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Managing after-service health insurance liabilities

Report of the Secretary-General

Summary

The present report provides an overview and analysis of the key elements of the health insurance schemes applied across the United Nations system, focusing on the management and actuarial liabilities of after-service health insurance. In its resolution 68/244, the General Assembly requested the Secretary-General to:

(a) Examine the option of broadening the mandate of the United Nations Joint Staff Pension Fund, based on input from the United Nations Joint Staff Pension Board, to include the cost-effective, efficient and sustainable administration of after-service health insurance benefits, taking into account the advantages and disadvantages of that option, including its financial and legal implications, without prejudice to the outcome of the examination, and to report thereon to the Assembly at its seventieth session, emphasizing that this did not prevent the Secretary-General from considering other options;

(b) Undertake a survey of current health-care plans for active and retired staff within the United Nations system, explore all options to increase efficiency and contain costs and report to the Assembly at its seventieth session.

The present report presents the data gathered through the mandated survey, prepared by the Working Group on after-service health insurance of the Finance and Budget Network of the High-level Committee on Management. The survey provided a comprehensive view of the current situation of the health plans and after-service health insurance funds and liabilities of each agency vis-à-vis active and retired staff, providing the basis for a further consideration of the options for increasing efficiency and containing costs.



A working group of agencies of the United Nations system was formed, which carried out analysis on 23 health insurance plans (inclusive of both active and retired staff) across the system covering 401,166 persons. The Working Group undertook quantitative and qualitative analysis of the design of the plans, eligibility, the coverage offered, demographics, costs and valuation assumptions. The result is a specific set of 23 plans, grouped into 3 types: self-insured self-administered plans, self-insured third-party administered plans and insured third-party administered plans. Based on that analysis, the Working Group has developed a set of complementary recommendations that can be implemented in the near future and which will result in cost and operational benefits across the United Nations system.

Those recommendations consist in undertaking collective negotiations with third-party administrators and health-care providers, underwriting reviews and negotiations with insurers, depending on the type of administration and insurance of the plans. Another recommendation directed to all three types of plan is to use, where possible, national health plans as primary coverage for retirees and dependants and leave United Nations plans as supplementary coverage without decreasing the benefits. The Working Group also recommends that the general valuation methodology be standardized and key after-service health insurance liability valuation factors be established and applied.

The Working Group also explored options to broaden the mandate of the Joint Staff Pension Fund to include the management of after-service health insurance, but ultimately determined that this option was not feasible. The General Assembly may wish to decide in 2016 on the package of actions presented in the present report and also consider mobilizing subsequent phases of the study to further assess plan funding and design and after-service health insurance liability valuation.

I. Introduction

General Assembly requests in relation to managing after-service health insurance liabilities

1. In its resolution 68/244 on managing after-service health insurance liabilities, the General Assembly endorsed the observations and recommendations contained in the report of the Advisory Committee on Administrative and Budgetary Questions (A/68/550) and requested the Secretary-General to:

(a) Examine the option of broadening the mandate of the United Nations Joint Staff Pension Fund based on input from the United Nations Joint Staff Pension Board, to include the cost-effective, efficient and sustainable administration of after-service health insurance benefits, taking into account the advantages and disadvantages of that option, including its financial and legal implications, without prejudice to the outcome of the examination, and to report to the General Assembly at its seventieth session, emphasizing that this did not prevent the Secretary-General from considering other options;

(b) Undertake a survey of current health-care plans for active and retired staff within the United Nations system, explore all the options for increasing efficiency and containing costs and report thereon to the Assembly at its seventieth session.

Working Group on after-service health insurance

2. Pursuant to the request of the General Assembly, the Finance and Budget Network of the United Nations High-level Committee on Management of the Chief Executives Board for Coordination (CEB) established a working group on after-service health insurance tasked with:

(a) Collecting and sharing information on the different after-service health insurance practices within the United Nations system, identifying and analysing the variables that have an impact on the liability, including different benefits provided by the plans, the reasonableness of the underlying actuarial assumptions (for example, the discount rate) and the assumptions and factors related to investment (asset allocation and expected returns);

(b) Exploring ways to contain the costs of after-service health insurance services;

(c) Proposing common criteria for reviewing the assumptions underlying the valuation of the estimated liability, drawing on the agreement reached by the United Nations with the Board of Auditors;

(d) Exploring how actuarial valuation criteria could be harmonized across the United Nations system.

3. The Working Group comprises representatives of 16 United Nations system organizations which are members of the Finance and Budget Network, the Federation of Associations of Former International Civil Servants, the Federation of International Civil Servants' Associations, the Human Resources Network of the High-level Committee on Management, the Common Treasury Services Working Group of the Finance and Budget Network, the United Nations Joint Staff Pension Fund and CEB.

Report structure

4. The Working Group identified four pillars for analysis
- Pillar A. Cost analysis and administrative arrangements
 - Pillar B. United Nations system after-service health insurance framework review
 - Pillar C. Determination and disclosure of the liability
 - Pillar D. Funding alternatives for the liability.
5. The structure of the present report is aligned to those four pillars. Options to increase efficiency and contain costs and the practicability of broadening the mandate of the Joint Staff Pension Fund to include the management of after-service health insurance were explored in the context of Pillar B.

Background data

6. To provide a sound basis for its work, the Working Group undertook a quantitative and qualitative analysis of the major health insurance plans (all of them inclusive of active and retired staff) across the United Nations system. The analysis spanned the design and coverage of health insurance plans, eligibility, administration and its costs, demographics and benefits paid. It also covered after-service health insurance liability valuation and funding.
7. The quantitative analysis was based on data collected from a survey from 25 organizations in relation to 23 health insurance plans.¹ The result was a comprehensive view of the current reality in relation to health insurance, including after-service health insurance, across the United Nations system and in relation to the corresponding liability and its funding.
8. Almost all international and locally recruited staff (active and retired officials, and their dependants) insured under United Nations system plans, some 400,000 persons, are insured under the 23 health insurance plans represented in the survey. The demographic split of persons insured under the plans surveyed is set out in table 1.

¹ Two organizations (the United Nations Development Programme and the United Nations Children's Fund) were not able to provide regional breakdowns for 26,019 participants (6 per cent of the total) hence the data accounts for only 94 per cent of the insured population. Regional percentages could therefore be subject to minor changes.

Table 1

Demographic make-up of persons insured under 23 United Nations system health insurance plans

<i>Category/location</i>	<i>Percentage</i>
Active staff	27.0
Dependants of active staff	56.0
Retired officials	10.0
Dependants of retired officials	7.0
Residing in Africa	38.0
Residing in the Asia Pacific region and Western Asia	18.0
Residing in Europe (excluding Switzerland)	14.0
Residing in the United States	9.0
Residing in Switzerland	8.0
Residing in Canada, Mexico, Central and Latin America and the Caribbean	7.0

A. Pillar A. Cost analysis and administrative arrangements**Social backdrop**

9. The Working Group conducted its work in the light of the backdrop of social appropriateness, characterized in particular by the principle of universal access to health insurance coverage. The Working Group was also mindful that ethical, comprehensive and portable health insurance is essential to support the ability of the United Nations to attract and retain the best possible global workforce and that efficient and effective delivery of benefits and service contributes to the well-being of United Nations system staff, often working under adverse conditions.

10. In recognition of the mobility of United Nations system staff, retired officials and their families, health insurance provided by the United Nations system replaces that provided under primary national social security systems and local supplementary health insurance schemes. It should be recalled that after-service health insurance was established in 1967 in the Secretariat, in the light of the difficulties encountered by retired staff members in obtaining health insurance after a career in an international organization. Many former officials cannot benefit from national social security coverage as a result of their service within the United Nations system. The after-service health insurance coverage is therefore an essential element of the conditions of employment.

Diversity of health insurance plans

11. The diversity of health insurance plans across the United Nations system reflects the demographic and geographic diversity of the populations they cover. Variances in terms and conditions of insurance are primarily based on the insured person's place of residence and the category of service. Whereas in some plans, different terms and conditions of insurance apply to international staff and locally recruited staff, or to Professional staff and General Service staff, coverage in other plans is the same for all staff and for their dependants. In all plans, the same design and coverage apply to retirees and to active staff members.

12. The cost of benefits is a function of the place in which claims are incurred, which is sometimes different from the country of service in the case of international active staff or the country of residence for retirees.²

13. The 23 plans can be categorized in three groups: (a) the medical insurance plan and the medical insurance coverage scheme, (b) international staff and (c) plans based in the United States of America, which behave differently, as will be explained further. Highlights of the three groups are shown in table 2.

Table 2

Main groupings of insurance plan types

<i>Persons covered and costs of benefits</i>	<i>Persons covered</i>	<i>Percentage of total</i>	<i>Total annual cost of benefits (United States dollars)</i>	<i>Percentage of total</i>	<i>Per capita annual cost (United States dollars)</i>	<i>Administrative costs as percentage of total costs</i>
MIP and MICS plans	194 818	49	63 661 068	9	327	12
Plans for international Professional staff	173 554	43	430 052 445	59	2 478	6
US-based plans	32 794	8	238 019 062	32	7 258	5
Total	401 166	100	731 732 575	100	1 824	6

14. Certain plans are specific to a particular health insurance market. For example, a number of plans offered to Secretariat staff (including a supplemental dental plan) accommodate the characteristics of the United States health insurance system. The United Nations Aetna and Empire Blue Cross plans are specifically designed to optimize cost control and process efficiency in the United States.

15. The 15 health insurance plans (excluding the United States-based Aetna, Cigna Dental and Empire Blue Cross plans) that primarily cover international staff account for 43 per cent of persons insured and record the largest expenditures across the United Nations system (59 per cent). Some 57 per cent of benefit costs associated with those plans is incurred in Switzerland and the rest of Europe. Only 8 per cent of insured persons are covered under the Aetna and Empire Blue Cross plans.

16. Medical insurance plans and the medical insurance coverage scheme are designed to cover locally recruited staff based outside Europe and the United States and have broad geographic scope. Some 49 per cent of persons insured are covered under the plans and the scheme. While persons insured under those plans account for a significant proportion of the overall volume, they form a very low proportion of total claims or premiums paid in the United Nations system (9 per cent). Access to and availability of certain types of health care, lower medical costs in most countries outside Europe and the United States and country-specific cost caps account at least in part for those trends.

17. Over 70,000 persons are covered under the Geneva-based self-funded and self-administered health insurance plans (United Nations Staff Mutual Insurance Society, World Health Organization (WHO) Staff Health Insurance and the International Labour Organization (ILO) Staff Health Insurance Fund). The greater part of claims

² Benefit costs represent the sum of the health-care costs and administrative costs for self-insurance plans and the sum of the insurance premiums and administrative costs for externally insured plans.

paid yearly by those plans (\$220 million) is incurred in Switzerland and the rest of Europe.

Plan administration model

18. As shown in table 3, health insurance plans can be self- or externally insured and self-administered or administered by a third-party administrator. Currently, 88 per cent of persons insured under United Nations system plans are covered under schemes where the risk is self-insured, with the 12 per cent balance covered under schemes where the risk is outsourced to private sector insurers. Most plans outsource their administration and access to the health-care provider network to third-party administrators. All self-administered plans are located in Geneva.

Table 3
Breakdown of health insurance plans by type of administration

<i>Self-insured</i>		<i>Third-party insured^a</i>	
<i>Plan (administrator)</i>	<i>Persons covered</i>	<i>Plan (insurer/administrator)</i>	<i>Persons covered</i>
<i>Self-administered</i>	1. Staff Health Insurance — WHO	N/A	
	2. United Nations Staff Mutual Insurance Society (United Nations Office at Geneva)		
	3. Medical Insurance Plan — UNHCR		
	4. Staff Insurance Fund — ILO		
	Total		
<i>Third-party administered</i>	1. Medical Insurance Plan — United Nations (Cigna)	1. Basic Medical Insurance Plan — FAO (Allianz/Allianz)	16 918
	2. Worldwide Plan — United Nations (Cigna)	2. Medical Insurance Coverage Scheme — WFP (Allianz/Allianz)	15 656
	3. Medical Insurance Plan — UNDP (Cigna)	3. Full Medical Insurance Plan — UNIDO (Allianz/Allianz)	5 566
	4. Medical Insurance Plan — UNICEF (Cigna)	4. Austrian Health Insurance System + Supplementary Medical Insurance Plan — UNIDO (Allianz/Allianz)	
	5. Cigna United States dental PPO (Cigna)	5. Full Medical Insurance Plan — IAEA (Cigna/Cigna)	3 829
	6. Empire Blue Cross PPO (Empire Blue Cross)	6. Collective Medical Insurance — WIPO Cigna/Cigna)	3 677
	7. Aetna PPO/POS (Aetna)	7. Austrian Health Insurance System + Supplementary Medical Insurance Plan — IAEA (Cigna/Cigna)	2 475
	8. Medical Benefits Fund — UNESCO (Cigna)	8. Collective Medical Insurance Plan — ITU (Cigna/Cigna)	2 130
	9. Medical Benefits Fund — ICAO (Cigna)	9. IMO Plan — IMO (Cigna/Cigna)	922
		10. Contrast Group 910.K21 — UNWTO (Cigna/Cigna)	295
Total (excluding Cigna United States dental)		Total	51 468

^a Third-party insurance includes coverage for pay-as-you-go risk but does not include coverage of after-service health insurance liability.

19. As established in table 2, the cost of benefits in 2014 for the 23 plans surveyed was almost \$732 million. That includes claims paid under plans where the risk was self-insured³ and premiums paid in respect of plans where the risk was outsourced. In addition, an amount of \$48 million was spent on administrative costs (including staff costs for self-administered plans and fees for plans administered by third parties). On average, administrative costs represent 6.1 per cent of total expenditure across the United Nations system. That percentage should be compared with an industry average of 5-8 per cent in the United States, depending on the size and design of the plan. United States ratios are low compared to global ones, owing to very high volumes in a consolidated environment and the higher cost of care.

20. As most organizations in the United Nations system do not routinely negotiate collectively with insurers, third-party administrators or health-care providers, they have not leveraged their scale to obtain the most favourable terms and conditions of insurance or service. For example, some 66 per cent of persons insured under the United Nations system plans are covered under Cigna health insurance plans, but no collective negotiation currently takes place with Cigna. Furthermore, there is no mechanism in place that enables organizations to efficiently and effectively share and analyse information with a view to identifying opportunities for cost and service efficiencies.

21. The decision to outsource or build an in-house insurance and/or administration capability is driven by a variety of factors, such as history (the establishment of a number of plans predates the existence of third-party administrators), number and geographic spread of insured persons, service quality versus cost and the ability to access fairly priced quality health care. For example, the regulation and institutionalization of health-care provider networks in the United States precludes organizations based there from developing cost-effective in-house capabilities for participants based in the United States.

Joint health insurance arrangements and global consolidation

22. In reviewing the potential opportunities related to global consolidation of United Nations system plans into a common health insurance arrangement, the Working Group noted that:

(a) A number of United Nations system organizations with similar risk profiles already provide health insurance by means of a consolidated health insurance plan. For example, the staff of the International Fund for Agricultural Development and the World Food Programme are covered under the basic medical insurance plan of the Food and Agriculture Organization of the United Nations; the staff of the United Nations Development Programme (UNDP), the United Nations Office for Project Services, the United Nations Population Fund, the United Nations Entity for Gender Equality and the Empowerment of Women and the United Nations Children's Fund (UNICEF) are covered under the United Nations United States-based plans and the United Nations worldwide plan, while most Geneva-based staff in entities, such as the United Nations Office at Geneva, the United Nations Conference on Trade and Development, the Office of the United Nations High Commissioner for Refugees, the Office of the United Nations High Commissioner for Human Rights, the Economic Commission for Europe, the International Trade

³ In this context, the terms are in reference to the risk related to health insurance claims for 2014.

Centre and the World Meteorological Organization participate in the United Nations Staff Mutual Insurance Society plan administered by the United Nations Office at Geneva;

(b) The 2014 procurement process for third-party administration of the medical insurance plans led by the United Nations was joined by UNDP and UNICEF.

23. The Working Group concluded that there was no clear evidence that financial or operational efficiencies would be derived from a consolidation of all United Nations system plans into a common arrangement for health insurance administration. Consolidation at the local level could be further envisaged by the organizations concerned, provided that equalization agreements in relation to plan solvency could be reached, as well as agreements in relation to issues such as service levels and governance participation. A consolidation that involved risk-pooling across organizations would have to face the reality that health-care costs are a function of demographics, which differ markedly across organizations. Those differences mean that a number of organizations would face higher costs as a result of risk-pooling and would see no benefit in consolidation unless complex financial compensation mechanisms were put in place to take into consideration differences in demographics and risk levels.

24. The Working Group also stressed the need to investigate means of improving inter-agency health insurance portability to better support staff mobility within the United Nations system.

Comparison of terms and conditions of insurance

25. In terms of eligibility, most health-care plans currently require 10 years of service before staff become eligible to claim after-service health insurance coverage. Some plans offer coverage after 5 years of service.

26. The Working Group examined the nuances of eligibility and plan coverage in order to facilitate a like-for-like comparison when assessing the landscape of health insurance across the system. The Working Group was able to establish that the terms and conditions of insurance of United Nations system health insurance plans are generally comparable and it considers that material changes to health insurance terms and conditions in force across the United Nations system are not required. That view also takes into account the strong and long-standing governance of certain plans.

Structural changes to terms and conditions of insurance

27. The Working Group recognizes that the health insurance costs borne by United Nations system organizations and the corresponding liabilities can be affected by structural changes to the design and funding of health insurance plans, or by changes in the contract and staffing policies of organizations. However, the Working Group also considered that changes of that nature would have to be explored in a broader human resources policy context.

28. Statutory provisions in relation to the governance of a number of health insurance plans within the United Nations system must also be taken into account in any reconsideration of terms and conditions of insurance. In several instances, structural changes to terms and conditions of insurance must be proposed by the governing bodies of the plans, which consist of representatives of the relevant

organizations and participants in the plan, and are subject to consultation and the approval of the staff members and former officials, who contribute to the funding of the plan.

Acquired rights

29. Within the United Nations system, health insurance is provided to staff members and former staff members following mutual insurance principles and the principle of intergenerational solidarity that is the major point of difference between social health insurance and private health insurance. Serving staff members contribute to the funding of their health insurance knowing that, while they are in service, those contributions will in aggregate exceed the benefits they will receive. The excess contributions generated by active staff will be allocated to balancing out the aggregate deficit in respect of former staff members.

30. The Working Group strongly supports the view that rights benefitting staff members at the time of retirement are inalienably acquired during their period of service. The contributions of staff members are assessed based on terms and conditions of insurance that will not materially change either while the staff members are in service or once they retire. Plan designs can be adapted and contributions can be adjusted from time to time so that they remain aligned to the cost of providing coverage, according to the terms and conditions of insurance upon which the assessment is based.

31. Consistent with the previous report of the Secretary-General on managing after-service health insurance liabilities ([A/68/353](#), paras. 59 and 62), from a legal standpoint, any significant change to the terms and conditions of insurance, including to those applicable following retirement that would be detrimental to the insured persons, would constitute a breach of acquired rights and expose organizations to the risk of litigation. It can be concluded that modifications to the terms and conditions of insurance would be admissible only prospectively, that is only for newly recruited staff. Specific analysis would be required to determine the exact legal implications of any such modifications. Acquired rights are further discussed in the section on Pillar C below.

Recommendation of the International Civil Service Commission to the General Assembly regarding the apportionment of health insurance premiums

32. In its discussion in relation to structural changes to terms and conditions of insurance, the Working Group noted the recommendation of the International Civil Service Commission (ICSC) to the General Assembly in paragraph 91 of its report for 2014 ([A/69/30](#)) in relation to the apportionment of health insurance premiums between organizations and participants. In its report, ICSC stated that it had 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 by its resolution 69/251.

Working Group recommendations in relation to Pillar A

33. The Working Group explored options for increasing efficiency and containing costs and makes the following recommendations.

Recommendation 1. Collective negotiations with third-party administrators

34. United Nations system organizations should negotiate collectively with third-party administrators in order to optimize pricing for administrative services and network access. To support collective negotiation, United Nations system organizations should explore the feasibility of establishing and maintaining a common database that captures demographic and plan information, summarized claims data, terms and conditions of third-party administration agreements, staff costs and summarized fraud information.

Recommendation 2. Collective negotiations with health-care providers

35. The self-administered plans (ILO, WHO and the United Nations Staff Mutual Insurance Society) have successfully conducted collective negotiations with health-care providers in the Geneva area. Self-administered plans should continue to identify areas where collective negotiations with health-care providers could result in material savings and/or operational improvements. The organizations concerned should develop common standard processes, enabling them to negotiate collectively with health-care providers and provider networks in order to obtain the best access to, and best pricing for, quality health care and to minimize pricing volatility.

36. Those organizations should consider establishing a common database and provide additional information in relation to health-care provider practices, terms and conditions of agreements, fraud information and quality assessments.

Recommendation 3. Underwriting reviews and negotiations with insurers

37. To provide a robust basis for challenging the terms and conditions of insurers, organizations with externally insured plans should perform periodic underwriting reviews, the results of which should be shared within the United Nations system for benchmarking purposes.

B. Pillar B. United Nations system after-service health insurance framework review**National health insurance schemes**

38. While considering the options for containing insurance costs, the Working Group undertook high-level research on national health plans in France, Italy, Switzerland, the United Kingdom of Great Britain and Northern Ireland and the United States, the five countries where the most participants in after-service health insurance reside. The objective of the research was to consider whether the positive experience of the United Nations in the United States of leveraging Medicare by requiring eligible persons covered by the insurance to enrol in Medicare part B, in addition to enrolling in a United Nations health insurance plan, could be reproduced in other locations. In such situations, the national health insurance scheme would act as a primary plan for care covered under its design and the United Nations plan would automatically act as a supplementary plan. For care not covered by the national scheme, but covered under the design of the United Nations insurance programme, the United Nations plan would remain primary. As a result, the coverage afforded to participants would be unchanged, but it might be shared

between the national scheme and the United Nations plan. In all instances, the United Nations system plan should be considered the minimum standard.

39. Where appropriate, the health insurance plans of United Nations system organizations could incorporate similar requirements to those of the United Nations and thus provide more cost-effective after-service health insurance coverage with no detriment to comprehensiveness.

40. In the United States, primary health insurance is provided by Medicare and the United Nations plans fill in gaps in Medicare coverage. Thus, the United Nations, while reimbursing participants in after-service health insurance for their Medicare Part B premium, is able to effectively lower costs while maintaining after-service health insurance benefits and coverage. The United Nations has reported that leveraging Medicare has reduced its after-service health insurance liability by approximately \$258 million (estimate as of 31 December 2011). The insurance plans of the International Atomic Energy Agency and the United Nations Industrial Development Organization in Vienna are similar in design, i.e. one of the health-care options involves supplementing the primary Austrian health system coverage with private insurance provided by the United Nations. However, both staff and the organizations are required to contribute to the Austrian health system for such coverage.

41. The Working Group appointed insurance professionals from five focal point organizations to analyse the enrolment criteria, benefit levels, service and convenience levels, and premiums, taxes and penalties of the national health insurance schemes in the five countries where the largest number of former officials reside and to establish comparisons with the terms and conditions of their agency plans. The focal point organizations examined coverage in relation to mainstream physician and specialist check-ups and inpatient procedures, dental procedures and laboratory tests. The results of the analysis provided a foundation for further consideration of the implications and merits of leveraging national health schemes as a cost containment measure for after-service health insurance.

42. In terms of eligibility, United States citizens, residents and staff with G4 visas residing continuously in the United States for five years are eligible for Medicare Part B. In Italy, non-Italian staff with legal residence permits can join the national system for a small fee. In the United Kingdom and Switzerland, participants must be legal residents, while in France participants must receive a French pension or a pension from another European Union country to be enrolled in the French social security system.

43. The National Health Service in the United Kingdom and the Sécurité sociale in France provide reasonable coverage. In those countries, however, participants may face longer waiting periods for care under the national scheme and increased taxes or compulsory social contributions. Additionally, leveraging the health-care system in Switzerland, where a federal law regulates health-care insurance and requires residents to subscribe to a basic health insurance, could entail higher premiums and costs for both the insured persons and the organizations.

44. The Working Group considers that selectively incorporating into the terms and conditions of United Nations system health insurance plans the requirement to enrol in national health insurance schemes (for example, the Sistema sanitario nazionale in Italy and Medicare in the United States) at the time of retirement or of eligibility,

when it can be shown such a decision is in the interest of both the participants and the organizations, should be further explored.

Broadening the mandate of the United Nations Joint Staff Pension Fund

45. In its recent report to the General Assembly ([A/69/9](#)), the United Nations Joint Staff Pension Board stated that it had taken note of the General Assembly's request to examine the option of broadening the mandate of the Fund to include administration of after-service health insurance benefits and expressed its agreement with the conclusions presented in the note of the consulting actuary. It also endorsed the recommendations of the Assets and Liabilities Monitoring Committee on the matter and noted that the investment objectives of the Fund differed from those of after-service health insurance benefits and that it might therefore be inappropriate for the Fund to manage the resources related to those benefits.

46. The Board agreed that it would not be advisable to broaden the mandate of the Pension Fund to include the administration of after-service health insurance benefits, noting that this option could jeopardize the operational viability of the Fund and could also negatively affect its long-term sustainability, depending upon the extent of the adopted measure.

47. In its consideration of the report of the Joint Staff Pension Fund, the Advisory Committee on Administrative and Budgetary Questions noted that the funding and administration of after-service health insurance benefits was an issue of system-wide concern that would best be resolved through a system-wide approach in which the Fund could play a key role. Having given due consideration to the position of the Committee, the Working Group agrees with the statement by the Pension Board in its report to the General Assembly in 2014. There is no evidence that economies of scale or efficiency gains in administration could be achieved by broadening the mandate of the Joint Staff Pension Fund. In addition, broadening the mandate would require additional staffing of the secretariat of the Fund and of the Investment Management Division, as well as the establishment of separate accounting, reporting and governance mechanisms.

48. In particular, the Working Group determined that the compatibility of data and software/administrative systems could not be leveraged. The systems used by the Fund have been developed to support specific pension fund functions and their adjustment for health insurance management purposes would be overly onerous. The Working Group also noted that a number of the business processes of the Fund are decentralized, i.e. carried out by the member organizations. The centralized business processes carried out by the Fund itself are highly specialized and pension-specific. As a result, there is no scenario in which the Fund (including the Investment Management Division) could efficiently use its existing capabilities to administer after-service health insurance business processes.

49. The Working Group also noted that separate databases would need to be maintained for the Pension Fund and after-service health insurance, as the necessary data retained for the Fund is different to that needed for health insurance administration purposes. In addition, the eligibility rules of the Fund and of after-service health insurance are different and the intersection of the population served by the Fund and the populations covered by after-service health insurance, while significant, is not complete. Synergies and consolidation would thus only apply to a subset of retirees and beneficiaries of the Fund.

Working Group recommendations in relation to Pillar B

50. Following its review of the United Nations system after-service health insurance framework, the Working Group makes the following recommendations.

Recommendation 4. National health insurance schemes

51. The Working Group proposes to continue to support organizations that will further explore the value of national health insurance schemes in the context of United Nations system health insurance plans and in a framework whereby those plans would act as supplementary plans to level up the present terms and conditions provided to active and retired staff. The Working Group proposes that organizations approach Member States about broadening the eligibility of officials for primary coverage under those schemes. That concerns mainly retirees and their eligible dependants, but might also be extended to the active staff population in certain situations.

52. Organizations should evaluate the appropriateness, practicality and financial effects of incorporating into their health insurance plan the requirement to enrol in a national insurance scheme with contributions to the national plan being borne by the organization plan.

Recommendation 5. Broadening the mandate of the United Nations Joint Staff Pension Fund

53. Although the role of the United Nations Joint Staff Pension Fund, including the Investment Management Division, should not be broadened, the Fund could, pursuant to the recommendation of the Advisory Committee on Administrative and Budgetary Questions, be requested to share its best practice approach and its methods for centralization and administration of a complex multiple-employer plan with United Nations system organizations choosing to jointly provide after-service health insurance coverage.

C. Pillar C. Determination and disclosure of the liability

After-service health insurance liability valuation

54. The Working Group experienced difficulty in establishing the consistency of the after-service health insurance liabilities recognized by the United Nations system organizations represented in the survey. The Working Group proposed to the Finance and Budget Network of the High-level Committee on Management that the Task Force on Accounting Standards develop a common actuarial valuation approach in relation to after-service health insurance liabilities across the United Nations system. The objective of the Working Group is to agree on a harmonized general valuation methodology and the establishment and method of selection and/or application of key valuation factors. Factors to be examined by the Task Force include:

- Valuation and accounting method
- Discount rate per currency
- Medical claim cost per capita, medical trend rate

- Staff turnover rates, retirement rates
- Salary and pension increase rates, general inflation rate
- Life expectancy and disability rates (including application dates for agreed mortality and disability tables).

Accrued after-service health insurance liabilities

55. The inception of agency-provided health insurance for United Nations system staff predates the creation of the system itself (the International Labour Office Staff Health Insurance Fund was established in 1922). Since then, the number of health insurance plans and the number of persons insured under those plans has increased significantly, with little-to-no funding of the corresponding after-service health insurance liability in most cases.

56. Recognition of after-service health insurance liabilities in the financial statements of United Nations system organizations began in 2008 and gained momentum with the implementation of the International Public Sector Accounting Standards. The aggregate after-service health insurance liability of the United Nations system grew from \$12.1 billion in 2012 to \$16.1 billion in 2014. That represents the system-wide present value at year-end 2014 of the accrued portion of expected future entitlements that will be due to active and retired officials.

57. The obligations of organizations for after-service health insurance increase each year, along with the liability associated with the accrual of entitlements for active staff (“service cost”) and of the corresponding financial impact of liabilities becoming realized over time (“interest cost”). The service and interest costs of a given year should therefore be considered as the cost of the acquired rights the staff received for their services during that year. Obligations are, in principle, reduced by the payment of medical costs for retired officials. The obligations are shown before any deduction of assets accumulated to support coverage of those obligations.

58. The significant growth in after-service health insurance liability valuations — up to 40 per cent in some cases — over the past three years is primarily attributable to the fall of some two percentage points in the discount rates used in the valuations. There are significant variances between organizations in terms of valuation assumptions. For example, the demographic composition of the body of insured persons of each organization drives assumptions in respect of the expected location of incurred medical costs and their progression. That in turn has an impact on cash flow and the discount rate per currency to be applied in the valuation of the liability.

Working Group recommendations in relation to Pillar C

59. In relation to the determination and disclosure of the after-service health insurance liability, the Working Group makes the following recommendation.

Recommendation 6. Standardizing general valuation methodology and the establishment and application of key after-service health insurance liability valuation factors

60. **In the context of completing its work under Pillar C, the Working Group should coordinate its efforts with the Task Force on Accounting Standards to harmonize the general after-service health insurance liability principles to**

establish factors and actuarial assumptions no later than the end of 2017, for implementation in the 2018 actuarial valuations.

D. Pillar D. Funding alternatives for the liability

View of the Advisory Committee on Administrative and Budgetary Questions in relation to after-service health insurance liability funding

61. In its report on managing after-service health insurance liabilities (A/68/550), the Advisory Committee on Administrative and Budgetary Questions expressed the view that, in addition to a formal recognition of the end-of-service accrued benefit liabilities by the General Assembly (see resolution 60/255, sect. III), a commitment by the General Assembly to settle future after-service health insurance obligations as they fall due would obviate the need, at the present time, to set up a cash reserve for that purpose. The Committee therefore recommended the continuation of the pay-as-you-go approach for the United Nations Secretariat.

Current status of after-service health insurance liability funding

62. As can be seen in the table below, at the end of 2014 the assets accumulated by United Nations system organizations (just over \$2.6 billion) covered only 16 per cent of future after-service health insurance obligations. That resulted in a funding gap of approximately \$13.5 billion. At year-end 2014, some three quarters of the organizations had funded less than 10 per cent of their after-service health insurance liability.

Table 4
Liability funding for after-service health insurance obligations

Agency	Headquarters	Total accounting liability ^a	Funds reserved for the liability	Funds reserved for the liability (percentage)
		(United States dollars)		
FAO	Rome	1 239 700 000	351 759 896	28
IAEA	Vienna	202 798 000	—	0
ICAO	Montreal	112 000 000	1 000 000	1
IFAD	Rome	95 900 000	95 900 000	100
ILO	Geneva	1 088 200 000	2 400 000	<1
IMO	London	47 567 646	Not provided	Not provided
ITC	Geneva	79 845 000	—	0
ITU	Geneva	519 413 374	8 105 370	2
UNDP	New York	1 141 510 000	500 000 000	44
UNESCO	Paris	1 248 470 000	—	0
UNFPA	New York	282 022 000	162 048 000	57
UNHCR	Geneva	545 477 000	31 700 000	6
UNICEF	New York	1 081 081 000	390 092 000	36
UNIDO	Vienna	202 797 200	—	0
United Nations Secretariat	New York	5 552 538 000	—	0

Agency	Headquarters	Total accounting liability ^a	Funds reserved for the liability	Funds reserved for the liability (percentage)
		(United States dollars)		
UNOPS	Copenhagen	52 308 000	52 308 000	100
UNWTO	Madrid	18 465 093	1 599 943	9
WFP	Rome	477 813 075	389 900 000	82
WHO (including IARC, ICC, PAHO, UNAIDS, UNITAID)	Geneva	1 918 060 177	676 882 039	35
WIPO	Geneva	156 500 000	86 400 000	55
WMO	Geneva	53 740 600	–	0
Total		16 116 206 165	2 600 087 248	16

Abbreviations: FAO, Food and Agriculture Organization of the United Nations; IAEA, International Atomic Energy Agency; IARC, International Agency for Research on Cancer; ICAO, International Civil Aviation Organization; ICC, International Computing Centre; IFAD, International Fund for Agricultural Development; ILO, International Labour Organization; IMO, International Maritime Organization; ITC, International Trade Centre; ITU, International Telecommunication Union; PAHO, Pan American Health Organization; UNAIDS, Joint United Nations Programme on HIV/AIDS; UNDP, United Nations Development Programme; UNESCO, United Nations Educational, Scientific and Cultural Organization; UNFPA, United Nations Population Fund; UNHCR, Office of the United Nations High Commissioner for Refugees; UNICEF, United Nations Children's Fund; UNIDO, United Nations Industrial Development Organization; UNITAID, international drug purchase facility hosted and administered by WHO; UNOPS, United Nations Office for Project Services; WFP, World Food Programme; WHO, World Health Organization; WIPO, World Intellectual Property Organization; WMO, World Meteorological Organization; UNWTO, World Tourism Organization.

^a It should be noted that the gross liability reported in this column will be different from the liability reported in the financial statements for those organizations which have adopted the corridor recognition method.

63. Few organizations are actively funding the annual service and interest costs that significantly contribute to the escalation in their after-service health insurance liabilities. As the cost of the acquired rights the staff receive for their services during a given year, those costs should also be funded through the budget of the respective period. While the current funding approach results in lower budgetary impacts in the short-term, the longer-term implication is an increase in the volume of funding that will ultimately need to be diverted from the fulfilment of mandates to the coverage of after-service health insurance liabilities. Not funding the costs of a given period therefore passes those costs to future donors and member States, rather than covering them by the donors and member States of the period during which they were incurred. Funding costs when they are incurred is a principle of fairness among donors and member States.

64. The Working Group believes the current pure pay-as-you-go approach towards funding health insurance costs taken by a number of United Nations system organizations is unsustainable. That view is consistent with the concern expressed by the Board of Auditors regarding the absence of specific assets to cover the after-service health insurance liability. Previous reports of the Secretary-General (A/64/366 and A/68/353) underscore the need for the adoption of a funding plan in respect of the accrued liabilities.

65. Based on a survey conducted by the Working Group on Common Treasury Services of the Finance and Budget Network of the High-level Committee on Management, existing protocols in respect of the management of the investment of funds earmarked for the coverage of after-service health insurance liabilities are

diverse. Whereas in some cases management is internal, certain organizations outsource the investment management function. Few organizations ring fence assets and in some cases the funds are comingled with the other funds and reserves. Some organizations have developed investment and currency strategies aligned to the profile of their liabilities.

66. The Working Group considers that establishing an inter-agency facility for the investment of reserves accumulated for the purpose of covering after-service health insurance liabilities would be onerous. That would require, *inter alia*, the establishment of separate and independent governance arrangements, clear investment guidelines and policies that reflected appropriate risk appetite, separate reporting and accounting mechanisms, independent auditing and benchmarks. However, the Working Group recognizes the advantages that organizations could derive from cooperating with their counterparts in the United Nations system to leverage arrangements with external asset managers, maximize returns and minimize management fees.

Working Group recommendations in relation to Pillar D

67. In relation to the funding alternatives of the after-service health insurance liability, the Working Group makes the following recommendations.

Recommendation 7. Adequate funding of the after-service health insurance liability

68. **The Working Group recommends that organizations adequately fund their after-service health insurance liability and build reserves at a minimum to fund the additional cost accrued during the current period, represented by service cost plus the corresponding interest costs. For those organizations that are still following a pay-as-you-go approach in relation to their after-service health insurance liabilities, that would mean a move to a pay-as-you-accrue approach, reflecting the true cost of current operations.**

69. **In addition, organizations could consider embedding a funding mechanism into the standard staff costs used for budgeting.**

70. **Organizations managing extrabudgetary funds should ensure that no account with an unfunded after-service health insurance liability is closed before the liability is cleared through the application of available funds to the recognized liability.**

71. **Member States and other contributing stakeholders could also consider providing organizations, where required, with a one-off payment or specific time-limited funding methods to cover historic shortfalls in after-service health insurance funding.**

Recommendation 8. Investment of reserves

72. **The Working Group recommends that organizations of the United Nations system explore opportunities through the Working Group on Common Treasury Services for cooperation in leveraging existing arrangements with external asset managers to maximize returns and minimize management fees.**

73. **The Secretary-General proposes that the General Assembly may wish to:**

(a) Welcome and take note of the report of the Working Group on after-service health insurance and note particularly the results of the survey and the analysis in paragraphs 45-49 regarding any potential role for the United Nations Joint Staff Pension Fund in after-service health insurance;

(b) Endorse recommendations 1-8 of the report of the Working Group;

(c) Request the Secretary-General to maintain the Working Group to study further options for increasing efficiency and containing costs, and put forward specific proposals regarding those matters to the General Assembly at its seventy-first session.
