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REPORT OF THE SALARY REVIEW COMMITTEE

Improvement of Group Medical and Hospital Insurance Plans

Report by the Secretary-General

General

1. Proposals for the adjustment and improvement of the Headquarters staff group medical and hospital insurance plans are set out in broad terms in paragraphs 241 to 248 of the Report of the Salary Review Committee (A/3209). Additional observations of the Secretary-General are contained in paragraphs 42 and 111 to 115 of document A/C.5/691; estimated costs are shown in the annex to document A/C.5/691, paragraph (e).
2. In accordance with the request of members at the 577th meeting of the Fifth Committee, further details regarding these proposals are set out below.

Background studies

3. The questions of medical and dental costs of staff members in the Headquarters area and of means of providing an insurance protection in the individual case against these costs have been the subject of study over an eighteen-months period by a small committee of Secretariat members (Medical Expense Review Committee) established by the Secretary-General. The membership of the Committee included a representative of the Staff Council; the United Nations Medical Director served as adviser to the group. This Committee has made detailed studies not only of the existing group insurance coverages (base plans) and of possible alternative base plans, but also of the whole general question of staff member medical costs in the area, of the existing subsidy arrangements and of provisions which might best meet

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the problem of medical costs, relating more particularly to the unpredictable cases of major accident or serious and prolonged illness, with its consequent serious financial drain on the family economy.

4. The results of these studies were made available to the Salary Review Committee in some detail, including a report of the results of a survey of staff costs for medical/hospital/dental expenses conducted by the Medical Expense Review Committee (referred to above) in 1955. The broad results of this survey may be expressed in table form as follows:

<u>Percentage of net salary spent for medical/hospital/dental expenses by Headquarters staff (including as cost net cost to the staff member of his group medical insurance)</u>	<u>Percentage of staff reporting expenses in accordance with column (1)</u>
0.0	1.0
0.1 - 1.9	20.8
2.0 - 3.9	27.5
4.0 - 5.9	20.2
6.0 - 9.9	19.4
10.0 - 20.0 or more	<u>11.1</u>
	<u>100.0</u>

5. It may be observed that even with the operation of the existing base medical insurance plans over 30 per cent of the staff found themselves involved in medical expenses of 6 per cent or more of their net salary, and in over 11 per cent of the cases such costs absorbed 10 per cent or more of the net pay of the staff member. These figures relate solely to costs of care for the staff member, his spouse and children, and exclude medical costs to some staff as a part of the care and support of parents or other dependents. The total of annual medical/hospital/dental expenses reported by approximately one-half of the staff was something over \$500,000.

Base plan coverages

6. At Headquarters there are at present two base medical insurance plans available to staff, the United Medical Service (Blue Shield) plan, and the Health Insurance Plan. Each medical insurance plan is combined with the Associated

Hospital Service (Blue Cross) plan. Participation or non-participation is optional with the staff member, and he may elect between the UMS/AHS and HIP/AHS coverage. Most staff members participate and the current participation is in the approximate ratio of 2:1 under UMS/AHS and HIP/AHS respectively.

7. The United Medical Service plan is mainly an indemnity plan, that is the staff member may choose his own physician, and may recover his expenses or more generally a part thereof for medical care relating to the usual type of injury or illness. In the case of staff without dependents who earn \$4,000 or less or of staff with dependents who earn \$6,000 or less, "service benefits" are available. This means that the physician will accept the indemnity in full payment. These benefits apply however only to some limited types of care and are available only if the services of a "participating physician" are utilized (i.e. one who has specifically agreed to this arrangement under the Plan). The plan provides no appreciable coverage for the costs of services of specialists except with regard to surgery, where the indemnities are also limited to scheduled amounts (highest \$350).

8. The Health Insurance Plan is a group practice plan. Coverage is relatively comprehensive for group base plans, and services are provided for all participants on a service rather than on a fee basis. There is, of course, relatively limited choice of physician; also where staff live outside of the areas serviced by the group, participation is not practical.

9. The Associated Hospital (Blue Cross) plan provides a reasonably comprehensive coverage for hospital expenses for the ordinary admittance for injury or illness (up to 21 days, with payment of about one-half costs thereafter).

10. Following a detailed study of these plans and of various alternative base plans, the Medical Expense Review Committee (referred to in paragraph 3 above), reported:

"While, similarly as in other base plans, there are limitations and exclusions, these plans are considered by the Medical Expense Review Committee to provide reasonable base coverage. In the case particularly of the Associated Hospital Service, which now covers approximately 55 per cent of the total population in the New York area, the Committee concluded that advantages exist both as to coverage and cost as compared with alternative indemnity plans."

11. There are, however, in the case of all three existing base plans, as indicated by the Medical Expense Review Committee, serious limitations and exclusions which

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result in the necessity for absorption by the staff members of extensive "uncovered" costs (either as relating to particular services or particular conditions), and these costs most frequently fall most heavily in just those cases involving serious injury or extended illness.

Major medical coverage

12. The considerations leading to proposals for a major medical expense coverage are aptly stated in the conclusions of the Medical Expense Review Committee, after its extensive study of the problem, as follows:

"The Committee is of the opinion that a deficiency in the present medical insurance programme for staff members is the lack of any major medical or catastrophic type of coverage. Such expenditures of a major nature, while entirely unpredictable in the individual case, are those most devastating to the family economy, and indirectly to the efficiency of employees, the more so in the case of United Nations staff members since the opportunity to partially offset such expenses, such as prevails for other wage earners under United States federal income tax provisions, is not available to them.

"In these circumstances, the Committee recommends, with a view to providing an adequate medical insurance programme for staff members, that a plan of major medical insurance be added to the present base plans."

13. An outline of the major medical expense plan proposed by the Secretary-General is given in paragraphs 244 and 245 of the report of the Salary Review Committee (A/3209) as follows:

"244. The Committee has no doubt that steps should be taken to improve the insurance arrangements at New York - and, if circumstances are similar, elsewhere - and that the immediate need is for a scheme which will cover 'major medical costs'; that is, a scheme by which a high percentage of all medical, hospital and pharmaceutical costs above a certain limit will be covered by insurance. The Secretary-General has, in fact, been developing a scheme on these lines. Details may be varied somewhat following negotiations with insurance companies, but the broad intent is to provide a scheme by which (a) staff members would bear the first \$50 (for themselves and for each insured dependent) of hospital, medical or pharmaceutical expenditure not recovered under the existing insurance scheme (which would be retained); (b) 80 per cent of all uncovered expenditure thereafter should be reimbursed by a new 'major medical cost' insurance, the remaining 20 per cent still being borne by the staff. There would be a cumulative total limit to the benefits of \$10,000 per head.

"245. The Committee would strongly recommend that the General Assembly should give favourable consideration to a scheme on these lines, subject to a satisfactory scheme for sharing contributions between staff and organization..."

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14. It may be observed that while this type of coverage would do much to alleviate the concern of staff members regarding the potentialities of major and unpredictable medical costs, the plan itself is so constructed that, while a material assistance would be provided, the staff member himself would assume some of the costs (the first \$50 in any one case, plus 20 per cent of the remainder). The co-insurance feature is more or less standard and is deemed a desirable one with a view to discouragement of abuse of the plan. The insurance companies also maintain service units designed to the same end in flagrant cases.

15. Estimated costs of the separate proposals (major medical, dental and subsidy) are summarized in paragraphs 23 to 26 below.

Dental costs

16. The findings of the Medical Expense Review Committee in this connexion were:

"Another material element in the overall medical costs of staff members at Headquarters, as confirmed by the staff survey made in 1955, is dental expenses. This type of expenditure is partially covered in the self-administered plans at the Geneva Office, ECLA and ECAFE, but has not been included under any form of medical insurance coverage at Headquarters, owing in part to the high costs of such services in the Headquarters area."

Similar recommendations are set forth in paragraph 245 of the report of the Salary Review Committee (A/3209) as follows:

"...As regards dental benefits, which are excluded from the new scheme, the Committee believes that it is desirable to provide some kind of scheme to mitigate the very heavy dental expenses which staff may incur in certain areas. The organizations should therefore accelerate studies which are being made into the possibility of either insurance arrangements or contractual arrangements, on a shared cost basis."

17. The only comprehensive dental expenses insurance plan available in the New York area is that offered by the non-profit organization, Group Health Dental Insurance. A survey of staff has recently been conducted by the Staff Council at Headquarters, the results of which may be summarized as follows:

(a) All staff members were provided with a comprehensive outline of the GHDI plan.

(b) Having regard to the fact that the survey corresponded with the special session of the Assembly in November 1956, a reasonably good response was obtained (1,346 staff members).

(c) Of those replying 9 per cent indicated that they were not interested in participating, 91 per cent responded favourably.

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18. The GHDI plan is constructed somewhat along the lines of the UMS medical insurance plan (paragraph 7 above). Those staff members whose income is \$5,000 or less would be entitled to "service" benefits provided they utilized the services of a "participating" dentist, under the plan (of which there are said to be 3,700 in New York area). Other staff members and those eligible for "service" benefits who did not use a participating dentist would be entitled to indemnities in reimbursement of costs or partial costs of services rendered. Indemnities would be in accordance with a fixed schedule which has been found roughly in line with, or somewhat below that adopted by the Veterans' Administration of the United States Government. There are, of course, additional provisions designed to guard against abuse, e.g. orthodontia is available on approval and if the child was insured prior to his sixth birthday; plastic surgery for cosmetic purposes is excluded; number of "examinations" is limited to two per year; gold crowns and inlays, if desired, are not fully covered, etc. In other words the Plan provides a certain base coverage. If more expensive work is elected, the additional costs will, of course, rest with the staff member.

Subsidy arrangements

19. The question of Organization subsidy for staff member medical insurance plans has been reported upon by the Medical Expense Review Committee, after extensive study, as follows:

"The current subsidy arrangements are based directly on Section D of General Assembly resolution 82 (I) (Second Part of First Session, 1946) which authorized payment by the Organization of that part of the premium cost exceeding 1 per cent of salary in the case of staff members earning \$5,000 or less per annum, and exceeding 2 per cent of salary in the case of staff members earning more than \$5,000 per annum.

"While this formula worked well enough at the beginning, there have been several increases in the premium rates of the base plans to meet the increasing costs of medical services in the area, and the following disadvantages are seen in continuing the formula:

"(a) while for payroll deduction purposes the General Assembly provision has been administered on the basis of fixed staff contributions for each of several salary ranges or categories, the arrangement now gives rise to cumbersome and unrealistic results; for example, the subsidy in one case now works out at three cents per month, in one of the medium salary categories, and at minor amounts in some other cases.

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"(b) with the increase in premium rates, and, in effect, fixed staff contributions, the Organization is now called upon to absorb the total of any increase in premium rates in the case of approximately two-thirds of the participants. Expressed in different terms, for each increase in premium costs, the Organization is now required to absorb between 70 and 80 per cent of the increase. The same conditions would hold in adding a major medical coverage, as recommended above. In summary, at the present time, for two-thirds of the participants no increase in contributions follows from the addition of new benefits and new premium costs, which, in principle, is considered an unhealthy condition.

"(c) the attempt to apply a subsidy formula similar to that at Headquarters to other offices leads to illogical results; for example if a locally available plan were selected at office A with less benefits and a lesser premium cost as compared with Headquarters, the staff at location A might be called upon to pay a higher proportion of the total costs for less desirable plan.

"Having regard to these disadvantages of the present subsidy arrangements and following a study of the practice of some of the specialized agencies, and of the growing importance of 'fringe' benefits in employee contracts, the Medical Expense Review Committee recommends that a new approach be made to the question of Organization subsidy and that the Organization's contribution be fixed in principle at the 50 per cent level. In view of the fact that the present subsidy formula favours those at the lower end of the salary scale and of the adverse effect which application of a straight 50 per cent subsidy would have on the take-home pay of this group, the Committee would recommend as a provisional subsidy scale the following:

<u>Gross pay</u>	<u>Subsidy (Percentage payment by the Organization of total premium costs)</u>
To \$4,000	80%
\$4,001 - 6,000	75%
\$6,001 - 8,000	50%
Over \$8,000	25%

"While a straight 75-50-25% division would provide a more facile pattern, the 80 per cent provision has been introduced in order to obviate an actual loss in take-home pay, as compared with present arrangements, which would otherwise ensue for those in the lowest income group. Further consideration would be necessary, however, regarding both the precise salary groupings and percentages, in reaching an approximate 50 per cent division of premium costs."

20. The Salary Review Committee has commented on the question of division of costs between the staff and the Organization, in part, as follows:

"...Having regard to the level of salaries and post adjustments which it has recommended, and the factors taken into account in reaching its conclusions, the Committee suggests that it would be appropriate if at the net base salary

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level of \$7,000 contributions were shared equally between Organization and staff. At some point below that salary level the Organization should pay a greater proportion of the cost" (A/3209, para. 247).

21. The Secretary-General has not pursued the proposal of the Salary Review Committee that the Organization contribution should be 50 per cent at the \$7,000 net base pay level and somewhat greater for staff with salaries below that level, since it is known, on the basis of statistical and mathematical analysis, that a schedule commencing with a 50-50 division at the \$7,000 net base pay level would almost inevitably place on the Organization a share of the costs materially above 50 per cent. The Secretary-General has, accordingly, adhered to his original more modest proposal of an overall 50 per cent division of costs; an appropriate schedule, in which the subsidies would vary inversely with salary, would be worked out to effect this approximate division.

22. It is extremely difficult in a technical sense for the Secretary-General to present at this time any exact schedule showing how this division would be worked out in detail. At this time the subsidy schedule is constructed in terms of gross pay including salary or wage, cost of living allowance, personal allowance, language allowance, and non-resident's allowance. The Fifth Committee has before it at this time the report of the Salary Review Committee recommending various changes in pay and in allowances, has just considered the question of pay for General Service staff, has not yet completed its consideration of terms of service for Professional staff. Proposals of the Salary Review Committee in connexion with the latter include elements of pay on both a gross basis (base salary) and on a net basis (post allowances). It will be necessary, eventually, to take these several elements into account in constructing a new subsidy schedule, when decisions on the basic questions have been reached. It would appear to the Secretary-General accordingly that there is no alternative to approaching the question of subsidy, at this time, on the basis of the general principles already set out, namely whether the General Assembly is prepared to meet the costs of staff medical insurance arrangements, in a broad sense, on a 50 per cent basis, it being understood that an appropriate schedule would be worked out by the Secretary-General, having regard to this level (50 per cent), the other basic decisions on salary and allowances which may be reached, and the principle of major assistance to staff in the lower income groups with dependents and of assistance inversely with salary for other staff members.

Costs

23. On the basis of statistics relating to participation in the existing base medical/hospital insurance plans, and of approximate quotations received for major medical coverage along the lines described above (single \$1.25 per month; with dependents \$3.00 per month), it may be computed that to extend such major medical coverage to Headquarters staff members would occasion an additional overall cost of \$72,000 per annum.

24. On the basis of current participation in the base medical plans cost of adding GHDI dental insurance for Headquarters staff would amount to approximately \$110,000 per annum.

25. Utilizing the existing subsidy formula, approximately two-thirds of the covered staff members would be required to make no contribution to the additional cost. The additional cost to the Organization for Headquarters staff members in this instance would amount to approximately 70 to 75 per cent of the total, or \$125,000 to \$135,000 per annum.

26. If the General Assembly should agree to the extended coverages suggested and to the principle that the overall costs should be borne on an equal basis between the Organization and the staff (see para. 19-22 above), the cost to the Organization would be approximately the same, that is \$135,000. In this instance the annual cost to the Organization may be computed as follows:

(a) additional cost to the Organization of existing base medical insurances, as compared to present subsidy arrangements	\$44,000
(b) Organization's share of adding major medical coverage (50% of \$72,000)	\$36,000
(c) Organization's share of dental insurance (50% of \$110,000)	<u>\$55,000</u>
	<u>\$135,000</u>

For 1957, for the period from 1 June to 31 December, the additional cost of implementing the proposals of the Secretary-General would be approximately \$75,000.
