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# INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS

Geneva

## CONSULTATIVE COMMITTEE

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#### FINANCING OF LONG-TERM EMPLOYEE BENEFITS

*Document prepared by the Office of the Union*

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1. The Consultative Committee, at its eighty-sixth session, held in Geneva on October 23 and 24, 2013, considered document C/47/12 "Financial Statements for 2012". In response to questions raised by the Delegations of the United States of America and Germany, the Consultative Committee agreed to include an item "Financing of long-term employee benefits" in the program of its eighty-seventh session (see document CC/86/14 "Report on the Conclusions", paragraph 28).

2. This document focuses on After-Service Health Insurance (ASHI), which constitutes the main long-term employee benefit liability for UPOV (Swiss francs 967,815 of a total long-term employee benefit liability of Swiss francs 1,151,282 as at December 31, 2013). Information on the consideration of the financing of long-term employee benefits within the United Nations (UN) System and particularly in the World Intellectual Property Organization (WIPO) is presented. The Consultative Committee is invited to consider establishing a separate bank account to hold funds allocated for this purpose.

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## INTRODUCTION

3. After-Service Health Insurance (ASHI) constitutes the main long-term employee benefit liability for UPOV (Swiss francs 967,815 of a total long-term employee benefit liability of Swiss francs 1,151,282). The other liabilities relate to repatriation grant and travel, and accumulated annual leave. The adoption of the International Public Sector Accounting Standards (IPSAS) by UPOV has resulted in the requirement to recognize in the financial statements the long-term liability for After-Service Health Insurance (ASHI) for both active and retired staff members.

4. This liability has been increasing over the last two years as monitored since the introduction of IPSAS, and reached 0.97 million Swiss francs at the end of 2013. Actuarial projections show that the liability is expected to continue growing over the next four years.

5. Following the adoption of IPSAS across the United Nations (UN) System, the issue of financing ASHI liabilities has become an important subject of discussion for many UN organizations, including the World Intellectual Property Organization (WIPO). The UN System Chief Executives Board for Coordination (CEB) Finance and Budget Network has established a working group to analyze and report on the possible approaches to funding and managing ASHI liabilities, with conclusions expected to be presented in October 2014.

6. In light of the developing situation within the UN System, WIPO has opted to take an initial step in addressing the issue of financing its own long-term employee benefit liabilities, including ASHI. In 2014, WIPO will open a separate bank account to hold funds allocated for future financing of long-term employee benefits. WIPO will make an initial transfer of funds for an amount equivalent to 50 per cent of the total liability for long-term employee benefits as at December 31, 2013. Thereafter, monthly transfers will be made to the account of the balance available from a budgeted 6 per cent charge against payroll costs, after deductions for the payment of long-term employee benefits during the period.

7. The Consultative Committee is invited to consider the possibility of UPOV following the approach of WIPO by establishing a separate bank account to hold funds allocated for the future financing of its ASHI liability.

## AFTER-SERVICE HEALTH INSURANCE (ASHI)

8. During their period of employment, staff members and optionally their dependent spouses and children participate in the WIPO/UPOV group medical insurance scheme, which is provided through an external service provider. Staff members who retire from UPOV and receive a pension and who have been participating in the scheme for five years prior to retirement, are entitled to continue to participate in the scheme along with their dependents after retirement. UPOV is responsible for covering 65 per cent of their premiums, which are currently 552 Swiss francs per adult and 245 Swiss francs per child, per month. The ASHI liability represents the current valuation of UPOV's future obligation to cover this percentage of premiums for staff members and their dependents following retirement.

## ASHI LIABILITY

9. UPOV began preparing its financial statements in accordance with IPSAS from 2012. IPSAS requires the application of full accrual basis accounting. As a result UPOV now records the true and complete cost of employing staff members on a year by year basis. The financial statements include liabilities which represent employee benefits earned by employees but which will be payable by UPOV at a given point in the future. Within these liabilities is the long-term employee benefit ASHI, with the amount of the ASHI liability being calculated by external actuaries. The ASHI liability in the IPSAS financial statements is detailed below:

*Figure 1: After-Service Health Insurance Liability per Financial Statements*

	<b>2013</b>	<b>2012</b>	<b>2011</b>
		(in Swiss francs)	
After-Service Health Insurance (1)	<b>967,815</b>	<b>915,733</b>	<b>884,576</b>
<i>Increase from prior year</i>	52,082	31,157	
<i>% increase from prior year</i>	5.7%	3.5%	

(1) The balances presented for ASHI represent the net liability as recognized in the UPOV annual financial statements. As UPOV applies the corridor method of accounting for the ASHI liability, these balances do not include accumulated actuarial losses.

#### PROJECTED INCREASES IN THE ASHI LIABILITY

10. The ASHI liability is projected to increase over the next four years. The table below summarizes this increase based on actuarial projections. The liability is impacted by the increase in age of current staff members, retired staff members and their dependents, historical staff turnover rates, and changes in the staff population. As active staff members approach the age of eligibility for the employee benefit, the liability also increases. The actuary also takes into consideration other factors in their calculation such as projected health care costs and changes in mortality rates. The projections below are based on the staff members and retirees as at December 31, 2013 and do not include impacts from possible new joiners in future years. This 'closed group' methodology is applied on the understanding that periodic calculations of the total liability will be performed in the future which would take account of the latest changes in the staff population.

*Figure 2: Projected Future After-Service Health Insurance Liability*

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>Projection</b>	<b>Projection</b>	<b>Projection</b>	<b>Projection</b>	<b>Actual</b>
	(in Swiss francs)				
After-Service Health Insurance	1,147,473	1,102,539	1,057,385	1,012,494	967,815
<i>Increase from prior year</i>	44,934	45,154	44,891	44,679	
<i>% increase from prior year</i>	4.1%	4.3%	4.4%	4.6%	

#### CURRENT FINANCING OF THE ASHI LIABILITY

11. In the 2012-13 Biennium and the previous biennia, the budget included a charge of 6 per cent of payroll costs which has been accumulated as a provision on UPOV's balance sheet to finance future costs for ASHI. Prior to the implementation of IPSAS, the balance of this provision was 534,204 Swiss francs. An adjustment of 350,372 Swiss francs was made to this balance to bring the total liability up to 884,576 Swiss francs in order to establish IPSAS compliant opening balances.

12. Although UPOV has been accumulating this provision, there has been no clear ring-fencing of the corresponding accumulated cash funds. Therefore, in the UPOV financial statements the ASHI liability is shown at its full amount and is not netted off by any accumulated funds. In order to show the liability net of any accumulated funds, UPOV would be required to show that the funds have been clearly ring-fenced and protected for the purpose of financing the future payments required for ASHI. IPSAS 25 "Employee Benefits" has strict requirements in this regard, and refers to the creation of an entity or fund that is legally separate and from which the employee benefits are paid.

#### FINANCING OF ASHI LIABILITIES WITHIN THE UN SYSTEM

13. The issue of long-term employee benefits and how they should be financed is common to many UN System organizations. Focus on this area has increased in recent years through the implementation of

IPSAS, which requires the recognition of these liabilities in the financial statements. The most significant long-term employee benefit liability for most organizations is ASHI.

14. It is important to note that organizations have structured their ASHI schemes in different ways. Some organizations provide the benefit via an external insurance company, which means their financial liability is in the form of premiums. This is the case for UPOV and WIPO. Other organizations have self-insured and self-administered schemes, which means greater administration costs and a liability which includes future medical claims.

15. The UN System CEB High-Level Committee on Management has identified a common approach to ASHI within its Priority Issues for the period 2013-2016. This refers to both the management of funds and the financing of these growing liabilities. It is felt that a harmonized solution could achieve efficiencies and economies of scale which would benefit the entire UN System. The CEB Finance and Budget Network has established a working group to analyze and report on the possible approaches to funding and managing ASHI liabilities. The working group is expected to present its conclusions in October 2014.

#### ESTABLISHMENT OF A SEPARATE BANK ACCOUNT AT WIPO

16. In the coming years there are expected to be a number of developments in the UN System concerning the financing of ASHI liabilities. Given this changing situation, WIPO decided that it would be premature to move towards establishing a legally separate entity or fund as a solution to financing its long-term employee benefit liabilities. Instead, WIPO will take the initial step of establishing a separate bank account to hold funds allocated for the future financing of these liabilities.

17. The separate bank account will have the same status as existing accounts held by WIPO. It will also be subject to the same Investment Policy as is applicable to the rest of the Organization. Any investment returns on the account will remain in the account. The account will not be established through a separate entity or fund, and the funds held in it will remain as funds of WIPO. As such, it will not meet the IPSAS 25 requirements which would allow the employee benefit liabilities to be presented net of accumulated funding in the financial statements. However, it represents a first step in clearly allocating some funding to the future financing of these liabilities.

18. WIPO has decided that the initial transfer to the bank account will be equivalent to 50 per cent of the total long-term employee benefits liability as at December 31, 2013. The WIPO budget for the 2014-2015 biennium includes a charge of 6 per cent of payroll costs to cover payments for long-term employee benefits. A monthly transfer equivalent to the available balance from this 6 per cent charge after deduction of payments will also be made to the bank account.

#### POSSIBLE OPTION FOR FINANCING THE ASHI LIABILITY AT UPOV

19. As a first step towards financing its ASHI liability, one option UPOV may wish to consider is establishing a separate bank account to hold funds allocated for this purpose. The bank account could be set up following the WIPO model. As such, it would not be established through a separate entity or fund, and the funds held in it would remain as funds of UPOV.

20. If a decision is taken to open a separate bank account, further consideration would need to be given to the method for allocating funds to this account. It would also be necessary to decide on how any investment income generated by such funds would be allocated. For example, if investment income were to be held in a separate reserve to finance future ASHI costs, this would require a change in the UPOV Financial Regulations and Rules (under which such income would currently be accounted for under the reserve fund, for possible reimbursement to the members).

*21. The Consultative Committee is invited to consider establishing a separate UPOV bank account to hold funds allocated for financing its ASHI liability, as set out in paragraph 19, and taking into consideration the issues highlighted in paragraph 20.*