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Agenda item 133
Proposed Programme Budget for the biennium 2012-2013

Managing after-service health insurance liabilities

FIFTH COMMITTEE

Statement by

Mr. Chandramouli Ramanathan
Officer-in-Charge, Office of Programme Planning, Budget and Accounts
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Mr. Chairman,
Distinguished delegates,

I have the honour to present the Secretary-General's report A/68/353 which responds to the General Assembly's request in its resolution 64/241 for a report on managing the after-service health insurance (ASHI) liabilities as well as an analysis of various related issues.

Post-retirement healthcare benefits have long been an important element of employee compensation especially in the public sector. Employers, including national governments, are increasingly faced with the growing cost of providing such benefits driven by demographic and economic forces such as longer life spans, medical and technological advances and increasing medical costs. The United Nations is not exempt from this reality.

A number of organizations in the UN system have taken steps to recognize and/or fund their ASHI liabilities mainly driven by the adoption of the International Public Sector Accounting Standards (IPSAS) that require that these liabilities be reflected on the statement of financial position instead of simply being disclosed as a note to these statements as was the previous practice. Even before the implementation of IPSAS, the United Nations, however, has long included this liability on the face of its financial statements.

At the last measurement date of 31 December 2011, the ASHI liability was valued by an actuary at $3.65 billion, of which $2.57 billion (or 70 per cent) relates to the regular budget, $769 million (or 21 per cent) relates to peacekeeping operations and $317 million (or 9 per cent) relates to extrabudgetary funded activities. At that time, the actuary also projected that the liability by the end of 2012 would be $3.94 billion.

In the face of such liabilities, the Secretary-General's report that is before you reiterates the need to adopt a funding strategy to cover the existing liability as well as to provide for the future liabilities being incurred as staff continue to serve. Both the Joint Inspection Unit and the Board of Auditors have expressed their concerns regarding the absence of funds to finance these liabilities. While the Secretary-General agrees that the current "pay-as-you-go" funding remains a viable option, it is unsustainable in the long-term. It is estimated that by the biennium 2028-2029, the resources needed under this option would exceed $537 million from the current biennium's $155 million, representing a 247 per cent growth over only eight biennia. By the biennium 2040-2041, the costs are projected to reach $922 million.

To address the growing ASHI liabilities, the Secretary-General is therefore proposing to implement an accrual on current staff expenditures in order to build a reserve to meet these liabilities. While the proposed accrual will initially be in addition to the current "pay-as-you-go" funding, it is envisioned that the resources from the reserve funds will in the future replace the current funding mechanism. The current proposal is two-fold:

1) An accrual of 4.5 per cent against total staff costs is being recommended to cover the "service cost", which is the increase in ASHI liabilities for every additional year of service by staff. This rate will be applied consistently across all funding sources and will be included as part of the standard cost of employing staff. This approach is similar to how staff pension benefits are currently funded and the accrual is expected to remain in place on a permanent basis.

2) An additional accrual of 2.0 per cent against total staff cost is being recommended to fund the already accrued liabilities without the need for any initial one-time funding. It is estimated that this rate will be applied for a period of 20 years until full funding is achieved and the "pay-as-you-go" funding is gradually replaced by the resources in the reserve funds. Variations in this accrual rate and the "pay-as-you-go" combination could shorten or lengthen the period that the accrual will remain in place.

The proposed accrual rates are based on the last actuarial valuation conducted for 2011. A periodic review of these accrual rates will be required so that any necessary adjustments are made to ensure that the amounts necessary to achieve full funding of the liabilities are met and to reflect any variations in the assumptions used for the actuarial valuations.

One important development that could impact the valuations is the Patient Protection and Affordable Care Act (PPACA) that was adopted by the United States Government in 2010 given that a significant portion of the ASHI costs are related to the U.S.-based health insurance plans. Changes in the health care market in the United States are expected as a result of this legislation. Precisely how the PPACA would impact health care costs however remain to be seen, and may not be apparent in the immediate future.

The Secretary-General is proposing that the above accruals be implemented for the regular budget and the peacekeeping accounts beginning January 2016. If approved, the related costs will be reflected in the budget estimates for the biennium 2016-2017 onwards.

The proposed approach benefits from a transparent method of costing of staff service and differentiates the funding of the liability already accrued and those to be accrued in the future. It will also maintain transparency of the true cost of employing staff even once full funding of the past liability has been achieved.

The investment of the ASHI reserve funds that will be generated from these accruals will initially be handled by the United Nations Treasury within existing resources given that it currently already manages a portfolio of more than $6 billion for more than 100 pooled funds which includes the existing operating reserves of the selfinsured UN health insurance plans. The UN system organizations are also considering the possibility of a joint procurement exercise to identify a specialized asset manager for these funds.

The report also explains measures taken by the Secretariat since 2009 to contain the costs of the related health care plans which impact these liabilities. These measures include the implementation in 2011 of the Medicare Part B requirement for all US-based retirees, changes in the plan designs of the various health plans and the expansion of disease management and wellness programmes.

The General Assembly has also requested the Secretary-General to examine the financial and legal implications of changes in the scope and coverage of the health insurance plans for the retirees as well as the contribution levels. The Assembly has mandated cost-sharing formulas between staff and the Organization according to the plans. These have been developed based on reviews undertaken by the International Civil Service Commission. As previously mentioned, the Secretariat has implemented some changes to the plan designs as part of measures to contain cost. More significant changes to the scope, coverage and contribution levels however could affect the core elements of the "acquired rights" of both active and retired staff, rights that are protected by the Staff Regulations approved by the Assembly.

The After-Service Health Insurance is a very important element of the social security for staff who, by their service to the Organization, are not always able to access such benefits offered by their national governments when they retire, even if such programmes are available. It is therefore in everyone's interest that this programme continues to be affordable and viable in the long-term. The Secretary-General trusts that the Committee will support his proposals to ensure that these programme objectives are achieved while employing a financially sound and prudent approach.

Thank you, Mr. Chairman.
