

Consultative Committee**CC/99/5****Ninety-Ninth Session
Geneva, October 27, 2022****Original:** English
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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, CC/94/4, CC/95/3, CC/96/2 and CC/97/2 entitled "Financing of long-term employee benefits".

3. The Consultative Committee, at its ninety-eighth session, held via electronic means on October 28 and 29, 2021, noted the information provided by the Controller in relation to agenda item 9 "Report of the External Auditor (document C/55/6)" (see paragraph 10 of document CC/98/15 Add.) and decided to include an item "Financing of long-term employee benefits" in the agenda for its ninety-ninth session, to provide a report on the WIPO Asset and Liability Management Study (ALM study) and other developments across the UN system with regard to measures to mitigate the growth in the after-service health insurance (ASHI) liability (see document CC/98/16 "Report", paragraph 29).

DEVELOPMENTSALM study

4. The WIPO ALM study was carried out earlier this year by AON Hewitt, a firm of actuaries who are responsible for the annual calculation of the long-term employee benefit liabilities for both WIPO and UPOV. The actuaries considered several funding scenarios for WIPO, including the objective of achieving 100% cover of the liabilities within approximately 20 years.

5. When preparing the calculations for the different scenarios, the actuaries considered the population covered by the medical insurance scheme as an 'open group' which allowed the calculations to take account of the subsidy effect which exists within such health insurance schemes. The subsidy effect arises where staff members for whom premium payments exceed medical costs claimed effectively subsidize other staff members whose medical claims exceed the premiums paid. When calculating the ASHI liability for the financial statements in compliance with the International Public Sector Accounting Standards (IPSAS), both WIPO and UPOV consider actual medical costs and not the premium payments, thus taking no account of the subsidy. For the ALM study, premiums were considered and thus the subsidy effect was incorporated into the calculations. The result of this approach was to reduce significantly the size of the ASHI liability for WIPO, giving a liability to be funded that was approximately 49 per cent (CHF 279 million) of the liability included in the financial statements (CHF 573.7 million). During the WIPO Assemblies, member States agreed to finance 100 per cent of this 'reduced' liability, together with the additional long-term employee benefits (accumulated annual leave and repatriation grant) within the next 20 years. This will involve an annual charge of up to 10 per cent of personnel costs starting from the biennium 2024/25, an amount that will be added to the funding already in place.

6. The actuary has confirmed that if the same ALM calculation approach were applied to UPOV, we would see a similar reduction in the ASHI liability, bringing down the liability of CHF 4.1 million at the end of 2021 to approximately CHF 2 million as the amount to be funded. Bringing in the additional long-term employee benefits produces a total of approximately CHF 2.4 million. UPOV currently has just over CHF 1 million in funding that has been set aside to finance long-term employee benefits, giving cover of 41.7%. In addition, each year the budget contains a 6% charge against personnel costs and the amount raised by this charge, less insurance premiums paid in respect of retirees and their spouses, is added to the funding for long-term employee benefits. The amount added in 2021 was approximately CHF 88,000. If we assume that a similar figure will be generated each year and that nothing else changes, the long-term employee benefits will be fully covered within approximately 16 years. Furthermore, investment opportunities for UPOV's cash are opening up as Swiss franc deposits are now offering positive rates. Any interest earned on the monies set aside for funding will be added to the capital invested and thus assist with achieving adequate cover of the liabilities. The assumptions underlying the calculation of ASHI are sensitive and subject to change. However, the liabilities and their funding will be monitored as part of the work undertaken by WIPO with regard to long-term employee benefits and should the 6% charge require to be adjusted, a proposal will be put forward by UPOV to its members, as appropriate.

Other developments across the UN system

7. With regard to mitigating the growth in the ASHI liability, various measures have been introduced by organizations across the UN system and by other international organizations. These measures include: conducting negotiations with health care providers and pharmacies in order to obtain lower prices; discouraging staff treatment in expensive countries (mainly the United States of America) and offering a higher coverage percentage if the treatment is undergone in a more affordable destination; restricting treatment in the United States of America; and reimbursing branded drugs at a lower rate than generic drugs. Several organizations have regular discussions with health care providers in order to find ways of limiting the impact of medical inflation and to review certain medical cases where costs are high.

8. The WIPO Collective Staff Insurance Management Committee ("Committee"), comprising staff and retiree representatives, together with members of WIPO administration, is responsible for supervising the operation and financial situation of the collective staff insurance schemes that cover both WIPO and UPOV staff. The Committee actively engages with CIGNA¹ on an ongoing basis in order to assist in devising and implementing cost containment measures and to design health service plans that will keep health benefit costs under control. In a continued effort to limit the potential future growth in ASHI liabilities, several cost containment measures have recently been brought to the attention of the Committee for consideration. These include measures such as the increase of annual deductibles, incentives to use medical providers within an agreed network offering low tariffs negotiated with CIGNA and the promotion of the use of care from less expensive regions through medical tourism.

9. 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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¹ WIPO's collective medical insurance provider.