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**Programme, Financial and Administrative Section**
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**PFA**

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FOURTH ITEM ON THE AGENDA

# Update concerning the after-service health insurance

**Purpose of the document**

This paper provides an update on the consideration of after-service health insurance and its associated liability by the United Nations system and proposes measures to contribute to reduction in the liability over the medium- to long-term.

**Relevant strategic objective:** Not applicable.

**Policy implications:** None.

**Legal implications:** None.

**Financial implications:** No immediate financial implications.

**Follow-up action required:** Report to subsequent session of the Governing Body.

**Author unit:** Office of the Treasurer and Financial Comptroller (TR/CF).

**Related documents:** GB.322/PFA/2, tables 3 and 4, paragraphs 31 and 44; United Nations General Assembly documents A/RES/68/244; A/70/590, paragraphs 18–21, 40, 45–49; and A/RES/69/251.

## Introduction

**1.** At its 322nd Session (November 2014), the Governing Body considered a document [1] that provided an overview of the status of after-service health insurance (ASHI) at the ILO. The paper also provided insight into the evolution of the ILO's ASHI liability and presented options for its funding.

**2.** In commenting on the document, members of the Governing Body expressed concern about a focus on funding rather than reducing the liability and requested further information on a number of aspects of ASHI. The Office informed the Governing Body that a United Nations (UN) inter-agency Working Group on ASHI had been established in response to a General Assembly resolution with a mandate covering most of the issues raised by the Governing Body. It was agreed that the Governing Body await the outcome of the UN General Assembly's consideration of the matter at its 70th Session, in order to ensure a harmonized approach to what was a system-wide issue. However an update was requested for the current session of the Governing Body.

**3.** At the date of preparing the current document for the Governing Body, the General Assembly had not yet considered this matter further, however the content of the General Assembly paper [2] is reported on below with references to specific ILO measures and/or considerations.

## Background

**4.** Consideration of ASHI by the Governing Body followed recommendations from the External Auditor and the Independent Oversight Advisory Committee that the ILO evaluate options for the long-term funding of its ASHI liability. These recommendations were supported by both the Office and the Governing Body. Similar considerations have been ongoing in the UN General Assembly.

**5.** In its 2013 resolution [3] on "Managing after-service health insurance liabilities", the UN General Assembly requested the Secretary-General to undertake a survey of current health-care plans for active and retired staff within the UN system, to explore all options to increase efficiency and contain costs and to report thereon at its 70th Session.

**6.** The Secretary-General through the United Nations High-Level Committee on Management (HLCM) established an ASHI Working Group tasked with:

– collecting and sharing information on the different ASHI practices within the UN system, identifying and analysing the variables that impact the liability, including different benefits provided by the plans, the reasonability of the underlying actuarial assumptions (e.g. the discount rate), as well as the assumptions and factors related to investments (asset allocation and expected returns);

– exploring ways to contain the costs of ASHI services;

[1] GB.322/PFA/2.

[2] A/70/590.

[3] A/RES/68/244.

– proposing common criteria for the review of the assumptions underlying the valuation of the estimated liability, drawing on the agreement reached by the UN with the Board of Auditors; and

– exploring how actuarial valuation criteria can be harmonized across the UN system.

**7.** The General Assembly also requested the Secretary-General to examine the option of broadening the mandate of the United Nations Joint Staff Pension Fund (UNJSPF) to include the cost-effective, efficient and sustainable administration of after-service health insurance benefits.

**8.** The Working Group comprised representatives from UN system organizations, the Federation of Associations of Former International Civil Servants (FAFICS), the Federation of International Civil Servants' Associations (FICSA), the HLCM Human Resources Network, the Working Group of the Finance and Budget Network on Common Treasury Services, the UNJSPF and the UN system Chief Executives Board for Coordination. The Secretary-General's report to the General Assembly reflects the findings, conclusions and recommendations of the Working Group and can be found on the UN website. [4]

## Social and legal backdrop

**9.** The principle of universal access to health insurance coverage was a backdrop to the Working Group's considerations. The Working Group was also mindful that ethical, comprehensive and portable health insurance is essential to support the UN's ability to attract and retain the best possible global workforce, and that efficient and effective delivery of health insurance benefits and service contributes to the well-being of UN system staff, often working under adverse conditions.

**10.** It was recalled that many former officials were not eligible to benefit from national social security coverage as a result of their service with the ILO or other UN system agencies. After-service health insurance coverage was therefore an important element of social security for former officials, as it enabled the Organization to ensure their access to appropriate health care wherever they resided at a cost that took into consideration their pension income. The ILO ASHI entitlement extends to the dependent spouses and children of former ILO officials and is consistent with that of other UN system organizations.

## Acquired rights

**11.** The Working Group noted that health insurance across the UN system is provided to staff members and former staff members following mutual insurance principles and the principle of intergeneration solidarity which is a major point of difference between social health insurance and private health insurance. Serving staff members' contributions in aggregate exceed the benefits they receive while in service and the excess contributions are allocated to balancing out the aggregate deficit in respect of former staff members. Staff members' contributions are assessed based on terms and conditions of insurance that will not materially change either during the period of service or upon retirement. Plan designs may be adapted and contributions may be adjusted from time to time to remain aligned to the cost of providing coverage according to those terms and conditions of insurance.

[4] http://www.un.org/ga/search/view_doc.asp?symbol=A/70/590.

**12.** From a legal standpoint, any significant changes to the scope, coverage and contribution levels that would be detrimental to the insured persons could constitute a breach of the acquired rights of officials as recognized by the case law of the ILO Administrative Tribunal and reflected in article 14.7 of the ILO's Staff Regulations. This conclusion in relation to acquired rights is consistent with that delivered to the UN General Assembly at its 61st Session by the UN Office of Legal Affairs (A/61/730, A/61/791 – Addendum 2) in March 2007.

**13.** In considering the question of acquired rights, the Working Group was of the view that any significant change to the terms and conditions of insurance applicable at the time of retirement would constitute a breach of acquired rights and expose organizations to the risk of litigation. The Working Group concluded that modifications to the terms and conditions of insurance would be admissible only prospectively, that is, only for newly recruited staff and that specific analysis would be required to determine the exact legal implications of any such modifications.

## Terms and conditions of insurance

**14.** The Working Group was assisted by a specialized consultancy firm in performing a quantitative and qualitative analysis of 23 health insurance plans (inclusive of active and retired staff) across the UN system that together cover some 400,000 persons, i.e. almost all international and locally recruited staff, retirees and their dependants insured under the UN system plans. The analysis spanned health insurance plan design and coverage, eligibility, administration and its cost, demographics and benefits paid. Three different business models were represented in the analysis: self-insured self-administered plans (such as the ILO's Staff Health Insurance Fund (SHIF)); self-insured third-party administered plans; and insured third-party administered plans. [5] The Working Group established that the terms and conditions of health insurance across the UN system health insurance plans were generally comparable.

**15.** The Working Group recognized that the health insurance costs borne by UN system organizations, and the corresponding liabilities, can be affected by structural changes to health insurance plan design and funding, or by changes in organizations' contract and staffing policies. However, the Working Group also considered that changes of this nature would have to be explored in a broader human resources policy context.

**16.** In the General Assembly paper, the Secretary-General proposes maintaining the Working Group to study further options to increase efficiency and contain costs, and to provide specific proposals to the General Assembly at its 71st Session. It can reasonably be expected that, consistent with the paper's introduction, the Working Group would further explore plan design. For example, to ensure that plan resources are appropriately focused, the Working Group may consider revisiting benefit structures to ensure they are better aligned to local health-care environments and funding levels could be modulated according to the nature of the medical treatment. Any such further assessment would be undertaken in conjunction with the HLCM Human Resources Network and ICSC.

**17.** The Working Group gave particular consideration to whether the UN's positive experience [6] in the United States of leveraging national health insurance schemes by requiring eligible covered persons to enrol in Medicare Part B, in addition to enrolling in a UN health insurance plan, could be reproduced in other locations. The national health insurance scheme would

[5] A/70/590, paras 18–21.

[6] A reported reduction in the ASHI liability of $258 million (A/70/590, para. 40).

then act as a primary plan for care covered under its design, with the United Nations plan providing supplementary coverage for care not falling within the scope of the national scheme. As a result, the coverage afforded to persons insured under United Nations plans would remain unchanged, while charges to the plans could reduce, with a corresponding reduction in the organizations' ASHI liabilities.

**18.** The Working Group has recommended that organizations evaluate the appropriateness, practicability and financial effects of incorporating into their health insurance plans the requirement for insured persons to be enrolled in a national insurance scheme, and engage member States regarding the opening to insured persons of eligibility for primary coverage under their national schemes. Where appropriate, UN system plans could incorporate the enrolment requirement, with the corresponding premiums being met by the UN plan, and thus provide more cost-effective coverage with no detriment to comprehensiveness or affordability.

**19.** The ILO's current exposure to such an arrangement is mostly limited to the few countries where enrolment of former officials in the national social security scheme is compulsory. Where coverage under a national health insurance scheme is not compulsory, some former ILO officials nevertheless enrol in the national scheme on a voluntary basis. Health insurance benefits paid under the national scheme are supplemented by benefits paid by the SHIF acting as a secondary insurer.

**20.** The practicability and effect of incorporating into the SHIF Regulations and Administrative Rules the requirement for insured persons to be enrolled in a national health insurance scheme will greatly vary from country to country as will the cost and administrative procedures. A full country-by-country cost and benefit analysis would be required, as well as an assessment of the effect on ASHI liabilities.

**21.** With some 76 per cent of SHIF health-care costs being incurred in Switzerland and France, ILO evaluation will prioritize the national health insurance schemes in these two countries. Discussions with other international organizations located in the Geneva area have been initiated, aimed at developing a common approach to negotiating with host country authorities with regard to in-patient health-care tariffs applicable to international civil servants, including former officials residing in Switzerland and neighbouring France. The ILO will also, in cooperation with other international organizations, explore how best to engage with the Swiss and French authorities regarding the incorporation of international civil servants and former officials into national health insurance schemes.

**22.** With regard to the share of health insurance contributions paid by the UN organizations, it is recalled that in 2014, the General Assembly approved the recommendation of the International Civil Service Commission (ICSC) to maintain the apportionment ratios at their current levels. [7] The ratios currently applied at the ILO, 1:1 in respect of active staff members and 2:1 in respect of retired officials, are consistent with that decision. Premiums assessed in respect of retirees are based on a pension corresponding to a minimum of 25 years of service.

[7] A/RES/69/251.

## Other cost-containment measures

### *Consolidation and risk pooling*

**23.** The Working Group explored potential opportunities related to consolidation of all UN system health insurance plans into a common health insurance arrangement. No evidence was found that financial or operational efficiencies would result from a global consolidation. Similarly, the Working Group found no evidence that economies of scale or efficiency gains in administration could be achieved by broadening the UNJSPF mandate, [8] which would require additional staffing of the Fund secretariat and of the Investment Management Division, as well as the establishment of separate accounting, reporting and governance mechanisms, and onerous systems development.

**24.** In relation to risk pooling, the Working Group noted that health-care costs are a function of demographics which differ markedly across organizations. In the absence of complex financial compensation mechanisms, several organizations would face higher costs as a result of risk pooling. Nevertheless, the Working Group considered that consolidation at the local level could be further envisaged by certain organizations, provided equalization agreements in relation to plan solvency can be reached, as well as agreements in relation to service level, governance participation, etc.

**25.** The consolidation of ASHI reserves by multiple organizations for investment purposes would present particular challenges due to different liability funding needs and levels as well as ownership and governance issues. Given the conclusion that a joint health insurance arrangement would be unadvisable and the difficulties cited above, co-mingled investments would have equally limited applicability. However, the sharing of investment strategies and joint bidding for investment managers of individual portfolios is one area the Working Group is committed to further exploring. With respect to the ILO, funds accumulated to meet future ASHI obligations relating to extra-budgetary staff are reflected in separate reserves. Once the accumulated funds reach an appropriate level they will be invested separately and conservatively in a tailored portfolio under the guidance of the ILO’s Independent Investment Committee.

### *Collective negotiations with health-care providers*

**26.** The Working Group noted that Geneva-based self-administered plans (ILO, UNSMIS, WHO) have successfully conducted collective negotiations with health-care providers in the Geneva area. The ILO, WHO and UNOG (who administer UNSMIS), will explore further opportunities to negotiate collectively with health-care providers and provider networks in other locations in order to obtain best access to and best pricing for quality health care, and to minimize pricing volatility. Notwithstanding any collective action, the ILO will continue to identify areas where negotiating with health-care providers could result in material savings and/or operational improvements.

### *Preventive health care*

**27.** Although the Working Group has not yet addressed the topic of preventive medicine, the United Nations Medical Directors Working Group will be associated with its work going forward and it can reasonably be expected that a common approach to cost containment through preventive health care will be developed. In the meantime, the Office, through the

[8] A/70/590, paras 45–49.

SHIF Secretariat and in consultation with the SHIF Management Committee, will develop a preventive health-care policy.

**28.** Given the potential savings to the SHIF and consistent with established practice in a number of member States and international organizations, the SHIF Management Committee has identified preventive medical procedures aimed at detecting early onset of certain conditions. Effective 1 January 2016, a number of preventative procedures are now covered by the SHIF without co-payment on the part of the insured person.

## Funding of the ASHI liability

**29.** The yearly valuation of the liability is a snapshot of how active staff and former officials' entitlements to ASHI coverage translate into the Organization's projected share of the cost of that coverage over the long term. It is recalled that the ASHI liability is a "point-in-time" estimate of future costs based on the staff and retiree profile, as well as on actuarial assumptions, as at the date of the valuation. Variances in the year-to-year ASHI liability valuation can be significant as the liability is highly sensitive to the key actuarial assumptions: discount rate; medical trend rate; life expectancy; and length of service. The continued decline in global interest rates from 2009 to 2015 has had a significant effect on discount rates and consequently the ASHI liability. [9]

**30.** The ILO currently funds its immediate obligation in respect of ASHI from the regular budget on a pay-as-you-go basis (currently some $29.9 million per biennium). The ILO's unfunded ASHI liability amounted to $1.1 billion at 31 December 2014. The continued weakening of global interest rates has put further downward pressure on discount rates: the 2015 year-end weighted average discount rate dropped to 1.72 per cent from 1.84 per cent at year-end 2014. This will have a corresponding negative effect on the level of ILO's ASHI liability (at the time of writing, the year-end 2015 ASHI liability valuation has not been completed by the independent actuary). As illustrated in document GB.322/PFA/2, [10] until the liability is separately funded, the current pay-as-you-go approach to meeting ASHI benefits will result in an increasing percentage of the regular budget being required to fund ASHI.

**31.** The ILO, like other UN organizations, values its ASHI liability in accordance with the requirements of International Public Sector Accounting Standards (IPSAS). While it would be incorrect to apply UN-wide standard actuarial factors to all organizations due to diverse demographics, there is scope to agree on harmonized underlying methodologies aimed at improving comparability across the UN system. A separate UN-led Working Group has been established for this purpose with a reporting date of December 2017.

### *Alternative to full funding*

**32.** While expressing support for full funding of the liability by member States, the Working Group considered the alternative of partial funding of the ASHI liability on an annual service cost-plus-interest basis. Under such an approach, newly constituted liability would be fully funded, whereas the liability already constituted would remain unfunded and, after a period of continued growth, begin to decline through attrition.

[9] GB.322/PFA/2, tables 3 and 4.

[10] GB.322/PFA/2, para. 31.

**33.** The ILO's independent actuary was asked to determine the payroll charge that would be necessary to achieve full funding of the ILO's ASHI liability constituted as from 1 January 2016 (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 Office's projected pay-as-you-go ASHI obligation to newly retired officials as from the date of their retirement. The actuary was also requested to project the evolution of the ASHI liability constituted at 31 December 2015.

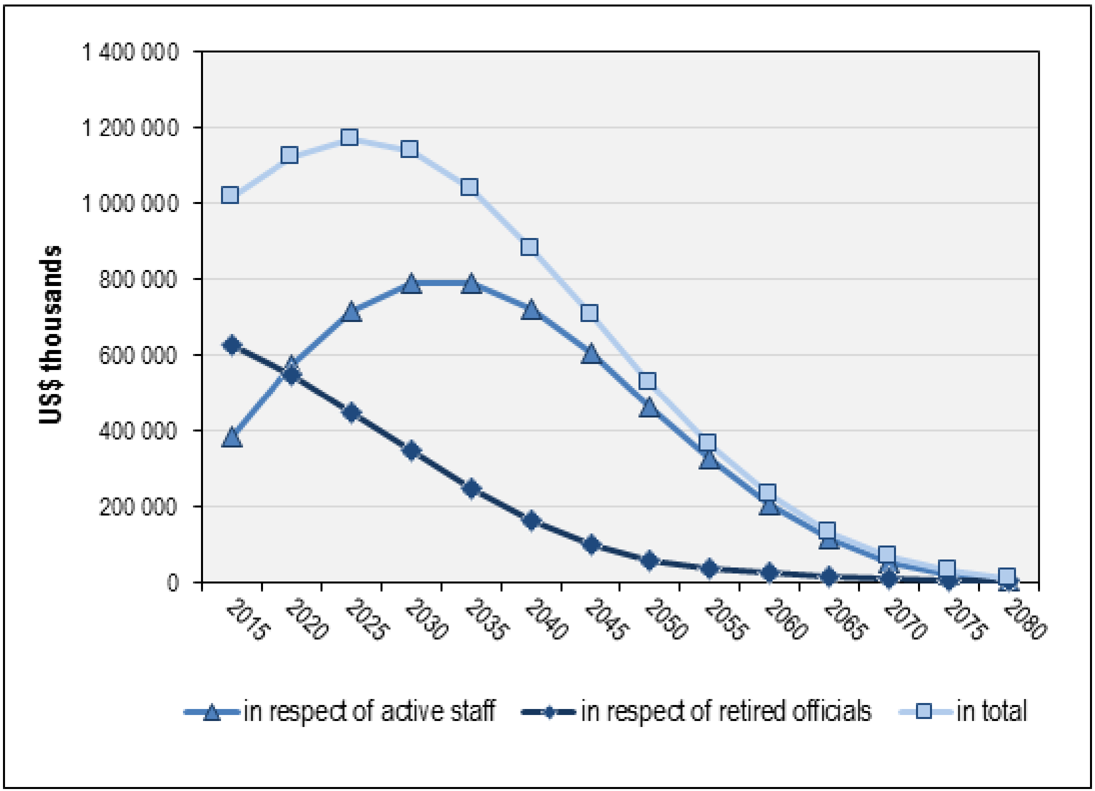
**34.** The required payroll charges have been determined using different assumed rates of return on investment transactions (ROI's) (see the table below). These ROI's – shown in as real rates of return, i.e. as ROI's net of inflation projected at 3 per cent – are less conservative than the discount rates taken into account in the ASHI liability valuations. This is because, 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 make use of alternative more realistic investment opportunities (the 3.50 per cent ROI is consistent with the long-term UNJSPF real rate of return objective).

**35.** The simulation in the table below shows – for each ROI assumption – the regular budget payroll charge in percentage terms and US dollars required to fully fund the employer's share of the ASHI liability newly constituted from 1 January 2016. The table also includes the current pay-as-you-go cost.

| **ROI assumption (%)** | 2.50 | 3.00 | 3.50 | 4.00 |
|---|---|---|---|---|
| **Payroll charge (%)** | 11.60 | 10.70 | 9.90 | 9.20 |
| **Applied to 2014–15 total salary (US$ x 1,000)** | 51 239 | 47 263 | 43 730 | 40 638 |
| **2014–15 ILO contribution to SHIF in respect of retirees (US$ x 1,000)** | 25 997 | 25 997 | 25 997 | 25 997 |

**36.** Although the implementation of the payroll charge would have an immediate positive effect on the ILO's ASHI liability by curtailing its growth, the Office will be required to continue the pay-as-you-go funding of after-service health insurance corresponding to the ASHI liability constituted before 31 December 2015. A reduction in the liability would therefore only occur once the unfunded liability constituted at 31 December 2015 begins to decline, primarily as a result of attrition, following its 2025 estimated peak estimated at $1.2 billion. The figure below illustrates the development of the regular budget-related liability until 2025 and its decline over a period of some 60 years until its expiration in 2080. [11]

[11] It is recalled that the projection shown in the figure is based on current discount rates. It is also recalled that, at the time of writing, the ILO's actual year-end 2015 ASHI liability valuation is not available.




### *ASHI liability in relation to staff funded from extra-budgetary sources*

**37.** The Working Group specifically addressed the issue of how ASHI liability associated with staff funded from extra-budgetary sources should be treated. The Working Group recommended that organizations managing extra-budgetary funds should ensure that no account with an unfunded ASHI liability is closed before the liability is cleared through application of available funds to the recognized liability.

**38.** As was previously reported to the Governing Body, [12] in 2013 the Office began allocating charges related to ASHI liability in respect of staff financed from extra-budgetary sources. As at 31 December 2015, the reserve accumulated in respect of extra-budgetary projects amounted to $3.6 million. Ultimately, funds accumulated in this reserve will offset or replace the Organization's share of the current pay-as-you-go expense in respect of former extra-budgetary funded staff currently charged to the regular budget.

### *Draft decision*

**39.** ***The Governing Body requests the Director-General to:***

***(a)*** ***ensure the ILO's continued participation in the UN ASHI Working Group in its study of further options to increase efficiency and contain costs and in its development of specific proposals;***

***(b)*** ***collaborate with other UN organizations in exploring the practicability and effects of introducing into the SHIF Regulations and Administrative Rules a requirement for former officials insured by the SHIF and their dependants,***

[12] GB.322/PFA/2, para. 44.

***who reside in Switzerland, France and the United States to be covered under the national health insurance schemes of those countries;***

***(c) include a provision in his Programme and Budget proposals for 2018–19 to accumulate a reserve aimed at limiting the growth in the ILO's ASHI liability by introducing a payroll charge equivalent to the annual service cost plus the corresponding interest charge; and***

***(d) report back to the Governing Body at its 330th Session (October–November 2017) on the outcome of any action taken on the above points.***