

Consultative Committee**CC/95/3****Ninety-Fifth Session
Geneva, November 1, 2018****Original:** English
Date: September 11, 2018**FINANCING OF LONG-TERM EMPLOYEE BENEFITS***Document prepared by the Office of the Union**Disclaimer: this document does not represent UPOV policies or guidance*

1. The purpose of this document is to report on developments with regard to financing of long-term employee benefits.

BACKGROUND

2. The detailed background with regard to financing of long-term employee benefits is provided in documents CC/87/8, CC/89/3, CC/91/3, CC/92/2 and CC/94/4 entitled "Financing of long-term employee benefits".

3. The Consultative Committee, at its ninety-fourth session, held in Geneva on October 25, 2017, noted that the Working Group on After-Service Health Insurance (ASHI) of the Finance and Budget Network (FBN) (the "Working Group") had submitted a second report ([A/71/698](#)) on its work to the 71st session of the General Assembly (GA) of the United Nations (UN). Following a first consideration of this report by the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the GA endorsed the conclusions and recommendations contained in the report submitted by the ACABQ, in March 2017, and agreed that the Working Group's mandate should continue through the rest of 2017 and into 2018, following which a report would be submitted to the GA at its 73rd session.

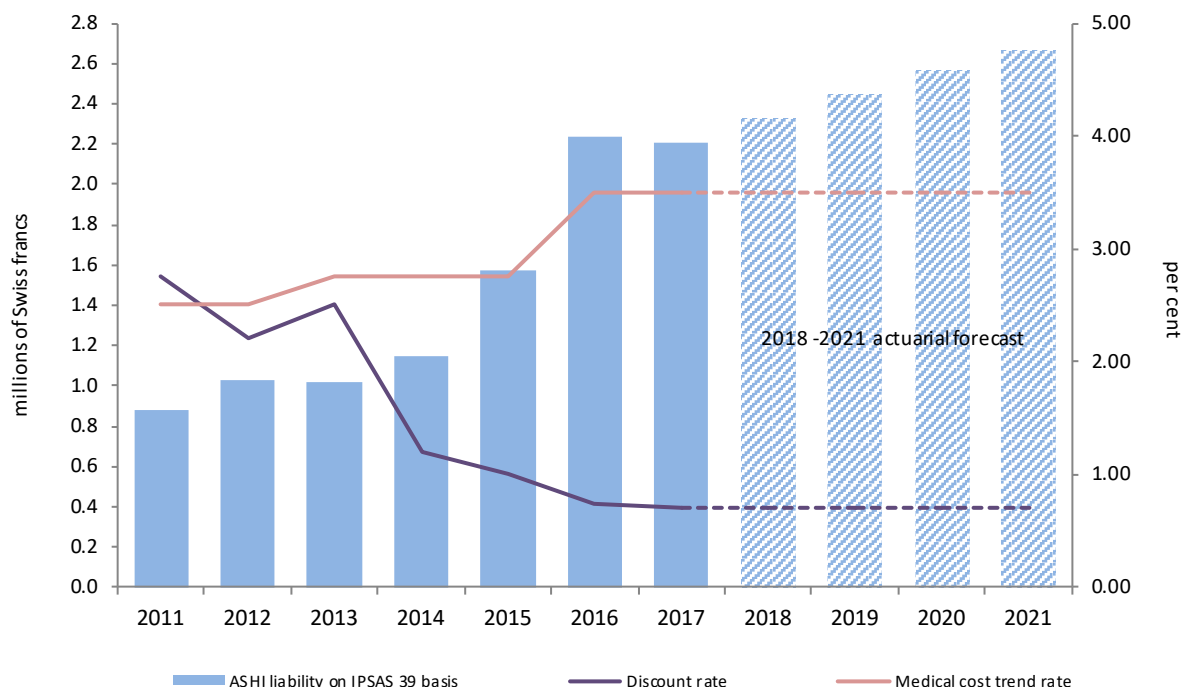
DEVELOPMENTSUPOV's updated ASHI liability and funding

4. The Working Group on ASHI has previously submitted reports to the 70th and the 71st sessions of the GA, both in the form of reports of the UN Secretary-General. The report to the 70th session ([A/70/590](#)) focused on the management and actuarial liabilities of ASHI and presented eight (1-8) recommendations. The report to the 71st session ([A/71/698](#)) provided a status update on the Working Group, and included a further seven recommendations (A-G) in respect of the existing eight recommendations made a year earlier (see document CC/94/4 "Financing of long-term employee benefits", paragraph 6).

5. Both reports contained recommendations (6 and E) relating to the standardization of the general valuation methodology for ASHI liabilities across all organizations (see document CC/94/4, paragraph 6). As a result, in early 2018 the Task Force on Accounting Standards of the FBN issued a number of common actuarial assumptions to be applied by organizations and thus ensure a more harmonized approach. These assumptions included yield curves for use in establishing discount rates. UPOV has applied these common actuarial assumptions to its ASHI liability calculations for the 2017 Financial Statements (see document C/52/12 "Financial statements for 2017", Annex, last paragraph of Note 3).

6. UPOV's ASHI liability is calculated in accordance with International Public Sector Accounting Standards (IPSAS). In July 2016 a new standard, IPSAS 39, was issued for employee benefits. UPOV applied IPSAS 39 in 2017, prior to the required implementation date of January 1, 2018. Under this new standard, previously unrecognized actuarial losses are recognized in the statement of financial position, which has had the initial impact of increasing UPOV's ASHI liability. This change has aligned UPOV's accounting treatment of ASHI with that applied by the vast majority of UN system organizations. However, this is also expected to increase the volatility of the ASHI liability in the future, as changes in actuarial assumptions will be immediately recognized.

7. UPOV's 2016 ASHI liability as restated under IPSAS 39 was 2,234,293 Swiss francs, compared to 1,183,628 Swiss francs previously recognized in the 2016 financial statements. The liability fell slightly to 2,209,461 Swiss francs at the end of 2017, largely due to the impact of revised mortality tables from the UN system common actuarial assumptions, along with updated turnover rates based on experience. The following graph shows UPOV's ASHI liability since 2011 on an IPSAS 39 basis, and includes projections through to 2021 (assuming there is no change in actuarial assumptions). It also details how the key actuarial assumptions, the discount rate and medical cost trend rate, have moved since 2011:



8. Recommendation 7 of the Working Group report to the 70th session of the GA stated that organizations should adequately fund their ASHI liability and build reserves. In addition, recommendations in this report and the subsequent report to the 71st session (recommendations 8 and G respectively) advised on inter-agency collaboration via the FBN's Working Group on Common Treasury Services in order to leverage investment arrangements for funds earmarked for the coverage of ASHI, with a view to maximizing returns and minimizing fees.

9. Based on the recommendations of the Consultative Committee, at its ninety-first session, held in Geneva on March 17, 2016, the Council at its thirty-third extraordinary session held in Geneva during the afternoon of March 17, 2016, decided to hold in a separate account the funds allocated for the future financing of UPOV's ASHI liability (see document C(Extr.)/33/6 "Report on the Decisions", paragraph 8(b)). The funds are generated by the Program and Budget charge applied to the cost of posts, and as at December 31, 2017, the total balance of these funds was 709,176 Swiss francs.

10. The funds were previously held in deposit accounts with the Swiss Federal Finance Administration (AFF). However, following the implementation of new provisions by the AFF relating to the opening and keeping of deposit accounts, from December 15, 2017, UPOV was no longer able to hold deposits with them. During 2017 the funds invested with the AFF were transferred to UPOV deposit accounts held with other banking institutions, where they are currently protected from the impacts of the negative interest rates which prevail in the Swiss franc market.

Progress of the Working Group on ASHI

11. The Working Group has a mandate to complete its work in 2018, following which a report will be submitted by the UN Secretary-General to the GA at its 73rd session. Since 2017 the Working Group has focused its efforts on developing collective agreements with third-party administrators, analyzing access to national health insurance schemes of Member States, and considering other potential cost containment measures.

12. The Working Group has developed a template third-party administrator agreement for use by UN system organizations to ensure consistency in the terms and conditions of these agreements. The template agreement represents best practice in this area, and will help to maintain leverage with third-party administrators across the UN system. It includes significantly strengthened provisions in respect of accountability, control, reporting and communication, and details the scope of audits of the administrator's services. In addition, a provision has been specifically included for the sharing of third-party administrator information between UN system organizations, with the aim of increasing inter-agency co-ordination.

13. Recommendation 4 of the Working Group report to the 70th session of the GA proposed further exploration of the value of national health insurance schemes in the context of UN system health insurance plans. Incorporating these schemes into the UN system would envisage the national health insurance scheme acting as a primary plan for care covered under its design, with the organization's plan automatically acting as a supplementary plan to ensure coverage afforded to participants would remain unchanged. The Working Group has now completed a cost, benefit and opportunity analysis for the nine countries with the largest populations of United Nations Joint Staff Pension Fund (UNJSPF) retirees and beneficiaries, covering 50.5 per cent of the total population as detailed in the following table:

| Country | Percentage of Total UNJSPF Retirees and Beneficiaries (as at December 31, 2017) |
|----------------|---|
| United States | 14.8% |
| France | 9.9% |
| Switzerland | 6.7% |
| Italy | 4.9% |
| Austria | 4.5% |
| United Kingdom | 3.1% |
| Canada | 2.6% |
| India | 2.2% |
| Thailand | 1.8% |
| Total | 50.5% |

14. In the United States primary health insurance is provided by Medicare and the UN plans to fill in the gaps in Medicare coverage. The UN, while reimbursing participants in ASHI for their Medicare Part B premium, is able to effectively lower costs while maintaining ASHI benefits and coverage. The Working Group found that a number of factors present in the United States, including relatively undemanding eligibility criteria for the health insurance scheme combined with substantial coverage, were not present in other countries and as a result this model could not be replicated elsewhere.

15. Given the additional administrative load, participation in national health insurance schemes requires a relevant population* of ASHI participants in the country if any cost benefit is to be achieved. For the WIPO/UPOV group medical insurance scheme, the population of ASHI participants resides primarily in France and Switzerland. The analysis of the Working Group demonstrated that there was no cost benefit to be gained by UN system organizations from incorporating the national health insurance schemes of these two countries into their plans. In France, income-based contributions would lead to significantly higher overall costs compared to the current situation for organizations. In Switzerland, UN system employees who have not participated in the national health insurance scheme would, in most cases, not be considered eligible to do so on retirement. Additional complexities were also identified, including the reimbursement of medical costs incurred outside of the country.

16. The Working Group continues to review other potential cost containment measures, and has considered promotion of in-network care, promotion of healthy living, and preventative exams and screenings. The Working Group is holding ongoing discussions around the period of service required to be eligible for ASHI, and is also analyzing the possible impacts of an entitlement accrual system for new entrants, whereby the entitlement to a full organization share of contributions is accrued according to length of service.

17. The final report of the Working Group, which will be submitted by the UN Secretary-General to the GA at its forthcoming 73rd session (Autumn/Winter 2018), is expected to contain further specific proposals for the future cost containment of ASHI.

* "Relevant" in this context refers to a meaningful number of persons which will ensure that administrative costs are covered.

18. *The Consultative Committee is invited to note the developments with regard to financing of long-term employee benefits reported in this document.*

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