wish to provide.

Draft Advice

The Committee:

- **noted the update on the decisions taken by the United Nations General Assembly following its consideration of the Report of the After Service Health Insurance (ASHI) Working Group of the Finance and Budget Network;**
- **encouraged the Secretariat to further review these options in the context of the considerations on this matter by the United Nations General Assembly, emphasizing the importance of adopting a common approach amongst the members of the United Nations Common System; and**
- **urged the Secretariat to continue its efforts to contain costs of the current medical insurance plan.**

A. Introduction

1. In the fall of 2013, the United Nations General Assembly (hereinafter the "General Assembly") considered the report of the Secretary-General (A/68/353) and the related report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) (A/68/550) on managing after-service health insurance (ASHI) liabilities. Following its consideration of these two reports, the General Assembly approved resolution A/RES/68/244.

B. UN ASHI Working Group to Address the Funding Gap for ASMC

2. The UN After Service Health Insurance (ASHI) Working Group secretariat organizes video-conferences on a regular basis and is assisted by a consultant recruited by the UN Secretariat.

3. A video-conference is planned to be held in November 2016 to take stock of where the Working Group stands in relation to each of the eight recommendations formulated in the December 2015 paper on ASHI. This paper was considered by the General Assembly at its resumed session in early 2016 and the next ASHI Working Group report will be submitted to the General Assembly in December 2016.

4. An account of discussions/developments with regard to the eight recommendations is presented below.

Recommendation 1: Collective negotiations with third-party administrators; Recommendation 2: Collective negotiations with healthcare providers; and Recommendation 3: Underwriting reviews and negotiations with insurers.

5. As reported in December 2015 in the UN Secretary-General's report "A/70/590" to the General Assembly, at year-end 2014, of the 369,173 persons covered under the 23 United Nations system agency health insurance plans surveyed by the HLCM/FB Network Working Group on ASHI, 305,857 were covered under 3rd-party administered plans. Of these persons, 266,916 (87.3%) were covered under plans administered by CIGNA. Yet, the entities of the UN Common System have not to date collectively negotiated with CIGNA the most favourable contractual terms and pricing for those insured under its plans.

6. A meeting with CIGNA representatives was held in Geneva on 28th September 2016 during the Insurance Officers' round table, to address the above concern. A separate meeting with Allianz representatives, the second largest provider in the UN system, is being planned.

7. The ASHI Working Group is looking into possible umbrella contracts with Third Party Administrators (TPAs), health care providers and Insurance companies.

Recommendation 4: Leveraging of national health insurance schemes.

8. A survey was sent by the UN Secretariat on behalf of the United Nations System to all representatives of Permanent Missions to the United Nations in New York, pursuant to a General Assembly request, at its 70th session, that the appropriateness, practicability and financial effects of incorporating the requirement that insured persons be also enrolled for primary coverage in a national insurance scheme into agencies' health insurance plans, be fully explored.

9. This first survey is aimed at establishing whether coverage under national health insurance schemes is or could be made available to active or retired staff members of the United Nations Common System living in a Member State, as well as to their dependent family members.

10. In this regard, the Working Group has decided on a two-step approach for the survey. The primary objective of Step 1 is to gain insight into Member States' willingness to allow officials and former officials access to their country's national health insurance scheme and to get a very basic idea of what to expect in terms of scope of coverage versus cost. Step 2 will involve the obtaining of greater detail regarding terms and conditions of insurance, enabling the Working Group to carry out an accurate cost/benefit analysis in relation to coverage in selected countries.

Recommendation 5: Broadening of the United Nations Joint Staff Pension Fund (UNJSPF) mandate.

11. Given the possible ramifications of the General Assembly's resolution on the UNJSPF, the Pension Board's Assets and Liabilities Monitoring (ALM) Committee, at its first meeting in February 2014, requested that the Consulting Actuary prepare a note on the "Option of Broadening the Mandate of the UNJSPF to Include Administration of After-Service Health Insurance (ASHI) Benefits".

12. The Pension Board took note of the General Assembly's request and expressed its agreement with the conclusions presented in the above-mentioned note. The Pension Board also endorsed the recommendations of the ALM Committee on this matter, which are reflected under item 11(c) of the 'Report of the Assets and Liabilities Monitoring Committee'. The Pension Board noted that the investments objectives of the Fund differed from those of ASHI. Therefore, it considered it inappropriate for the Fund to manage the resources related to ASHI.

13. The Pension Board agreed that it would not be advisable to broaden the mandate of the Pension Fund to include the administration of ASHI benefits, noting that this option could jeopardize the Fund's operational viability and could also negatively affect the long-term sustainability of the Fund depending upon the extent of the adopted measure.

14. The Investments Management Division of the UNJSPF, however, is ready to provide advice to the organizations on the investments policy regarding ASHI if requested.

Recommendation 6: Standardizing of the general ASHI liability valuation methodology and establishment and application of key valuation factors.

15. This recommendation has not been addressed by the Working Group yet.

Recommendation 7: Adequate funding of the ASHI liability.

16. At its 68th and 70th Sessions, the General Assembly decided that the pay-as-you-go (PAYG) approach to the funding of the UN's ASHI obligation should be continued "at the present time". However, the Secretary-General remains concerned about the level of unfunded ASHI liability that will place financial pressure on future budgets. The Secretary-General reported to the General Assembly that biennial disbursements in respect of ASHI can be expected to increase from USD 227 million in 2016-17 to USD 422 million in 2024-25 and to USD 922 million in 2040-41. Therefore, at its 71st Session, it is intended to propose a funding scenario in respect of the ASHI liability constituted in relation to staff recruited from 1 January 2018, while maintaining a PAYG approach in respect of the liability constituted in relation to staff recruited before that date. This funding is aimed at ensuring prudential control of the escalation of the UN's ASHI liability and limiting its impact on future budgets.

17. The proposal will center on partial funding of the ASHI liability on an annual service cost-plus-interest cost basis. Under this approach, the newly constituted liability would be fully funded, whereas the liability already constituted would remain unfunded and, after an initial period of continued growth, begin to decline through attrition. In this context, "newly constituted liability" means liability constituted in relation to staff recruited from 1 January 2018 and does not include liability in respect of staff members already recruited but not yet entitled to ASHI. This liability should be included in the assessment of the liability constituted before 1 January 2018.

18. In support of this proposal, Ernst & Young has been requested to prepare the following projections:

- Evolution (i.e. the long term expected cash flow) of the total ASHI liability without funding;
- Evolution of the ASHI liability constituted before 1 January 2018, without funding, until its expiration through attrition;
- Evolution of the ASHI liability constituted in relation to staff recruited from 1 January 2018, with funding of the service cost plus interest cost; and
- Evolution of the total ASHI liability with funding of the service cost plus interest cost in relation to staff recruited from 1 January 2018.

19. Ernst & Young has further been requested to determine the payroll charge that would be necessary to achieve full funding of the ASHI liability constituted as from 1 January 2018 (service cost) as well as its projected growth (interest). In this context, “full funding” means the accumulation of a financial reserve sufficient to initially reduce and ultimately fully cover the UN’s projected PAYG ASHI obligation to newly retired officials as from the date of their retirement.

20. The payroll charge will be expressed as a level “load” percentage on the total regular budget salary mass used for the ASHI liability valuation. In other words, although the load corresponds to an ASHI liability newly constituted as from 1 January 2018 it will be expressed as a percentage of salary mass regardless of the date of recruitment.

Recommendation 8: Investment of reserves.

21. Rates of Return on Investments (ROI) assumptions. Whereas IPSAS imposes constraints regarding the nature of investments that may be taken into account in calculating the discount rate factored into the ASHI liability valuation, decisions on financing can make use of alternative - and more realistic - investment opportunities. The required payroll charges mentioned above will be determined using different assumed rates of return on investment transactions. These ROI’s will be shown as real rates of return, i.e. as ROI’s net of inflation and will be less conservative than the discount rates taken into account in the ASHI liability valuations. The 3.50 per cent ROI is consistent with the long-term UNJSPF real rate of return objective.

22. For each ROI assumption, a table will be produced showing the regular budget payroll charge as a percentage that will remain level over time. The table will also show the corresponding USD payroll charge for the current biennium.

23. The ROI assumptions to be used are:

1) 2.50 per cent real (i.e. net of inflation);
2) 3.00 per cent real;
3) 3.50 per cent real (consistent with the long-term UNJSPF real rate of return objective); and
4) 4.00 per cent real.

24. The perimeter of this assignment is comprised of the agencies falling within the scope of the General Assembly’s governance, but excluding Peacekeeping. In principle, these are agencies whose ASHI valuations are already carried out by Ernst & Young. Results will be provided for each agency separately and for all agencies in the aggregate.

25. Deliverable is in the form of: (i) financial results; and (ii) corresponding tables, charts and curves easily transposable to the report to the General Assembly. The deadline for delivery by Ernst & Young is 21.10.2016.

26. At a later date, Ernst & Young may be requested to provide results for agencies not falling within the scope of the General Assembly’s governance, i.e. with their own governing bodies. This would be subject to separate terms and conditions.

C. Cost-containment measures undertaken by FAO

27. Cost containment measures were introduced in the medical plan administered and insured by Allianz. Discounts have been negotiated with health care providers. Taking into account that the prices of medical care vary from one country to another and from one region to another, the Organization has established with the Allianz Worldwide Care (AWC) Medical team an undertaking to maintain the prices of the medical care at a Reasonable and Customary level.

28. A due diligence check of claims received and strict application of the terms of the contract have resulted in preventing the potential losses for the medical plan in 2015 as well as timely fraud detection and prevention.

29. FAO will continue looking into other cost-containment measures such as better case management, re-introduction of the travel provision and further negotiations with the health care providers and pharmacies.

D. Conclusion

30. The issue of funding of ASMC liabilities is now under review in all Organizations of the UN system. The situation in FAO is in most respects similar to that of many other Organizations. As requested by earlier sessions of the Finance Committee, the Organization is participating fully in inter-secretariat discussions on this matter. The consideration of this issue at the upcoming General Assembly session in New York will provide important guidance for the UN system as a whole.

31. The FAO Secretariat will continue its work to contain costs of the current medical insurance plan and monitor closely the progress of the discussions at the United Nations.