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Managing after-service health insurance

Report of the Secretary-General

Summary

The after-service health insurance programme provides staff members who meet defined eligibility criteria with continued health insurance coverage throughout their retirement under the same health insurance schemes available to active staff. This benefit to staff, which is earned during active service but accessed after retirement, creates an accrued liability for the Organization. As at 31 December 2020, the accrued liability for after-service health insurance benefits for the United Nations was estimated at $7,528 million and remains unfunded.

In his previous report on managing after-service health insurance (A/73/662), the Secretary-General reported on the findings and recommendations of the Working Group on After-Service Health Insurance and recommended approval of the application of charges on salary costs to begin to meet the long-term funding needs of the Organization associated with the accrued liability for after-service health insurance.

The General Assembly, in its resolution 73/279 B, noted that the proposed payroll charge would entail an assessment on Member States and decided to maintain the pay-as-you-go funding of the United Nations after-service health insurance obligations. In the same resolution, the Assembly requested the Secretary-General to further explore options for the improvement of efficiency and the containment of costs and liabilities associated with the Organization's health insurance obligations and to present to the Assembly comprehensive proposals on the funding of the accrued liability for after-service health insurance benefits.

In the present report, the Secretary-General responds to these requests and sets out a comprehensive proposal to the General Assembly to continue pay-as-you-go funding for retirees and active staff recruited before 1 January 2023 and transition to pay-as-you-accrue funding for staff recruited from 1 January 2023, to be achieved through a payroll charge of 6 per cent of staff costs, with a review of the rate every

three years. He also calls for the establishment of a dedicated fund in which the related reserves would be managed.

Furthermore, in response to the request made by the General Assembly in its resolution 73/279 B to incorporate into the proposal a mechanism that would associate the after-service health insurance premiums paid and the staff member's period of service, the Secretary-General calls for the implementation, effective 1 January 2023, of a provision already included in the health insurance programme, which is to base retiree contributions on a minimum of 25 years of service in the United Nations system.

The Secretary-General urges Member States to carefully consider the proposals in the present report and to begin to fund the liability for after-service health insurance in order to mitigate the significant impact on the future financial position and cash flows of the Organization.

Contents

I. Introduction

1. The after-service health insurance programme provides staff members who meet defined eligibility criteria with continued health insurance coverage throughout their retirement under the same health insurance schemes available to active staff. The eligibility requirements include 10 years of participation in a United Nations health plan for those who were recruited on or after 1 July 2007 (and 5 years for those recruited before that date) and retirement with annuity payments under the United Nations Joint Staff Pension Fund. The after-service health insurance programme is an important element of social security for staff members, given that upon retirement many cannot benefit from the national social security schemes of Member States as a result of their service with the United Nations. The associated costs of the benefits, as shared by the Organization and the staff, have increased considerably since the inception of the programme in 1967, fuelled by a continually expanding population of retired participants, changes in demographics, improved mortality, medical advances and the increased cost of medical services worldwide.

2. The Secretary-General has, in seven previous reports on the after-service health insurance programme, requested the General Assembly to approve proposals aimed at addressing concerns related to the recognition and funding of the liability for after-service health insurance benefits. Each report, since 2005 (see A/60/450 and A/60/450/Corr.1), has included proposals for the adoption of a change in the funding strategy from financing after-service health insurance benefits when accessed by retirees (pay-as-you-go financing) to a funding strategy that ensures that adequate funds are systematically set aside during the active service of staff to meet the cost of such liabilities once they retire (pay-as-you-accrue funding). Proposals have been made for the establishment of measures to ensure the financial viability of the programme by managing costs through a combination of cost containment, cost-sharing and funding initiatives. While the General Assembly has over the years approved proposals related to the recognition of accrued liabilities on financial statements as well as initiatives related to cost containment and cost-sharing, a change in the financing mechanism for after-service health insurance liabilities remains an unresolved and increasing concern, with unfunded liabilities for the United Nations valued at $7,528 million as at 31 December 2020. The three most recent reports of the Secretary-General on managing after-service health insurance (A/70/590, A/71/698 and A/71/698/Corr.1, and A/73/662) reflected the work of the inter-agency Working Group on After-Service Health Insurance. The Working Group, composed of 18 United Nations system entities as well as representatives of staff and former staff unions and associations, was established by the Secretary-General under the auspices of the Finance and Budget Network of the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination to implement Assembly resolution 68/244, in which the Assembly requested the Secretary-General to undertake a survey of current health-care plans for active and retired staff within the United Nations system and to explore all options to increase efficiency and contain costs.

3. Using the results of the mandated survey as a basis, the three reports contained several recommendations of system-wide relevance for standardization and harmonization related, inter alia, to the principles and actuarial assumptions guiding the valuation of after-service health insurance liabilities. In addition, each report included recommendations for the adequate funding of after-service liabilities.

4. The Secretary-General, in section VII of his most recent report, proposed the adoption of a change in funding arrangements for the Secretariat aimed at transitioning from pay-as-you-go financing for retirees to pay-as-you-accrue funding of after-service health insurance benefits for staff and retirees. His recommendations

involved: (a) the continuation of appropriations to cover the Organization’s share of after-service health insurance costs for existing retirees and for current staff when they retire; and (b) the establishment of a payroll charge equivalent to 5.35 per cent to be applied against salary costs to fund the cost of after-service health insurance for staff recruited from 1 January 2022, with the funds generated transferred to a dedicated after-service health insurance reserve fund. The Secretary-General further recommended that in conjunction with the transition to pay-as-you-accrue funding a mechanism be implemented and applied to staff recruited from 1 January 2022 that would associate the entity-paid part of after-service health insurance premiums with the staff member’s period of service within the system, aimed at reducing United Nations obligations in respect of after-service health insurance benefits.

5. The General Assembly, in its resolution 73/279 B, took note of the report and requested the Secretary-General to further explore options for the improvement of efficiency and the containment of costs, including liabilities associated with current and future staff, with a view to reducing the Organization’s expenditure on health insurance plans and its after-service health insurance obligations, and to submit a report providing comprehensive proposals to be applied after 1 January 2022, incorporating:

(a) Further details about the proposed change to the funding model for future recruitees, including medium- and long-term budgetary projections for the regular and peacekeeping budgets;

(b) A mechanism that would associate the after-service health insurance premiums paid by the agency and the staff member’s period of service within the system and information with respect to how such an entitlement accrual mechanism would be applied to staff members;

(c) Projections regarding the proportion of staff in peacekeeping operations who will be entitled to after-service health insurance benefits.

6. Furthermore, in resolution 73/279 B, the General Assembly decided to maintain the pay-as-you-go funding of the United Nations after-service health insurance obligations.

7. The Secretary-General remains concerned about the level of unfunded after-service insurance liability, which will exert increasing financial pressure on future budgets. The present report, therefore, provides the additional details requested and further elaborates on the proposals aimed at ensuring prudential control of the escalation of the United Nations after-service health insurance liability and limiting the impact of the pay-as-you-go obligation on future budgets.

II. Measures to reduce United Nations costs relating to health insurance plans

8. To address the growing costs of health insurance, the Organization has over the years adopted cost containment initiatives while ensuring that participants continue to have access to appropriate insurance coverage to meet their health-care needs. Health insurance costs are controlled by the manner in which the plans are structured and through ongoing reviews of plan provisions and benefits offered.

9. Several measures implemented within the past 10 years have been aimed at containing the costs of the health insurance programme while also keeping up with new technology and industry practices. These initiatives include:

(a) *Medicare part B requirement for retirees residing in the United States of America*. Medicare is a federal programme established by the Government of the

United States to provide health insurance to eligible participants aged 65 years and over or who meet other specific criteria. For eligible retirees, Medicare serves as primary coverage, i.e. medical claims are covered first under Medicare, with the remaining costs covered under an employer's plan. The structure of the United Nations plans has historically allowed for the coordination of benefits with Medicare part A, which covers hospital costs and is provided to eligible retirees on the basis of contributions made during their active service. Since 1 January 2011, United Nations retirees who reside in the United States have also been required to enrol in Medicare part B, which covers professional medical services. The Organization reimburses the premium charged by Medicare for this coverage. The implementation of this requirement was, therefore, achieved with no change in benefit coverage and no additional cost to retirees. This approach reduces costs for the United Nations for two main reasons: (a) the average Medicare part B premium reimbursed to retirees is considerably lower than the average medical cost assumed by Medicare part B; and (b) retirees enrolled in Medicare part B benefit from the Medicare provider network in addition to the medical networks of the third-party administrator for the United Nations plan in which they are enrolled. When implemented in 2011, it was estimated that projected savings resulting from this initiative would reduce the accrued after-service health insurance liabilities by some $258 million, representing about 6 per cent of the accrued liabilities at that time. In September 2016, the inter-agency Working Group on After-Service Health Insurance conducted a survey of national health insurance schemes and, in 2018, reported that it had been determined that a financial benefit equal to that derived from retirees' enrolment for Medicare part B coverage could not be achieved in other countries because conditions that were conducive to the enrolment requirement in the United States were not present elsewhere. Savings resulting from the requirement for retirees to enrol in Medicare part B coverage have proven to be greater than initially estimated, with third-party administrators reporting related reductions in claims experience totalling $24.8 million, or 8 per cent, during 2020. These savings are expected to increase annually as the population of retirees enrolled in the Medicare programme continues to increase. The consulting actuaries have estimated that projected savings from this initiative have lowered the valuation of accrued after-service health insurance liabilities for the financial period ended 31 December 2020 by 8 per cent. This translates to an estimated $600 million reduction in accrued liabilities;

(b) *Preventive care and wellness initiatives*. Plan designs have been revised to ensure that preventive care is fully covered and encouraged. This includes the cost of annual medical, dental and eye examinations and immunizations recommended by the World Health Organization, especially for staff working in the field. The rationale for such improvements is that preventive care is more cost-effective than treatment. Early identification of chronic and serious conditions enables participants to take steps to better manage their health. Early management of such conditions may also result in lower rates of absenteeism and higher productivity among active staff, which are not easily reflected in insurance programme costs. Cost containment is also available through wellness initiatives. Health improvements and cost reductions have begun to become apparent as staff, retirees and their eligible dependants use the condition management and wellness features available to participants in United States-based health insurance plans through the ActiveHealth programme. Since 2018, all participants in the United Nations worldwide plan and the Medical Insurance Plan have had access to the Cigna Wellbeing application, which provides them with personalized health tips, professional guidance and other wellness initiatives that improve their health and enable early detection of any chronic conditions;

(c) *Health-care access*. To improve access to care while containing costs, telemedicine features were introduced for the United States-based health insurance plans in 2016 through various online platforms and expanded to the United Nations

worldwide plan through an online application in 2018. The same application has been accessible to Medical Insurance Plan participants since April 2020. In addition, all participants in Headquarters-administered plans now have the option of scheduling a real-time audio or video consultation with a health practitioner. This was especially valuable during 2020 and 2021 as the conditions brought about by the coronavirus disease (COVID-19) pandemic made it difficult for individuals to have in-person medical appointments. It is anticipated that, as the use of online telemedicine and telehealth provisions becomes more extensive, the cost of medical consultation claims will be reduced;

(d) *Expansion of medical provider networks and changes in the deductibles of United States-based plans*. Significant savings in claims costs are derived from access to the network discounts of third-party administrators. For example, in the plan year lasting from July 2019 to June 2020, the United States-based medical plans included in the United Nations health insurance programme benefited from a $198 million, or 45.9 per cent, reduction in claims costs, attributable to discounts negotiated by third-party administrators with the medical providers in their networks. Given the impact on costs, the expansion of networks is an ongoing process. For example, the provider networks for the United Nations worldwide plan and the Medical Insurance Plan were expanded by more than 28 per cent between 2017 and 2020. In the case of self-administered plans, the three United Nations agencies with self-administered Geneva-based plans continued to collaborate to collectively develop access to health-care provider networks in the Geneva area and in other locations. Over the years, plan participants have been encouraged to use within-network medical providers. In addition, plan deductibles have been increased as a disincentive for using out-of-network providers and to further encourage participants to use network providers;

(e) *Communication campaigns*. Expanded communication campaigns have been undertaken by the United Nations and in collaboration with the Association of Former International Civil Servants to ensure that active staff and retirees understand how best to utilize health plan options and make the most medically appropriate choices while minimizing overall costs. Staff and retirees are, for example, encouraged to replace brand-name medicines with generic medicines, use mail order facilities for 90-day supplies of maintenance medications, use online telemedicine services where appropriate as an alternative to doctor’s visits, visit in-network providers for all types of medical services, fight fraud, waste and abuse and make use of care and wellness initiatives that improve health outcomes. As part of the communication strategy, a new website was launched in 2021 that provides comprehensive information about the Headquarters-administered health insurance plans, including tools for participants to help to safeguard the financial viability of the plans. In addition, the email database of retirees was expanded to reach 50 per cent more retirees through email broadcasts;

(f) *Changes in the United Nations worldwide plan related to care provided in the United States*. The United Nations worldwide plan was designed and priced for health care outside the United States, where costs are usually lower, with emergency care coverage provided in the United States when required. Increased use of the plan in the United States resulted in higher claims costs, requiring higher premium costs to be shared between the Organization and plan participants. Changes were made to the plan to mitigate against its use for non-emergency inpatient and selected outpatient treatments in the United States, while preserving overall access to adequate health care. In 2017, the annual deductible for elective care in the United States increased from $2,200 to $5,000 per individual participant and from $6,600 to $15,000 per family. It was also decided that the Major Medical Benefits Plan component would no longer cover non-emergency care in the United States, keeping the maximum coverage level at 80 per cent rather than 96 per cent. These measures

led to a 43 per cent decrease in the number of claims for care in the United States, from 1,692 unique claimants in the 2015–2016 plan year to 957 in the 2019–2020 plan year, while the total number of participants enrolled in the United Nations worldwide plan continued to rise during the same four-year period.

III. Updated actuarial valuation of after-service health insurance liabilities

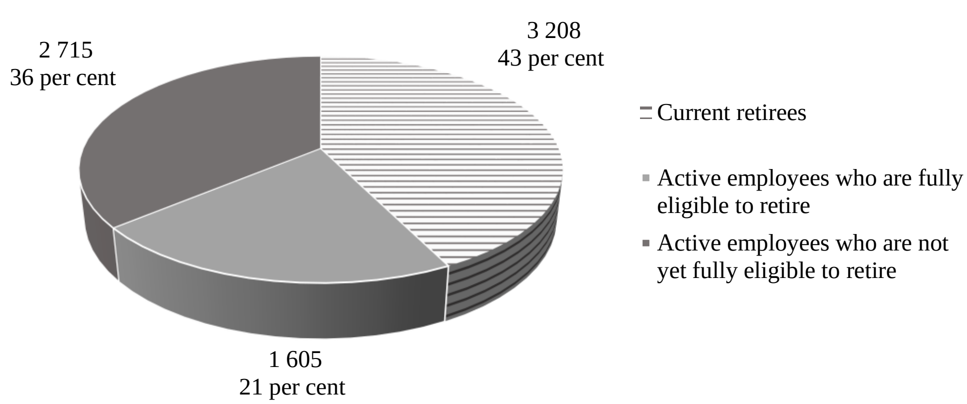
10. Since 1995, through the use of certified actuaries, the United Nations has determined the present value of future after-service health insurance benefits and disclosed this as an accrued liability in its audited financial statements; the liability has been recognized on the face of the audited financial statements since 2007. The most recent actuarial valuation to determine this accrued liability was undertaken for the financial period ending 31 December 2020.

11. On the basis of the 2020 actuarial valuation, the present value of the accrued liability of future benefits (net of retiree contributions) for the United Nations was estimated at $7,528 million as at 31 December 2020, compared with $6,832 million as at 31 December 2019 and $3,654 million as at 31 December 2011. The relative distribution of accrued liability across the sources of funding is illustrated in table 1 and figure I.

Table 1
Accrued after-service health insurance liability
(Millions of United States dollars)

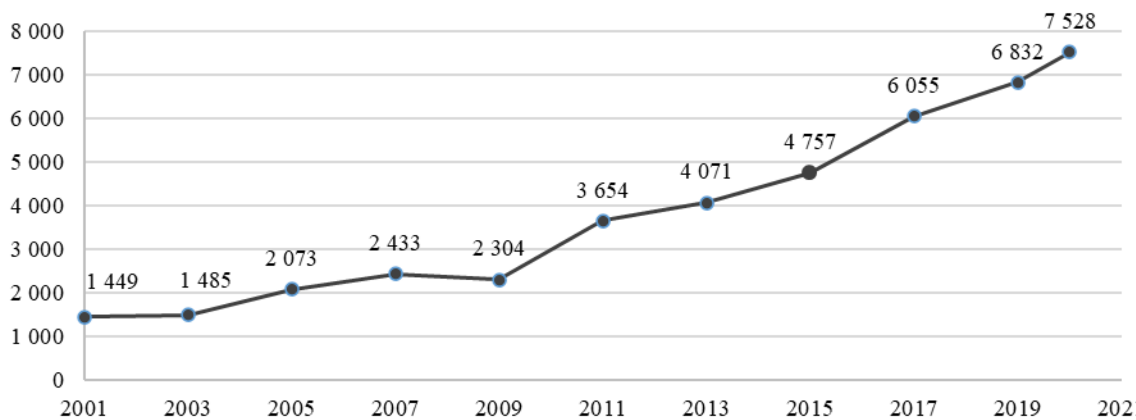
Source of funding	*2011*	*2019*	*2020*
Regular budget	2 563	4 509	4 906
Peacekeeping operations	769	1 442	1 637
Extrabudgetary	317	881	985
Total	**3 654**	**6 832**	**7 528**

Figure I
Breakdown of 2020 accrued liabilities
(Millions of United States dollars)



12. The valuation of accrued liabilities is highly sensitive to health claims experience, demographics and financial factors, which collectively can cause considerable year-to-year variances in valuations. The most significant actuarial assumptions are the discount rate, the medical trend rate, life expectancy and the length of service of active staff. The high sensitivity to these factors is reflected in the year-to-year variances in valuations. Despite these variances, the significant upward trend in liabilities is clear, as illustrated in figure II, which indicates that total accrued liabilities for all fund types have grown almost threefold since 2009 and almost fivefold since 2001.

Figure II
Accrued after-service health insurance liability since 2001
(Millions of United States dollars)



13. The Board of Auditors validates the after-service health insurance liabilities as part of its audit of the financial statements of the Organization. In its reports on the financial statements of the United Nations for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 (A/73/5 (Vol. I), A/74/5 (Vol. I) and A/75/5 (Vol. I)), the Board reiterated its previous caution that the employee benefit liability was likely to consume an increasing portion of the regular budget over time if it remained unfunded. In addition, the Independent Audit Advisory Committee, in its most recent report, covering the period from 1 August 2020 to 31 July 2021 (A/76/270), noted that the after-service health insurance liability made up the largest share of the total liabilities of the United Nations and reiterated its previous observation that maintaining the pay-as-you-go approach for after-service health insurance posed a significant risk, which should be properly managed. The Committee recommended that the General Assembly consider alternative after-service health insurance liability funding strategies to mitigate this risk.

14. The Secretary-General shares the concern expressed by the Board of Auditors and the Independent Audit Advisory Committee that the pay-as-you-go financing of after-service health insurance costs will become unsustainable and recommends initiation of the gradual transition to pay-as-you-accrue funding to avoid the otherwise inevitable significant burden on future budgets.

IV. Funding of after-service health insurance benefits for active staff and retirees

A. Comprehensive long-term strategies for financing after-service health insurance benefits

15. The issue of funding the accrued liabilities for after-service health insurance benefits has been under discussion by Member States and in inter-agency bodies for more than two decades. General Assembly resolution 58/249 A of 23 December 2003 on financial reports and audited financial statements, as well as reports of the Board of Auditors, have included a request for the Secretary-General to report to the Assembly on the full extent of unfunded staff termination and post-service liabilities and to propose measures that would ensure progress towards fully funding such liabilities. Unfunded after-service health insurance liabilities have more than tripled since the Secretary-General made his initial funding recommendation (see A/60/450 and A/60/450/Corr.1) and are projected to increase at an accelerated pace in the future. The Secretary-General is increasingly concerned about the level of unfunded after-service health insurance liabilities and the increasing financial pressure that this places on current and future budgets.

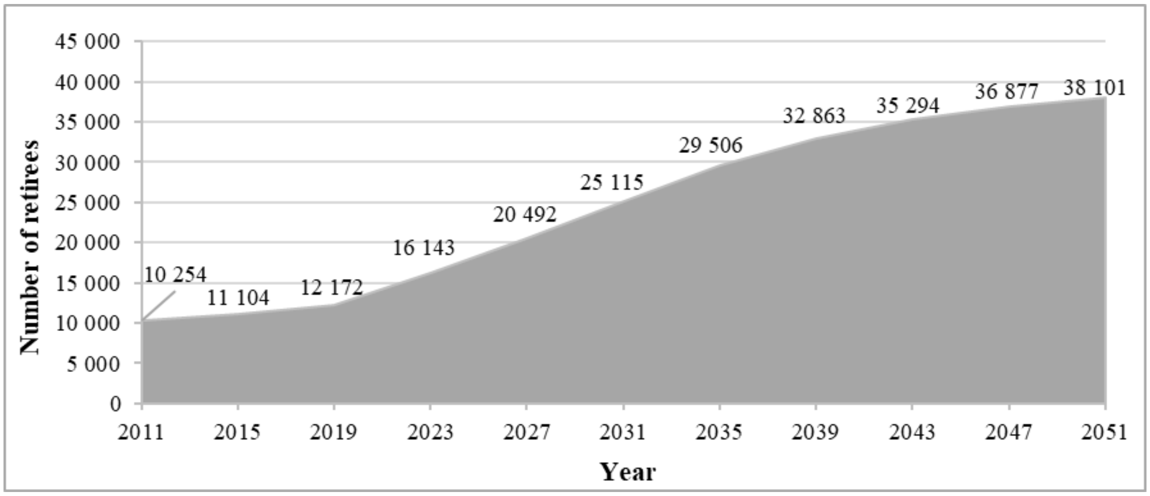
16. Several United Nations organizations have adopted their own funding strategy through a variety of systematic and ad hoc funding mechanisms appropriate to their situations. These methods include a blend of pay-as-you-go funding, supplemented by additional contributions from existing reserves, one-time or periodic transfers from fund balances otherwise available for programming, and charging of fixed or incremental annual amounts through the application of rates up to 9 per cent applied against salary costs. Some United Nations system entities have also begun to utilize the services of external investment managers to separately manage their after-service health insurance reserve funds and are already realizing the benefits of earning returns on investment that contribute significantly to the long-term funding of the after-service health insurance liability; some entities have achieved funding of over 50 per cent of their accrued liabilities. Such approaches have provided entities with a means of better managing budget requirements and containing the level of unfunded liabilities attributable to after-service health insurance benefits. Adoption by the United Nations of a systematic method for funding accrued liabilities to ultimately replace pay-as-you-go funding is similarly needed for more prudent financial management of the after-service health insurance programme.

17. As with other deferred compensation benefits, such as pension benefits, entitlement to after-service health insurance benefits derives from the staff member's contract of employment and is acquired through service; however, the modalities for funding these post-employment entitlements differ significantly. In the case of pension benefits, costs are budgeted as part of staff costs during the working years of the staff members on a pay-as-you-accrue basis and recorded as expenses. This results in the associated costs being systematically budgeted and charged to the post against which the staff member's services are provided and are thereby included in the costs of the related programme activity. Collected amounts are invested to provide adequate funding of future benefits when payable without the need for additional funding at that time. While after-service health insurance benefits are comparable in nature, no such financial provisions are made during the years of service. Instead, such costs are budgeted and provided for after a staff member's retirement on a pay-as-you-go basis, in the year in which the benefits are accessed by retirees.

18. While the pay-as-you-go approach provides for the resources required to fund the United Nations share of the after-service health insurance premiums during the

year that such coverage is provided, there is at present no mechanism to set aside funds and to build a reserve to address accrued future costs. As such, the pay-as-you-go approach has led to the accumulation of the current unfunded liabilities, estimated at $7,528 million as at 31 December 2020. This financing method has also resulted in the ongoing growth in budgetary requirements for after-service health insurance as the population of participants continues to grow and as medical costs continue to increase at rates higher than inflation. The consulting actuaries have projected a continued upward trend in accrued liabilities due in large measure to the projected growth of participants and the resulting increase in medical claims.

Figure III
After-service health insurance participants, actual and projected



19. As shown in Figure III, the number of after-service health insurance participants is projected to more than double between 2019 and 2031 and triple between 2019 and 2047. On the basis of the demographics of current staff and retirees, a net increase of 1,000 after-service health insurance participants is predicted each year between now and 2039, with some levelling off thereafter. Assuming a relatively constant number of active staff, these projections indicate that by 2039 retiree participants covered under United Nations health insurance will exceed active staff.

20. As shown in figure IV and table 2, pay-as-you-go budgetary requirements are accordingly projected to continue spiralling upward, fuelled by economic and demographic realities and a continuous growth in the population of after-service health insurance participants. On the basis of the consulting actuaries' projections, total pay-as-you-go requirements for all fund types for 2023 are estimated at $117.8 million and projected to grow to $254.2 million by 2035 and $499.7 million by 2051, representing a 324 per cent increase from 2023.

Figure IV
Projected pay-as-you-go annual costs (all fund types)
(Millions of United States dollars)

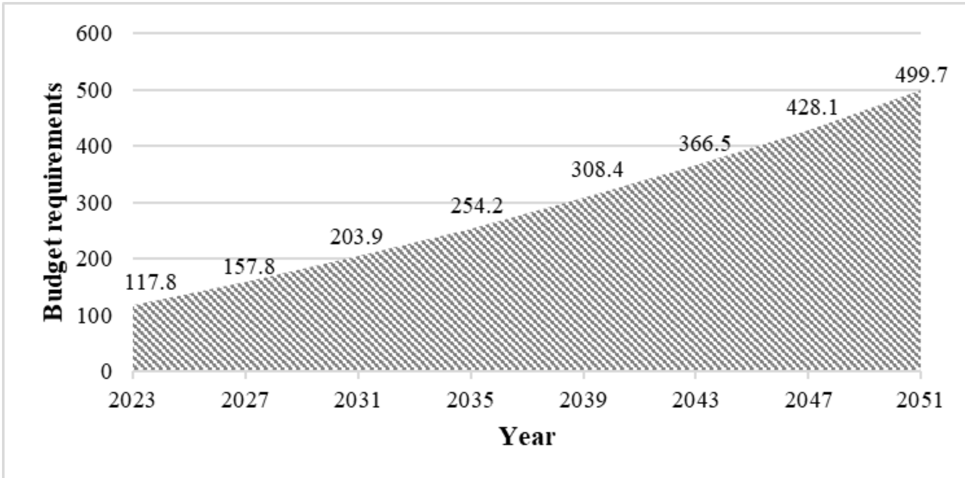


Table 2
Actual expenditure in 2020 and projected annual pay-as-you-go requirements
(Millions of United States dollars)

Source of funding	*2020*	*2023*	*2035*	*2051*
Regular budget	74.8	88.1	167.6	263.5
Peacekeeping operations	11.5	19.8	60.7	164.4
Extrabudgetary	6.2	9.9	25.9	71.8
Total	**92.5**	**117.8**	**254.2**	**499.7**

21. These projections, as well as economic and other factors that affect the valuation of the accrued after-service health insurance liability, point to the unsustainability of the pay-as-you-go approach as the sole financing mechanism in the long term owing to the anticipated rapidly increasing amount of budget resources required to fund projected annual costs.

22. The Secretary-General recognizes that providing a funding mechanism to meet future cash-flow requirements associated with accrued liabilities is a complex issue. The funding of accrued liabilities is an arduous task that requires a dedicated funding strategy entailing an assessment on Member States. Full funding of the liabilities that have accrued for the United Nations cannot be achieved in the short to medium term. In addition, given the sensitivity of the accrued liability to economic and demographic factors, a strategy to attain full funding could result in overfunding when economic conditions differ from assumptions. As such, partial as opposed to full funding is proposed. This avoids the possibility of overfunding while providing a mechanism to better budget for and manage costs in the long term.

23. The Secretary-General has explored a number of funding mechanisms and considers it prudent to adopt a funding policy that gradually transitions from pay-as-you-go financing to pay-as-you-accrue funding to meet future cash-flow requirements. On the basis of the funding study developed by the consulting actuaries, transitioning to pay-as-you-accrue funding of after-service health insurance liabilities

is estimated to gradually reduce budgetary requirements in the medium term, leading to significant reductions in the longer term.

24. The strategy is aimed at: (a) curtailing the rapid increase in annual budgetary requirements that would be experienced if the pay-as-you-go approach remained the only funding mechanism; (b) providing a more accurate and transparent view of the true cost of services provided by active staff; and (c) funding the after-service health insurance benefits of newly recruited staff (i.e. staff recruited from 1 January 2023) through a payroll charge during their active service, thereby eliminating pay-as-you-go budgetary requirements for such staff after their retirement.

25. Figures V and VI indicate the development of cash-flow requirements related to after-service health insurance benefits for the full population of retirees and for active staff on an open group basis, thereby including costs for staff projected to be recruited to replace retiring and other outgoing staff starting from January 2023. The lower curve shows the development of requirements related to staff recruited from January 2023. The central curve represents the development of costs related to staff recruited before 2023. The upper curve shows the total of the two segments. The filled area bounded by the central and upper curve represents the costs that are proposed for funding by accumulating a financial reserve to cover benefit costs as they arise for staff recruited from January 2023.

Figure V

Regular budget cash-flow requirements for current and future after-service health insurance participants

(Thousands of United States dollars)

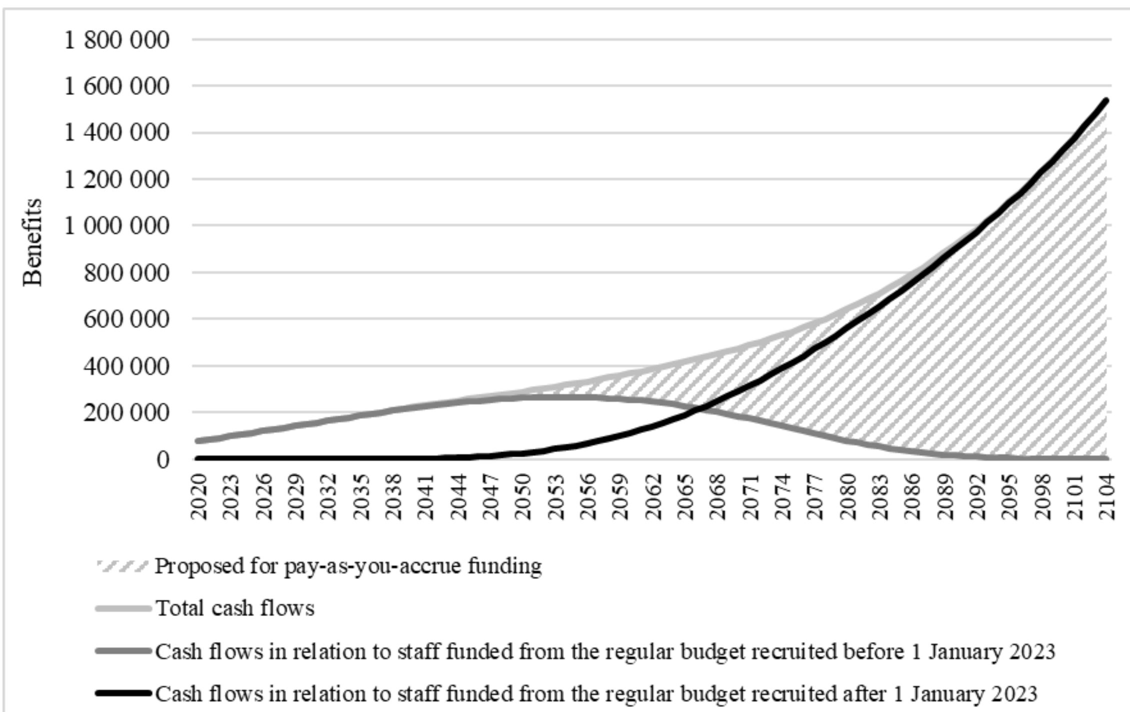
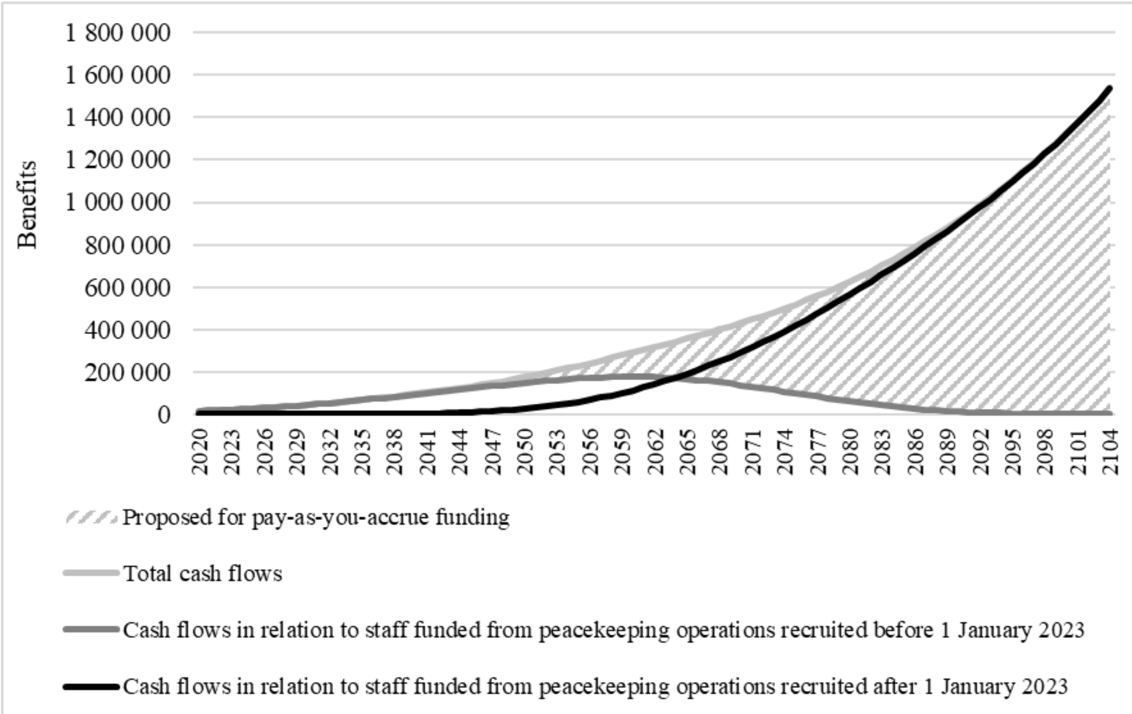


Figure VI
Peacekeeping budget cash-flow requirements for current and future after-service health insurance participants

(Thousands of United States dollars)



26. The proposed funding strategy as detailed below is comparable to proposals made in the previous report of the Secretary-General, with related projections based on an updated funding study by the consulting actuaries and updated census data and actuarial assumptions.

Funding of costs related to existing retirees and staff

27. Under the proposed funding strategy, the after-service health insurance costs for retirees and active staff hired before 1 January 2023 would continue to be funded through the current pay-as-you-go funding arrangements as a closed group. This would be achieved through the continued provision of appropriations for the Organization’s share of premiums for an estimated 11,400 retirees and 13,400 active staff funded from the regular budget and 3,350 retirees and 13,390 active staff funded from peacekeeping operations. Limiting the funding arrangement to these closed groups results in the curtailment of increases in budgetary requirements beginning in 2034 for after-service health insurance benefits under the special expense section of the regular budget and the support account for peacekeeping operations. Budget reductions, as opposed to curtailments, begin in 2055 and 2061, respectively, for the regular budget and peacekeeping operations, or potentially earlier through the use of a portion of the accumulated reserve described below. Figures VII and VIII show projections of the related regular budget and peacekeeping cash-flow requirements over the life cycle of the retirees and staff in these closed groups.

Figure VII
Pay-as-you-go costs for the closed group of regular budget retirees and staff recruited before 2023

(Thousands of United States dollars)

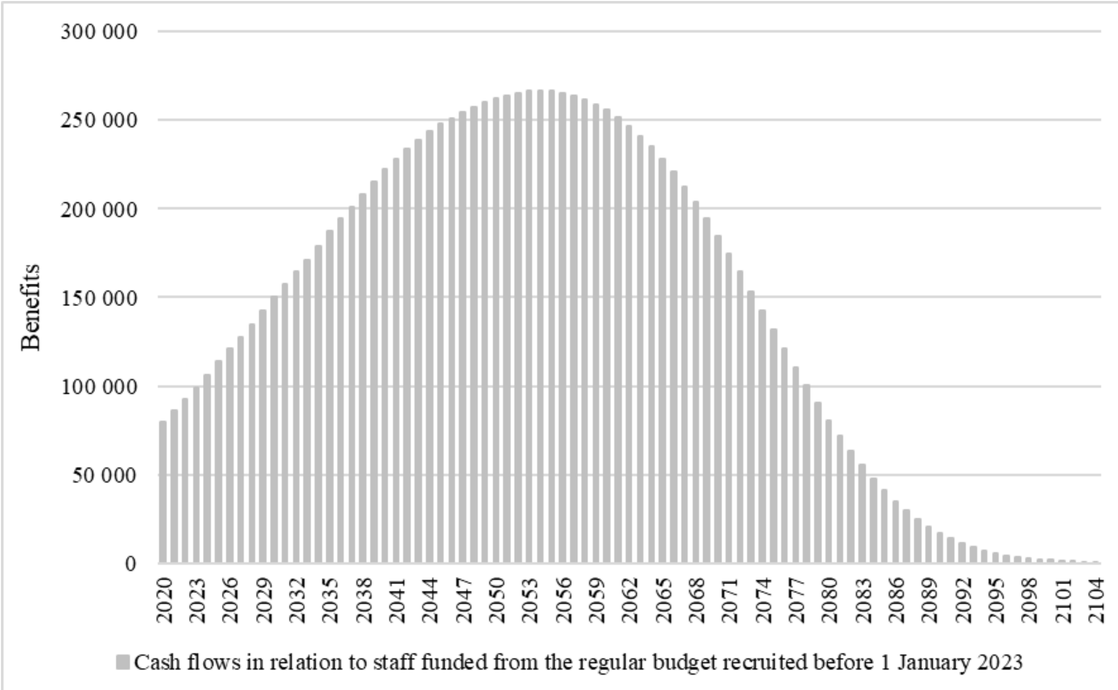
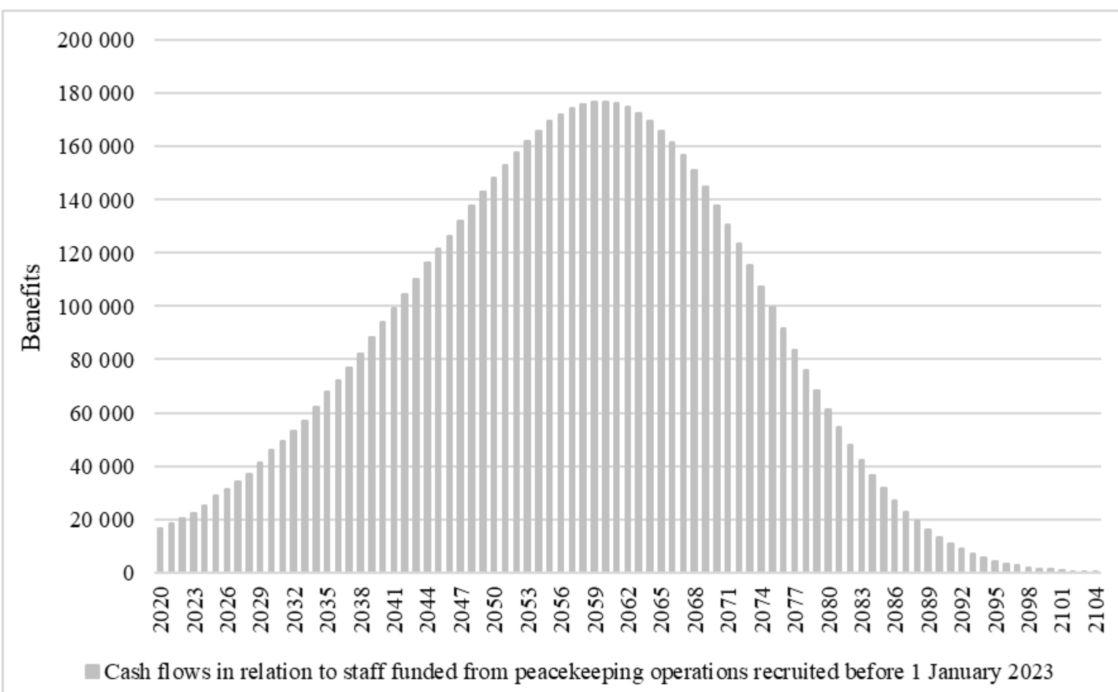


Figure VIII
Pay-as-you-go costs for the closed group of peacekeeping retirees and staff recruited before 2023

(Thousands of United States dollars)



Funding of cash-flow requirements for staff recruited from 1 January 2023

28. The proposed approach for staff recruited from 1 January 2023 entails establishing a charge equivalent to 6 per cent of staff costs for the regular budget and peacekeeping funds in order to begin to accumulate a reserve to cover cash-flow requirements once those staff members retire. While it would be ideal to provide for the adequate accumulation of funds to fully meet projected cash-flow requirements by retirement for this group of staff, given the estimated nature of the projections it is considered more prudent to aim for the gradual, partial funding of up to 75 per cent of projected cash-flow requirements, with the understanding that the rate charged against staff costs will need to be reviewed periodically to ensure the continued and progressive funding of projected requirements.

29. As a part of the implementation of this approach, staff costs would comprise gross salary plus post adjustment costs for all categories of staff. The recommended flat percentage would be charged to common staff costs of the budget of a staff member's post, thereby linking the accruing of the deferred after-service health insurance benefits to the budget funding the staff member's service. On the basis of the composition of staff and other actuarial assumptions, charges against post costs in 2023 are projected by the consulting actuaries to total $86.6 million under the regular budget and a cumulative total of $66.3 million under the budgets of peacekeeping operations.

30. It is proposed that the charge will be applied against the salary costs of all staff, not just those recruited from 2023. This approach is proposed because amounts accumulated in the reserve reduce the overall unfunded accrued liability related to all staff and retirees as reflected in financial statements. In addition, a portion of the accumulating reserve could be used, if needed, to meet requirements related to staff recruited before 2023 to level out pay-as-you-go budgetary requirements when claims experience in some years is unusually high. This approach also makes it more readily plausible to discontinue pay-as-you-go financing before the attrition date of the closed group defined above, if this is determined to be desirable in the future when reviewing reserve accumulations and the rate chargeable against salaries. It also enables the application of a consistent charge against all budgets, thereby facilitating implementation and administration.

31. It should be noted that, since 2017, the United Nations has applied a rate against the salary costs of staff charged against extrabudgetary funds to provide for future after-service health insurance benefits. Along with the continuation of pay-as-you-go financing from extrabudgetary resources for existing retirees, a 3 per cent charge was initially applied against the salary costs of staff, with the rate set at 6 per cent since 2019. Resulting reserve accumulations as at 31 December 2020 amounted to $96.1 million, representing almost 10 per cent of the accrued liability related to extrabudgetary funds, as reflected in financial statements at that time. Reserve accumulations as at 31 August 2021 amounted to $134.8 million.

32. Figures IX and X illustrate the effect of funding cash-flow requirements for staff recruited from January 2023 through the 6 per cent charge on salary costs for the regular budget and peacekeeping operations. The cash-flow requirements for annual after-service health insurance benefit costs in respect of such staff is represented by the shaded area. This represents the amounts that will be paid from accumulated reserve funds as opposed to being part of annual pay-as-you-go budgets. The level of the 6 per cent payroll charge is shown by the vertical lines. The resulting accumulated reserve balances based on a 3.5 per cent return on investments are represented by the curve. The reserve accumulations shown are net of the Organization's share of annual benefit costs for this group as such costs are paid from the reserve fund when staff retire, beginning in 2034.

Figure IX
Funding of cash flow requirements for regular budget staff recruited from 1 January 2023
(Thousands of United States dollars)

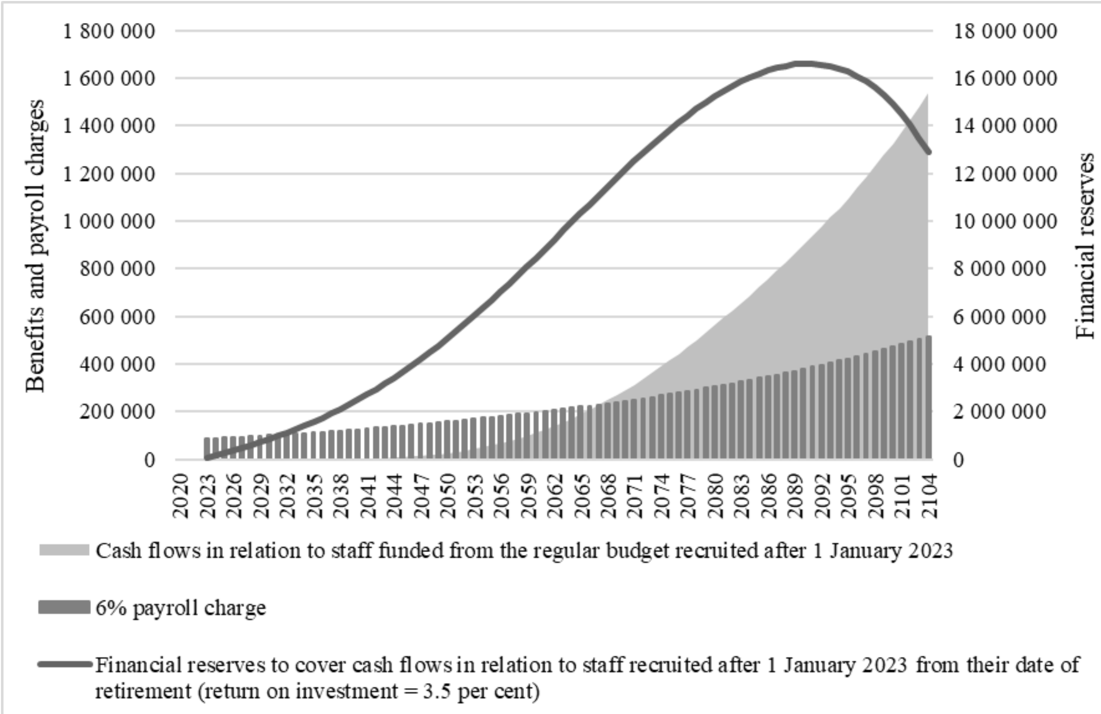
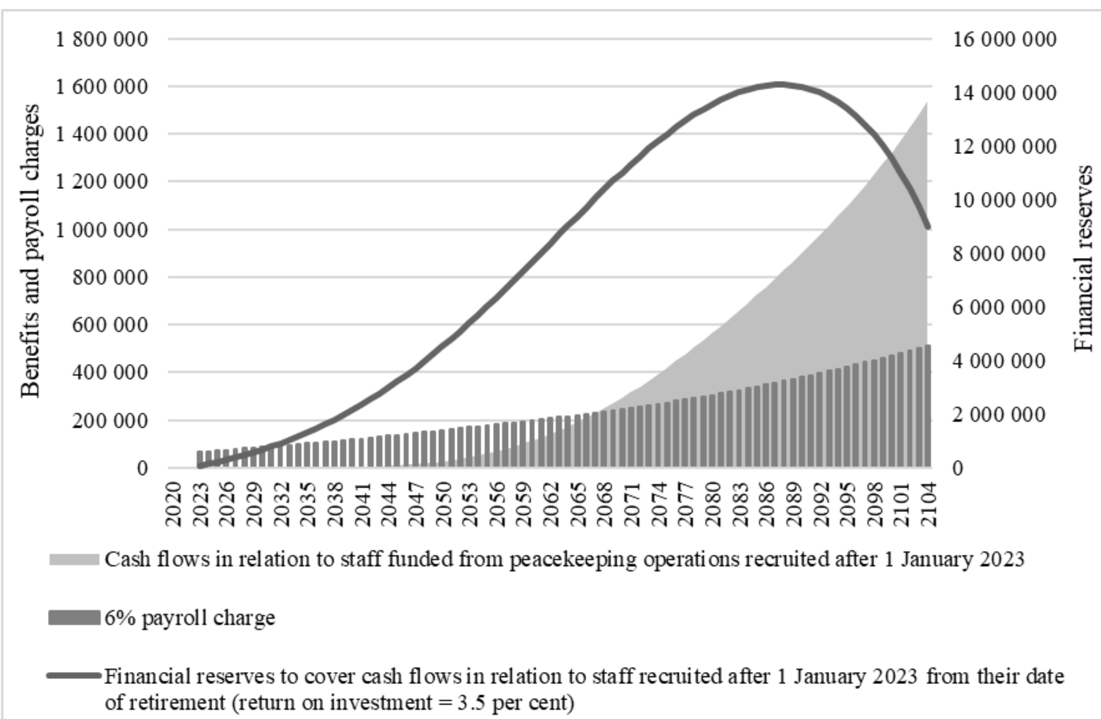


Figure X
Funding of cash flow requirements for peacekeeping staff recruited from 1 January 2023
(Thousands of United States dollars)



33. As indicated in figures IX and X, amounts related to the 6 per cent charge against salary costs increase gradually in a predictable manner because they are based on budgeted salary costs. Annual cash-flow requirements, while low in initial years, increase rapidly, exceeding the 6 per cent charge against salaries by 2055 for the regular budget and by 2061 for peacekeeping operations. This demonstrates that the method of funding for future requirements through the application of a charge applied to salary costs during the period of a staff member's active service provides for a controlled and manageable budgetary process that, while initially requiring additional assessment, results in lower budget requirements than would otherwise be required in the long term.

Benefits of gradual transitioning of funding mechanism and related medium- and long-term impact on budgets

34. The proposed funding strategy is structured in order that gradually, over the lifetime of the closed group of existing retirees and staff recruited before 2023, it is possible to reduce and ultimately eliminate assessment requirements for annual budgets under the special expense item of the regular budget and the peacekeeping support account for after-service health insurance benefits of former staff members. This is achieved by gradually transitioning the funding for after-service health insurance from pay-as-you-go financing to pay-as-you-accrue funding. Medium-term and long-term benefits are derived from this gradual transitioning of the funding mechanism, as elaborated in paragraphs 35–41 below. Budget reductions related to the transitioning of costs occur in the longer term.

35. The strategy initially requires additional assessments to provide for reserve accumulations to be sufficient to enable annual benefit costs to be paid from the reserve amounts for staff recruited from 2023 upon their retirements, while also being adequate to provide for the partial funding of projected future costs. Implementation of the proposed 6 per cent charge on salary costs in 2023 is projected to increase post costs under the regular budget and the peacekeeping operations by an estimated $87 million and $66 million, respectively. These are indicative amounts based on the forward projection of salary costs. Actual amounts associated with the 6 per cent charge will depend upon salary budgets approved for that year. Going forward, annual costs will change proportionately with changes in gross salary and post adjustment amounts, with a continued effect on budget assessments, as illustrated in annexes I and II to the present report. The advantage of applying a level rate against salaries is that it sets in place a standard, predictable and containable annual budget for earned deferred after-service health insurance benefits with monetary increases aligned with increases and reductions in salary costs.

36. The short- to medium-term benefits of the proposed funding strategy begin immediately in 2023, when accumulations in the reserve from the proposed 6 per cent rate charged against salary costs will be reflected on financial statements and thereby reduce the unfunded liability associated with overall after-service health insurance benefits. Each year's increase in reserve accumulations further decrease the unfunded liability, thereby improving the financial position reflected in the financial statements of the Organization, thereby addressing the ongoing concerns raised by the Board of Auditors and the Independent Audit Advisory Committee. Table 3 below shows the increasing proportion of funding of accrued liabilities attained from the 6 per cent charge on salary costs, as projected by the consulting actuaries. The progressive funding of accrued liabilities based on the 6 per cent charge against salary costs is projected to level off to a potential high of 75 per cent as more staff retire with annual benefit costs paid from the reserve.

Table 3
Projected accrued after-service health insurance liability and proportion funded

(Millions of United States dollars)

	Regular budget		*Peacekeeping operations*	
Year	*Accrued liability*	*Percentage funded*	*Accrued liability*	*Percentage funded*
2023	5 450.1	2	1 931.6	3
2032	7 249.6	15	3 064.4	30
2042	9 649.3	31	4 854.0	52
2052	12 831.7	44	7 359.8	69

37. Additional medium-term benefits of this approach originate from constraints and curtailments on pay-as-you-go budgets. Cash-flow requirements and the associated accrued liability for the closed group will continue to increase for a period of time as staff continue to retire. Such increases will, however, be constrained due to the population growth constraints inherent in closed groups.

38. As replacements for current staff are recruited, the costs for their after-service health insurance will be provided for during their active service, with related benefit costs after retirement paid from the accumulated reserve rather than from separately assessed budgets. This transitioning of cash-flow requirements results in the initial curtailment of increases in the special expense account under the regular budget and in the support account for peacekeeping related to after-service health insurance beginning in 2034. While the initial impact of this transitioning of costs is relatively minor, the benefits increase each year as additional staff recruited from 2023 retire and as the closed group of retirees and staff gets smaller as participants expire.

39. In the long term, the monetary amount generated from the application of the flat 6 per cent charge on salary costs will continue to move up and down along with the amounts budgeted for salary costs. By 2055 for the regular budget, and 2061 for peacekeeping, pay-as-you-go costs for the closed group will have been curtailed to the point where related budget requirements begin a downward trend, as illustrated in figures VII and VIII above. As the population and related costs of the closed group begin to decline, there is a progressive growth in the retiree population of staff recruited from 2023. The combination of these factors results in a continuous increase in the proportion of costs covered by the reserve, as illustrated in table 4.

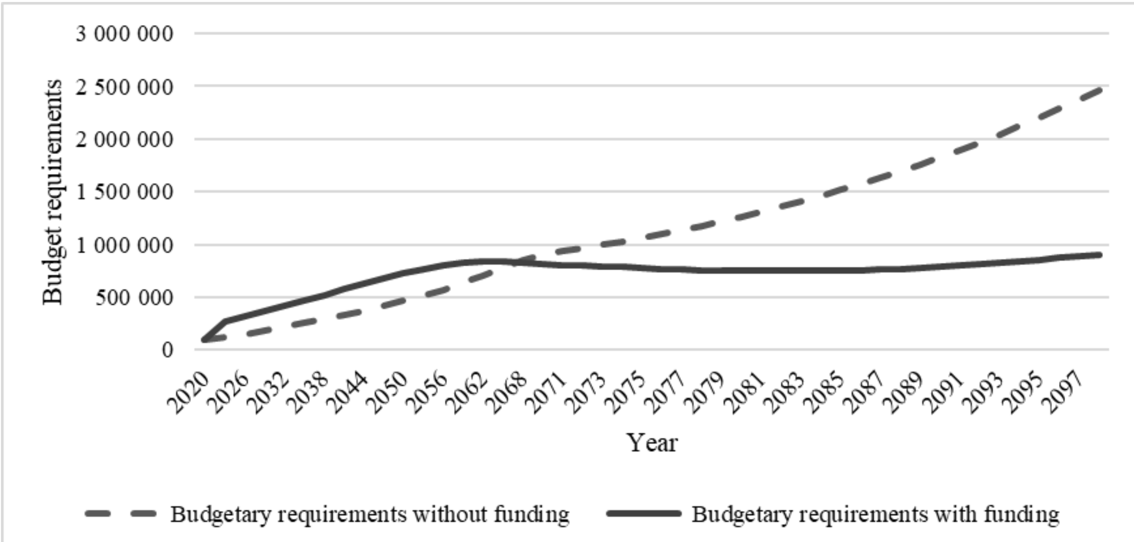
Table 4
Distribution of funding of annual cash-flow requirements

(Millions of United States dollars)

	Regular budget					*Peacekeeping operations*				
Year	*Benefit costs*	*Costs funded from pay-as-you-go budgets*		*Costs funded from the reserve*		*Benefit costs*	*Costs funded from pay-as-you-go budgets*		*Costs funded from the reserve*	
2034	179.1	179.0	(99.9%)	0.1	(0.1%)	62.3	62.1	(99.8%)	0.1	(0.2%)
2055	325.3	266.4	(81.9%)	58.9	(18.1%)	228.7	169.5	(74.1%)	59.2	(25.9%)
2061	377.3	251.5	(66.7%)	125.8	(33.3%)	302.9	176.2	(58.2%)	126.7	(41.8%)
2068	451.0	203.8	(45.2%)	247.2	(54.8%)	400.6	151.1	(37.7%)	249.5	(62.3%)

40. As shown in figure XI, while initially requiring additional assessment, the gradual transitioning of the funding mechanism for after-service health insurance benefits will considerably reduce budget requirements in the long term, with lower overall budget requirements beginning by 2068 when the combined pay-as-you-go budgets and 6 per cent charge against salary costs are projected to be less than the total annual costs of after-service health insurance benefits.

Figure XI
Impact of proposed funding on combined regular budget and peacekeeping budgets
(Thousands of United States dollars)



41. It is recognized that variations in liability accrual rates, staff retirements, turnover, and economic and other assumptions could affect the level of funding obtained related to cash-flow requirements and the related accrued liability. Any use of the accumulated reserve to meet a portion of pay-as-you-go requirements would also affect this. The 6 per cent rate would, therefore, need to be reviewed every three to five years to adjust the rate to take account of variations in liability accrual and actuarial assumptions and to ensure that the amounts necessary to achieve the objective of partial funding of annual cash-flow requirements are met.

B. Investment strategy for reserve fund accumulations

42. Subject to approval by the General Assembly of the proposed funding of after-service health insurance benefits on a pay-as-you-accrue basis for staff recruited from 1 January 2023, the funds accumulated would be held in a segregated reserve fund. Investment management services would be provided by the United Nations Treasury. Funds would be initially invested in the existing short- to medium-term pool as the after-service health insurance asset allocation strategy is implemented into a more diversified longer-term portfolio. The proposed funding methodology would result in annual inflows estimated to start at about $153 million in 2023. The Investments Section of the United Nations Treasury has the expertise to undertake the management of the reserve funds within its existing operations albeit with some resource requirements. The Investments Section currently manages a portfolio that amounts to over $10 billion, comprising more than 100 pooled funds.

43. The Investments Section's portfolio includes the investment of the Organization's extrabudgetary after-service health insurance reserve that amounted to $134.8 million as at 31 August 2021. These reserves have been managed in a diversified portfolio of fixed income securities. Based on a recently-received asset allocation recommendation from external consultants and actuaries to diversify into longer-term and higher-yielding assets, including an appropriate currency allocation, the Investments Section is making preparations to implement this asset allocation recommendation.

44. The primary investment goal for the liability reserve funds will be ultimately to meet future benefit obligations by investing in a well-diversified asset mix within parameters suitable for health insurance and retirement benefit reserves.

45. The specifics of an investment strategy tailored for the proposed after-service health insurance reserve fund will be dependent upon the approved level of the contributions and on the projected timing and level of outflows. The after-service health insurance beneficiaries are typically the same beneficiaries as those managed in the United Nations Joint Staff Pension Fund but unlike monthly pension benefits, which have relatively constant payment flows (subject to inflation and cost of living adjustments), after-service health insurance outflows are typically much higher at the later stage of a retiree's life due to higher medical needs.

46. The strategic asset allocation will be developed for the purpose of maximizing the return on investment within an appropriate risk range and will require periodic review to ensure that it achieves its performance objective.

47. The baseline portfolio targeted return that can be used for after-service health insurance is the Pension Fund's current long-term investment objective which is to meet or exceed a 3.5 per cent real rate of return (net of inflation, as measured by the United States consumer price index) in United States dollar terms annualized over the long term (15 years or longer). A review of the Fund's actual performance returns over the last 25 calendar years shows an average real return of 6.2 per cent per annum.

48. A sample asset allocation for an after-service health insurance reserve portfolio targeting 5 per cent nominal rate of return developed by an external asset manager is provided in table 5 below and illustrates the improvement to the risk-return profile that diversification can bring. The degrees of diversification presented in this table are: (a) "plain vanilla", with investments in only global equity and government and corporate bonds; (b) diversification within both equity (introducing listed real estate and a more regional split) and fixed income (introducing emerging market debt); and (c) adding investments in (illiquid) private markets, both within equity and fixed income.

Table 5
Sample asset allocation
(% allocation)[a]

Target return: 5 per cent

Asset class	*Plain vanilla*	*Diversification*	*Private markets*
Bonds	45.0	52.5	42.5
Bonds – United States government	27.5	32.5	30.0
Bonds – United States credit investment grade	17.5	12.5	12.5
Bonds – emerging market, United States dollars	–	7.5	–
Equities	55.0	47.5	37.5
Equities – Switzerland	–	7.5	7.5
Equities – United States	–	10.0	10.0
Equities – world	55.0	20.0	15.0
Real estate – United States	–	10.0	5.0
Unlisted fixed income	–	–	10.0
Unlisted fixed income – United States leveraged loans	–	–	2.5
Unlisted fixed income – infrastructure senior, euro	–	–	2.5
Unlisted fixed income – real estate senior, euro	–	–	2.5
Unlisted fixed income – United States middle market loans	–	–	2.5
Unlisted equities	–	–	10.0
Unlisted equities – buyout	–	–	4.0
Unlisted equities – infrastructure	–	–	3.0
Unlisted equities – real estate Europe	–	–	3.0
Total	**100.0**	**100.0**	**100.0**
Long-term horizon (15–20 years)			
Return	5.0	5.1	5.1
Volatility	9.0	8.5	7.4
Risk-adjusted return	55.6	59.8	69.4
Value at risk (95.0%)	(9.8)	(8.9)	(7.1)
Probability (loss > 5.0%)	13.3	11.7	8.6

[a] The analysis is based on: (a) risk-return assumptions for the different asset classes; (b) United States dollars as the base currency, and in the non-United States dollars fixed income asset classes, the currency risk is hedged to United States dollars and the currency risk in equities in not hedged (currency risk often serves as a diversifier within equities); and (c) an expected return of fixed income asset classes where the assumption is of a gradual normalization of yield curves, taking into account central bank policy.

49. This example shows that, to achieve a long-term target return of 5 per cent, the equity exposure needs to be approximately 55 per cent with the "plain vanilla" approach. By implementing a more diversified allocation, the equity exposure can be reduced to 47.5 per cent with the same expected return, but with a lower risk. Adding private market exposure results in a significant improvement of the risk-return profile while the overall equity exposure remains at 47.5 per cent, but now split over public (37.5 per cent) and private (10 per cent) markets.

50. It is anticipated that, in the longer term, it would be necessary to assess the need for specialized assets management services.

V. After-service premium distribution between the Organization and retirees

A. Background

51. The United Nations health insurance plans provide for the cost of insurance premiums to be shared between the United Nations and plan participants (active and retired), in accordance with the relevant General Assembly resolutions (see table 6).

Table 6
Approved cost-sharing ratios for the United Nations health insurance plans
(Percentage)

Health insurance plan	*Organization share*	*Participant share*
United States plans[a]	66.7	33.3
Non-United States-based plans[b]	50.0	50.0
Medical insurance plan for locally recruited staff at designated duty stations[c]	75.0–80.0	25.0–20.0

[a] General Assembly resolution 38/235.
[b] General Assembly resolution 1095 A (XI).
[c] General Assembly resolution 41/209.

52. The subject of health insurance subsidies, including the apportionment of the cost of health insurance between the United Nations organizations and staff, was initially considered by the International Civil Service Commission in 1983 (see A/38/30), in response to the request of the General Assembly to examine the need to raise the ratio of contributions by organizations of the United Nations common system (Assembly resolution 37/126, sect. III, para. 8). The Commission examined staff contributions to health insurance as a proportion of net remuneration at the seven headquarters duty stations and noted, among other things, that while the 50/50 cost-sharing formula had kept average staff contributions expressed as a proportion of net remuneration at reasonably low levels, in some instances those percentages appeared to be too high, especially in New York. The Assembly, in its resolution 38/235, decided that a maximum ratio of 2 to 1 between the share of the organization and that of the staff member, respectively, would be used. Since that time, the 2 to 1 ratio has been applied in New York.

53. The International Civil Service Commission took up this item again in 2014 pursuant to General Assembly resolution 68/253, in which the Assembly expressed its deep concern about the long-term sustainability of the after-service health insurance scheme within the United Nations system and invited the Commission to review the apportionment of health insurance premiums between the United Nations organizations and participants in both the United States and non-United States plans. In the course of their review, the Commission members noted that a number of international organizations had a larger employer share than the United Nations, with many using the same 2 to 1 ratio applied by the United Nations in New York. Commission members also pointed out the general provisions of the Federal Employees Health Benefits Program, applied by the United States federal civil service, through which the Government contributed between 72 and 75 per cent, depending on the plan selected. They also noted that, with one exception, the Member States surveyed paid a higher apportionment of health insurance premiums than the United Nations for their civil servants.

54. Given the situation in the comparator civil service, in other Member States where most United Nations staff retired, and in many other international organizations, members of the Commission observed that if the Commission were to review the apportionment, the employer's portion would need to increase.

55. On the basis of their review, the Commission decided to recommend to the General Assembly that the current apportionment of health insurance premiums between the Organization and both active and retired staff in United States and non-United States health insurance plans be maintained at their existing ratios. The General Assembly approved the recommendation in its resolution 69/251.

B. Participant contributions

56. Participant contributions under the health insurance schemes are dependent upon the type of coverage (e.g., single, two-person or family) and health plan selected. In accordance with General Assembly resolution 1095 A (XI), contributions are also based on an individual's salary or pension level so that participants at lower salary and pension levels receive a larger share of the health benefit costs funded by the Organization than do staff and retirees at higher salary and pension levels. This is accomplished for staff members by establishing a rate chargeable against components of net salary, as illustrated in table 7, and for retirees as contributions based on a scale of bracketed gross pension amounts.

Table 7
Current staff contributions to the medical insurance expressed as percentage of net salary

Health insurance plan	*1 person*	*2 persons*	*3–5 persons*	*6 or more persons*
Plans based in the United States				
Aetna	6.36	11.13	12.43	12.43
Empire Blue Cross	4.09	7.24	9.23	9.23
Health Insurance Plan of New York*	n/a	n/a	n/a	n/a
Plans not based in the United States				
Cigna International	–	–	–	–
Western Europe	2.41	3.88	6.11	6.11
Chile and Mexico	2.31	3.73	5.86	5.86
Worldwide (all other countries)	1.51	2.33	3.67	3.67
Medical insurance plan for locally recruited staff in the field	1.0	1.25	1.75	2.25
United Nations Staff Mutual Insurance Society against Sickness and Accident	3.4	4.4	4.8	4.8

Abbreviation: n/a, not applicable.

* Four active staff members continue to be covered by the Health Insurance Plan of New York. The plan was closed to new subscribers effective 1 July 2013.

57. Each health insurance plan provides for active and retired staff in a single claims experience pool. Since January 1974, costs have been apportioned between retired and active staff, with the result that the contribution rate for retirees is approximately one half that of active staff members, while maintaining the mandated sharing ratios between the Organization and the participants as a group. This arrangement takes into consideration that pensions are taxable, whereas contributions by staff members are

based on net income. It is achieved by transferring a portion of the Organization's share of premium from active staff members to retirees, resulting in a cross-generational subsidy from active to retired staff. This cross-generational subsidy is budget neutral as the relatively higher Organization's subsidy for retired staff, covered under the special expenses section of the regular budget and the support account for peacekeeping operations, is offset by the equivalent lower Organization subsidy for active staff covered under common staff costs.

58. Eligibility for subsidized after-service health insurance benefits is attained at the later of age 55 or 10-years of contributory service in a United Nations health insurance plan. Currently, contributions by retirees are determined based on the higher of either (a) a bracketed sliding scale of the normal monthly pension amount of a retiree adjusted on the basis of cost-of-living increases declared by the United Nations Joint Staff Pension Fund; or (b) one-third of the medical net value upon which the individual's contributions were based while an active staff member. Staff members who retire prior to their normal retirement date have the basis for their after-service health insurance contributions increased to equal the amount they would have received had they retired at their normal retirement date.

59. While recognizing that these long-standing provisions serve to have retirees with fewer years of service receive a lesser subsidy than those with more years of service, the Secretary-General supports the application of a mechanism that would more directly associate the agency-paid part of after-service health insurance premiums with a staff member's period of service within the United Nations system.

C. Implementation of accrual mechanism

60. The implementation strategy for a mechanism that more directly associates a staff member's seniority within the United Nations system and the share of premium paid by the Organization takes into consideration the importance of after-service health insurance benefits for retiring staff members, many of whom cannot benefit from the national social security schemes of Member States owing to their service with the United Nations. It aims to strike a balance between effecting adjustments to an individual retiree's share of costs based on years of service within the United Nations system and potentially causing such adjustments to place an excessive burden on retirees, making the cost of enrolment in the after-service health insurance programme prohibitive.

61. In that regard, the implementation strategy keeps in mind the findings of the International Civil Service Commission referenced in paragraphs 52–55 above, which continue to be relevant today, and the approval by the General Assembly of the Commission's recommendation to maintain the current apportionment of health insurance premiums between the Organization and both active and retired staff. While aimed at implementing a mechanism to give better recognition to a staff members' seniority with the Organization, the implementation strategy also, in accordance with General Assembly resolution 1095 A (XI), continues to consider an individual's compensation level when allocating the Organization's subsidy, to ensure that contribution requirements continue to be affordable for the full spectrum of participants representing retirees for all categories of staff.

62. The strategy for implementation therefore focuses on participant contributions, as opposed to the organization's contributions, when differentiating cost sharing based on years of service. This approach expands on existing provisions in the after-service health insurance programme by putting into effect a change in the basis for retiree contribution from the retiree's normal pension, as defined in paragraph 58 above, to a minimum theoretical pension that would have been payable had the staff

member retired with a minimum of 25 years of service within the United Nations system. The resulting increase in retiree contributions for those who retire with less than 25 years of service reduces the portion of premium payable by the Organization.

63. The foundation for the use of a theoretical pension was approved by the General Assembly in its resolution 61/264, making it possible to affect this provision by July 2017 for all staff recruited since 1 July 2007. The full implementation of this provision was deferred in the light of the Working Group on After-Service Health Insurance consideration of alternative accrual mechanisms. In light of the lack of consensus reached by the Working Group related to such alternatives, the provision previously approved by the General Assembly will be put into effect as of 1 January 2023.

64. Full implementation of the use of theoretical pension amounts as the basis for calculation of after-service health insurance contribution amounts for staff recruited from 1 July 2007 can occur beginning in 2023 with immediate effect on plan costs and limited administrative and system changes. A review of the census data used for actuarial calculations indicates that over 6,000 regular budget staff and over 8,000 active staff charged to peacekeeping operations have been recruited since 1 July 2007 and will, if retiring with less than 25 years of service, have their after-service health insurance contributions determined using a theoretical pension based on 25 years of service. Associated cost savings will increase as more and more staff in this population retire with entitlement to after-service health insurance benefits. While difficult to estimate progressively increasing annual cost savings, the consulting actuaries have projected that this provision will ultimately result in participant contribution increases of up to 20 per cent for staff retiring with less than 25 years of services, with concomitant Organization cost savings of up to 5 per cent once all retiring staff are subject to this provision.

VI. Projections regarding the proportion of staff in peacekeeping operations who will be entitled to after-service health insurance benefits

65. A review undertaken in the period 2006–2007 determined that approximately 15 per cent of new after-service health insurance participants had their salary funded from peacekeeping operations immediately prior to retirement. At that time, staff working in peacekeeping operations tended to be younger and have fewer years of service than staff under the regular budget. In addition, many peacekeeping staff were recruited under appointments of limited duration. Service under these contracts was explicitly excluded from consideration for after-service health insurance eligibility.

66. As a part of the 2009 contract reforms, appointments of limited duration contracts were discontinued effective 1 July 2009, with existing contracts converted to fixed-term or other contract types that included entitlement to after-service health insurance. In addition, mobility was encouraged, fostering increased movement by professional staff between posts and funding sources. As shown in table 8, this has resulted in comparable demographics for the regular budget and peacekeeping operations, resulting in comparable proportion of staff expected to retire with after-service health benefit entitlements.

Table 8
Active staff demographics

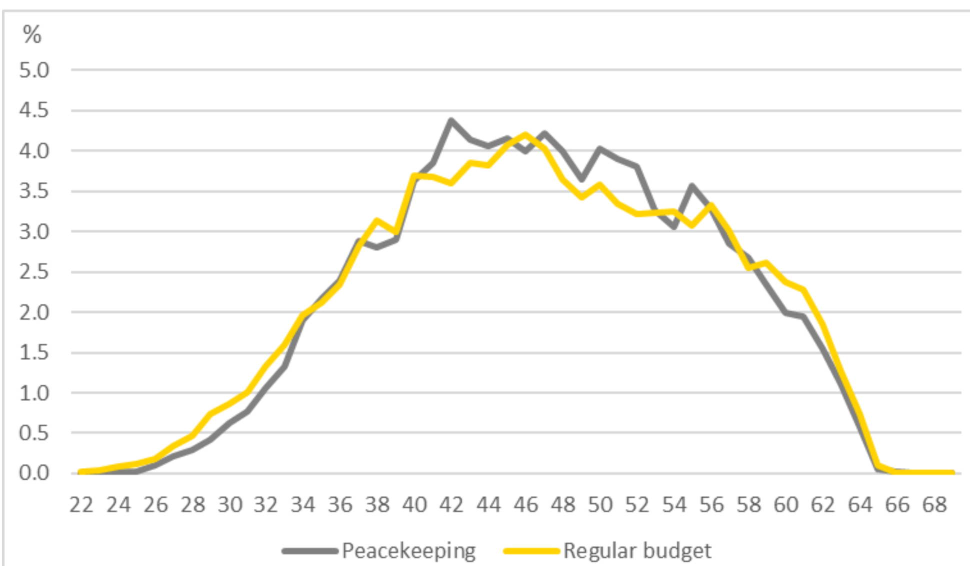
Source of funding	*Number of active staff covered by United Nations health insurance**	*Average age*	*Average years of service*	*Portion fully eligible for after-service health insurance (%)*	*Additional portion with more than 10 years of service (%)*
Regular budget	11 709	47	13	19	43
Peacekeeping operations	12 596	47	11	16	41

* Excludes staff under temporary contracts.

67. In total, 94 per cent of staff funded under peacekeeping operations are currently covered by United Nations health insurance plans and have contracts providing entitlement to after-service health insurance. All of these staff members will have the option to enrol for after-service health insurance upon satisfying eligibility requirements. As indicated in the above table, 16 per cent of these staff had fully met eligibility requirements by 31 December 2019. An additional 41 per cent had completed the 10-year eligibility requirement and will be eligible to enrol upon satisfying the retirement requirement; about one-third of this group is within five years of meeting this threshold.

68. Figure XII illustrates the distribution of regular budget and peacekeeping staff by age. This indicates that, while the average age of staff is the same, at 47, different proportions of staff at the 41–55 and the 56 and over age brackets reflect somewhat younger staff in peacekeeping than in the regular budget, resulting in somewhat later projected retirements for peacekeeping staff in these age groups.

Figure XII
Age distribution of regular budget and peacekeeping staff



69. Current demographics and the propensity for staff to transfer between posts of different funding sources serve to lessen the impact of mission closures on the proportion of staff who become eligible for after-service benefits. Mission closures result in the acceleration of retirements, movements of staff across funding sources

and separations before full eligibility to after-service health benefits has been attained. As a result, such closures do not have as extensive an impact on the proportion of staff who can retire with after-service health insurance benefits as would otherwise be expected.

70. As indicated and illustrated above, virtually all peacekeeping staff are currently entitled to after-service health insurance upon meeting full eligibility requirements. The proportion projected to retire with full eligibility for these benefits has increased since 2007 and is now comparable for staff funded by peacekeeping operations and staff funded under the regular budget. As such, the distribution of after-service pay-as-you-go costs chargeable to peacekeeping operations is projected to increase dramatically from the 15 per cent of prior years to an estimated 34 per cent by 2030 and continue to increase thereafter until the ratio approaches the funding distribution of active staff.

VII. Conclusion

71. The United Nations has been reporting after-service health insurance liabilities on its statement of financial position since 2007. The amount of these liabilities, while of concern at that time, has increased significantly since then, causing the Board of Auditors to repeatedly caution that the liability is likely to consume an increasing portion of the regular budget over time. Similarly, the Independent Audit Advisory Committee, most recently in document A/76/270, reiterated its previous observation that maintaining the pay-as-you-go approach poses a significant risk and recommended that the General Assembly consider alternative after-service health insurance liability funding strategies to mitigate this risk.

72. The Secretary-General is equally concerned about the level of unfunded after-service health insurance liabilities and the financial pressure these liabilities place on future budgets as programme budgets continue to be approved on a no real growth basis, while annual budget requirements for after-service health insurance benefits continue to increase at accelerated rates as the population for whom such benefits are payable continues to grow and as medical costs continue to increase at rates higher than inflation.

73. A systematic funding strategy is needed to ensure that sufficient resources are available to meet all such liabilities as they become due without putting undue pressure on assessed budgets. As annual payout requirements are projected to escalate rapidly, it is prudent to begin putting funds aside on a regular basis to build a reserve to meet those costs, to avoid putting an undue burden on subsequent years.

74. The present report provides the additional details and information requested by the General Assembly in its resolution 73/279 B. The funding strategy proposed herein elaborates on the proposal included in the previous report of the Secretary-General on managing after-service health insurance (A/73/662) and is very similar to elements of funding proposals made in prior reports presented by the Secretary-General since 2005. The proposed funding methodology has not changed significantly over the years, as the proposals are all based on the core recommendation for the Organization to begin funding of the accrued liability for after-service health insurance; additional reviews, while providing updates of the situation, are not likely to result in vastly different proposals. However, the need to adopt a methodology to begin funding of the accrued liability for after-service health insurance is far more compelling now given the increased level of unfunded liabilities accumulated to date, and the accelerated increases projected in the coming years.

75. The proposed 6 per cent charge against salaries is projected to provide partial funding of accrued after-service health insurance liabilities and related annual cash-flow requirements. The results of this funding will need to be reviewed and updated on an ongoing basis to refine annual funding requirements, taking into account funding levels achieved, and to reflect changes in actual versus projected participant demographics, economic factors and medical cost trends.

76. The Secretary-General attaches a high degree of importance to the after-service health insurance programme, as it provides a vital element of social security for retiring staff members. Given the size of the after-service health insurance liabilities and the sensitivity of the projection of these liabilities to changes in economic and demographic factors, partial, as opposed to full funding, of the accrued liabilities for the United Nations is proposed. The adoption of a funding strategy that aims at progressively replacing pay-as-you-go financing of annual benefit costs by annual assessments, with pay-as-you-accrue funding of the future benefits of active staff to accumulate a dedicated reserve from which annual benefits are paid, will, over the long term, serve to ensure the financial viability of the programme while also providing more evenly distributed and ultimately lower budgetary requirements.

Recommendations

77. The Secretary-General makes the following recommendations with respect to funding the after-service health insurance liabilities pertaining to the United Nations:

(a) **That the pay-as-you-go funding of the United Nations after-service health insurance obligation in respect of staff members recruited before 1 January 2023 be maintained;**

(b) **That the funding of the obligation in respect of officials recruited from 1 January 2023 be achieved through the implementation of a payroll charge corresponding to a level 6 per cent of salary costs and the establishment of a dedicated financial reserve;**

(c) **That the payroll charge be reviewed every three years and adjusted to accommodate variances against the projected accumulation of the dedicated reserve.**

VIII. Action to be taken by the General Assembly

78. **The General Assembly is requested to take note of the recommendations formulated in the present report and to approve the funding of the after-service health insurance obligation in respect of officials recruited from 1 January 2023 through the implementation of a payroll charge against salary costs.**

Annex I

Budget impact of 6 per cent charge against salary costs: regular budget

(Thousands of United States dollars, indicative amounts)

Period	Pay-as-you-go obligation – staff recruited before 1 January 2023	Pay-as-you-go obligation – staff recruited from 1 January 2023	Total pay-as-you-go obligation	Payroll charge[a]	Gross budget with payroll charge funding	Funded pay-as-you-go obligation	Net budget impact of funding
2020–2021	165 413	–	165 413	–	165 413	–	–
2022–2023	190 955	–	190 955	86 574	277 529	–	86 574
2024–2025	219 567	–	219 567	178 651	398 218	–	178 651
2026–2027	247 992	–	247 992	187 178	435 170	–	187 178
2028–2029	276 447	–	276 447	196 341	472 788	–	196 341
2030–2031	307 779	–	307 779	204 097	511 876	–	204 097
2032–2033	335 560	–	335 560	214 120	549 680	–	214 120
2034–2035	366 488	457	366 945	222 517	589 006	457	222 060
2036–2037	395 199	1 402	396 602	232 542	627 742	1 402	231 140
2038–2039	423 461	2 848	426 310	242 854	666 316	2 848	240 006
2040–2041	450 854	5 531	456 386	253 404	704 258	5 531	247 873
2042–2043	472 380	10 173	482 553	265 939	738 319	10 173	255 766
2044–2045	491 987	16 582	508 570	278 532	770 519	16 582	261 949
2046–2047	505 728	26 530	532 257	292 846	798 573	26 530	266 316
2048–2049	518 023	39 928	557 951	306 603	824 626	39 928	266 675
2050–2051	526 296	57 456	583 753	321 498	847 795	57 456	264 042
2052–2053	531 544	81 182	612 726	336 134	867 679	81 182	254 952
2054–2055	533 073	109 970	643 043	351 139	884 212	109 970	241 169
2056–2057	529 411	145 696	675 108	367 032	896 444	145 696	221 336
2058–2059	520 799	188 723	709 522	382 905	903 704	188 723	194 182
2060–2061	507 111	238 134	745 246	399 829	906 940	238 134	161 695
2062–2063	487 910	296 109	784 019	417 161	905 071	296 109	121 052
2064–2065	463 027	361 332	824 358	435 488	898 515	361 332	74 157
2066–2067	433 181	434 379	867 560	454 687	887 868	434 379	20 308
2068–2069	398 316	515 568	913 884	474 612	872 928	515 568	(40 956)
2070–2071	359 514	604 129	963 643	495 744	855 258	604 129	(108 384)
2072–2073	317 753	700 633	1 018 386	517 689	835 442	700 633	(182 944)
2074–2075	274 571	803 860	1 078 431	540 838	815 409	803 860	(263 022)
2076–2077	231 637	914 055	1 145 692	564 964	796 601	914 055	(349 091)
2078–2079	190 427	1 030 101	1 220 528	590 269	780 696	1 030 101	(439 832)
2080–2081	152 301	1 151 705	1 304 006	616 675	768 976	1 151 705	(535 030)
2082–2083	118 162	1 278 558	1 396 720	644 212	762 375	1 278 558	(634 346)
2084–2085	88 931	1 409 906	1 498 836	673 002	761 933	1 409 906	(736 904)
2086–2087	64 692	1 546 337	1 611 030	702 926	767 619	1 546 337	(843 411)
2088–2089	45 442	1 687 628	1 733 070	734 231	779 673	1 687 628	(953 398)
2090–2091	30 830	1 834 700	1 865 530	766 837	797 667	1 834 700	(1 067 863)

Period	*Pay-as-you-go obligation – staff recruited before 1 January 2023*	*Pay-as-you-go obligation – staff recruited from 1 January 2023*	*Total pay-as-you-go obligation*	*Payroll charge*[a]	*Gross budget with payroll charge funding*	*Funded pay-as-you-go obligation*	*Net budget impact of funding*
2092–2093	20 182	1 988 555	2 008 736	800 890	821 072	1 988 555	(1 187 665)
2094–2095	12 729	2 150 366	2 163 095	836 464	849 193	2 150 366	(1 313 902)
2096–2097	7 762	2 321 822	2 329 584	873 592	881 354	2 321 822	(1 448 230)
2098–2099	4 616	2 504 290	2 508 906	912 421	917 037	2 504 290	(1 591 869)
2100–2101	2 730	2 699 638	2 702 368	952 965	955 695	2 699 638	(1 746 673)
2102–2103	1 659	2 909 394	2 911 053	995 349	997 008	2 909 394	(1 914 045)
2104–2105	1 067	3 135 242	3 136 309	1 039 626	1 040 693	3 135 242	(2 095 616)
2106–2107	743	3 378 755	3 379 498	1 085 887	1 086 630	3 378 755	(2 292 868)
2108–2109	547	3 641 376	3 641 924	1 134 218	1 134 766	3 641 376	(2 507 158)
2110–2111	408	3 924 719	3 925 127	1 184 696	1 185 104	3 924 719	(2 740 023)
2112–2113	297	4 230 202	4 230 498	1 237 429	1 237 725	4 230 202	(2 992 773)
2114–2115	204	4 559 554	4 559 758	1 292 489	1 292 693	4 559 554	(3 267 065)
2116–2117	130	4 914 437	4 914 567	1 350 004	1 350 133	4 914 437	(3 564 433)
2118–2119	75	5 296 796	5 296 871	1 410 062	1 410 137	5 296 796	(3 886 734)
2120–2121	39	5 708 356	5 708 395	1 346 133	1 346 173	5 708 356	(4 362 223)
2122–2123	18	6 148 188	6 148 207	1 268 612	1 268 631	6 148 188	(4 879 576)
2124–2125	7	6 614 666	6 614 674	1 194 938	1 194 946	6 614 666	(5 419 728)
2126–2127	2	7 103 820	7 103 822	1 117 843	1 117 846	7 103 820	(5 985 977)
2128–2129	1	7 605 513	7 605 514	1 037 810	1 037 811	7 605 513	(6 567 703)
Total	**12 225 980**	**96 329 302**	**108 555 282**	**35 021 501**	**47 247 481**	**96 329 302**	**(61 307 801)**

[a] Reflects initiation of payroll charge in 2023.

Annex II

Budget impact of 6 per cent charge against salary costs: peacekeeping operations

(Thousands of United States dollars, indicative amounts)

Period	*Pay-as-you-go obligation – staff recruited before 1 January 2023*	*Pay-as-you-go obligation – staff recruited from 1 January 2023*	*Total pay-as-you-go obligation*	*Payroll charge[a]*	*Gross budget with payroll charge funding*	*Funded pay-as-you-go obligation*	*Net budget impact of funding*
2020–2021	34 879	–	34 879	–	34 879	–	–
2022–2023	42 405	–	42 405	66 260	108 665	–	66 260
2024–2025	53 944	–	53 944	140 434	194 377	–	140 434
2026–2027	65 310	–	65 310	151 574	216 885	–	151 574
2028–2029	77 988	–	77 988	163 455	241 443	–	163 455
2030–2031	95 333	–	95 333	174 168	269 501	–	174 168
2032–2033	110 117	–	110 117	186 760	296 877	–	186 760
2034–2035	129 864	431	130 295	198 503	328 367	431	198 072
2036–2037	148 954	1 397	150 351	211 706	360 661	1 397	210 310
2038–2039	170 276	2 793	173 069	225 143	395 419	2 793	222 350
2040–2041	193 035	5 485	198 520	239 175	432 210	5 485	233 690
2042–2043	214 562	10 129	224 691	254 037	468 599	10 129	243 908
2044–2045	237 737	16 506	254 242	269 574	507 311	16 506	253 068
2046–2047	258 564	26 440	285 004	285 822	544 385	26 440	259 382
2048–2049	281 185	40 016	321 201	301 688	582 872	40 016	261 671
2050–2051	301 162	57 506	358 667	318 379	619 541	57 506	260 873
2052–2053	319 950	81 557	401 508	334 363	654 313	81 557	252 805
2054–2055	335 472	110 529	446 001	350 532	686 004	110 529	240 003
2056–2057	346 413	146 494	492 908	366 940	713 353	146 494	220 446
2058–2059	352 495	190 229	542 724	382 847	735 342	190 229	192 618
2060–2061	353 107	239 894	593 002	399 940	753 048	239 894	160 046
2062–2063	347 539	298 758	646 297	416 955	764 494	298 758	118 197
2064–2065	335 683	364 508	700 191	435 175	770 857	364 508	70 666
2066–2067	318 559	438 243	756 801	454 188	772 747	438 243	15 945
2068–2069	295 835	520 220	816 055	473 874	769 709	520 220	(46 347)
2070–2071	268 824	609 312	878 136	494 918	763 742	609 312	(114 394)
2072–2073	238 823	706 510	945 333	516 685	755 509	706 510	(189 825)
2074–2075	207 115	810 063	1 017 177	539 823	746 937	810 063	(270 240)
2076–2077	175 217	920 670	1 095 887	563 875	739 092	920 670	(356 795)
2078–2079	144 399	1 036 822	1 181 221	589 214	733 613	1 036 822	(447 607)
2080–2081	115 843	1 158 457	1 274 300	615 619	731 462	1 158 457	(542 838)
2082–2083	90 193	1 285 133	1 375 326	643 199	733 391	1 285 133	(641 935)
2084–2085	68 198	1 416 042	1 484 241	672 029	740 227	1 416 042	(744 014)
2086–2087	49 874	1 551 988	1 601 863	701 938	751 813	1 551 988	(850 050)
2088–2089	35 226	1 692 446	1 727 672	733 267	768 493	1 692 446	(959 179)
2090–2091	24 027	1 838 618	1 862 645	765 810	789 837	1 838 618	(1 072 808)

Period	*Pay-as-you-go obligation – staff recruited before 1 January 2023*	*Pay-as-you-go obligation – staff recruited from 1 January 2023*	*Total pay-as-you-go obligation*	*Payroll charge*[a]	*Gross budget with payroll charge funding*	*Funded pay-as-you-go obligation*	*Net budget impact of funding*
2092–2093	15 756	1 991 341	2 007 097	799 826	815 582	1 991 341	(1 191 516)
2094–2095	9 878	2 151 862	2 161 740	835 331	845 209	2 151 862	(1 316 532)
2096–2097	5 889	2 322 023	2 327 912	872 364	878 253	2 322 023	(1 449 659)
2098–2099	3 316	2 503 075	2 506 391	911 114	914 430	2 503 075	(1 591 962)
2100–2101	1 757	2 697 126	2 698 883	951 557	953 314	2 697 126	(1 745 569)
2102–2103	881	2 905 624	2 906 506	993 863	994 744	2 905 624	(1 911 761)
2104–2105	430	3 130 404	3 130 834	1 038 057	1 038 487	3 130 404	(2 092 347)
2106–2107	219	3 373 041	3 373 260	1 084 246	1 084 465	3 373 041	(2 288 795)
2108–2109	125	3 634 990	3 635 116	1 132 508	1 132 634	3 634 990	(2 502 482)
2110–2111	83	3 917 885	3 917 968	1 182 920	1 183 003	3 917 885	(2 734 965)
2112–2113	58	4 223 049	4 223 107	1 235 591	1 235 649	4 223 049	(2 987 458)
2114–2115	40	4 552 241	4 552 281	1 290 581	1 290 620	4 552 241	(3 261 661)
2116–2117	25	4 906 976	4 907 001	1 348 028	1 348 053	4 906 976	(3 558 948)
2118–2119	15	5 289 187	5 289 202	1 408 004	1 408 019	5 289 187	(3 881 183)
2120–2121	8	5 700 494	5 700 501	1 322 261	1 322 269	5 700 494	(4 378 232)
2122–2123	4	6 139 949	6 139 953	1 220 457	1 220 461	6 139 949	(4 919 492)
2124–2125	1	6 605 929	6 605 931	1 123 651	1 123 653	6 605 929	(5 482 278)
2126–2127	–	7 094 407	7 094 407	1 023 969	1 023 970	7 094 407	(6 070 437)
2128–2129	–	7 595 313	7 595 314	923 238	923 239	7 595 313	(6 672 075)
Total	**6 876 591**	**96 312 115**	**103 188 707**	**34 335 434**	**41 212 025**	**96 312 115**	**(61 976 681)**

[a] Reflects initiation of payroll charge in 2023.