

Supplementary Information on After-Service Health Insurance (ASHI) Liabilities and Funding Gap

[To be read in conjunction with [Document GC/63/7](#)]

1. This document provides supplementary information on the unfunded After-Service Health Insurance (ASHI) liabilities as at 31 December 2020 as described under Note 5.3 of the IARC financial statements ([Document GC/63/7](#)). It explains the underlying reasons leading to the net increase of the unfunded ASHI liabilities and the plan to close this gap.
2. It is important to recognize that **ASHI liabilities are long-term liabilities** and they do not need to be fully funded now or in the near future. Unlike WHO and its administering agencies including IARC, some other UN agencies (e.g. the United Nations Secretariat and the International Labour Organization) are not funding their respective future obligations and opt to operate on a pay-as-you-go basis.
3. **IARC's assets are growing steadily.** On the other hand, the **ASHI liabilities are subject to short-term fluctuations** as the actuarial valuation is based on a number of estimates, including the future health care cost projections of claims for staff and retired staff, the discount rate, the inflation rate and several other socioeconomic assumptions. The net change of ASHI liabilities and unfunded portion as at the end of 2020 were rather unfavourable mainly due to the continued decrease of the discount rate.

Increase of unfunded ASHI liabilities from the prior year

4. The overall unfunded staff benefit liabilities as at 31 December 2020 amounted to €94.93 million, increasing from €75.51 million as at the end of 2019, detailed in Table 1 below. Short- and long-term staff benefit liabilities and terminal benefits are fully funded; the funding gap of €94.93 million represents the net value of the unfunded ASHI liabilities and the surplus of TQ, TP, and POC funds¹ as at the end of 2020.
5. Unfunded ASHI liabilities alone increased from €79.27 million to €99.31 million, a net increase of €20.04 million or 25% from the prior year (see Table 1 and Figure 1).

¹ Non-payroll Staff Entitlement (TQ), Terminal Payment (TP), and Post Occupancy Charge (POC) funds are accrued through budgetary provisions in percentages of staff cost. More details are available under Note 5.3 of the IARC financial statements (Document GC/63/7).

Table 1: Changes of staff benefit liabilities and funding gap (amount in euros)

	31-Dec-20	31-Dec-19	Amount increase/ (decrease)	Note
Short-term staff benefit liabilities	1 259 181	902 205	356 976	
Other long-term staff benefit liabilities	1 904 690	2 077 480	(172 790)	
Terminal benefits	81 653	-	81 653	
Post-employment benefit liabilities (i.e. ASHI – unfunded portion)	99 313 081	79 274 695	20 038 386	Para. 5
Total liabilities related to staff benefits	102 558 605	82 254 380	20 304 225	
Total available TQ, TP, and POC funds	7 630 964	6 704 060	926 904	
Other funding source	-	39 000	(39 000)	
Total unfunded staff benefit liabilities as at 31 December	94 927 641	75 511 320	19 416 321	Para. 4

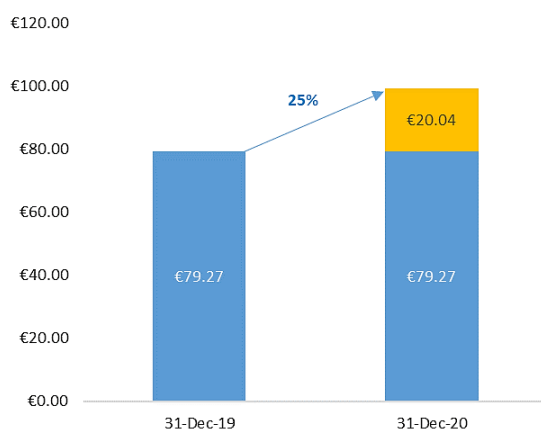


Figure 1: IARC's unfunded ASHI liabilities at the end of 2019 and 2020 (amount in million euros)

6. Figure 2 below provides breakdown of factors contributing to this net increase. In summary, the ASHI liabilities had a net increase of €32.20 million (see paragraphs 12–19). This increase was partially offset by €5.00 million increase of assets (see paragraph 11) and was further offset by €7.16 million of unrealized foreign exchange gain (see paragraphs 7–10), resulting in a net increase of €20.04 million for the unfunded ASHI liabilities as compared to the prior year.

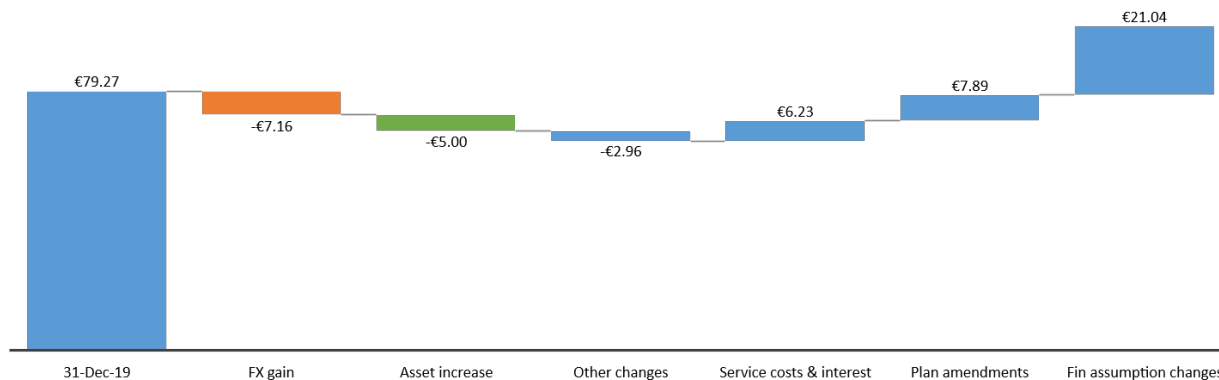


Figure 2: Key factors contributing to an increase of IARC's unfunded ASHI liabilities in 2020 (amount in million euros)

Unrealized foreign exchange gain

7. The World Health Organization (WHO) administers health insurance of staff members of WHO, the Pan American Health Organization (PAHO), the Joint United Nations programme on HIV/AIDS (UNAIDS), the International Drug Purchase Facility (UNITAID), the International Computing Centre (ICC), and IARC. The valuation of Staff Health Insurance (SHI) assets and liabilities of WHO and all other entities are carried out in the WHO functional currency, i.e. US dollar.

8. As IARC accounts are in euros, IARC recognizes the unfunded ASHI liabilities in the financial statements by converting the US dollar value from the actuarial report provided by WHO to euros, using the United Nations Operational Rates of Exchange (UNORE) as at 31 December.

9. Every year-end, the prior year unfunded liabilities are revalued using the current year exchange rate. The change in exchange rate (if any) results in foreign exchange rate gain or loss, which decreases or increases the unfunded liabilities respectively.

10. At the end of 2020, the euro value against the US dollar was appreciated, resulting in **foreign exchange rate gain of €7.16 million** (see calculation in Table 2 below). In turn, this **decreased the unfunded liabilities**.

Table 2: Calculation of exchange rate gain in 2020

	31-Dec-20	31-Dec-19
2019 unfunded ASHI in US dollars	€79 274 695	US\$88 476 222
UNORE EUR/US\$ as at 31 December	0.815	0.896
2019 unfunded ASHI in euros	€72 108 121	€79 274 695
Foreign exchange rate gain in 2020	€7 166 574	

Increase of assets

11. During 2020, additional **€1.59 million** were added to the assets **from contributions** from active participants and the organization, net of reimbursement claims. **Strong asset returns** also produced an incremental return of **€3.41 million**. These two combined further decreased the unfunded ASHI liabilities by €5.00 million.

Net increase of ASHI liabilities

12. During 2020, the ASHI liabilities had a **net increase of €32.20 million**, consisting of the following:

- €21.04 million increase for the financial assumption changes (primarily due to the continued decrease of the discount rate),
- €7.89 million increase for the plan amendments,
- €6.23 million increase for the service cost and interest on liabilities, and
- €2.96 million offsetting (decrease) for the demographic and other changes.

13. The valuation of ASHI liabilities and assets is based on a set of assumptions. Financial assumptions are such as discount rate, inflation rate, salary increase, medical cost trend, assumed SHI contribution growth, etc. Changes in these assumptions result in actuarial gains or losses. For example, a decrease in inflation rate results in actuarial gain (liability decrease) while a decrease in discount rate results in actuarial loss (liability increase).

14. In the 2020 valuation, the inflation rate decreased from 1.30% to 1.10%. The annual medical cost increases were projected at 3.10% in 2021, decreasing to 2.85% from 2026 onwards (compared to 3.10% in all years in the 2019 valuation). Both resulted in a decrease of liabilities.

15. On the other hand, the **discount rate** continued decreasing from 1.3% in 2018 to 0.6% in 2019 and further **dropped to 0.2%** in 2020. This drop in discount rate significantly increased the ASHI liabilities and was **the primary reason for a €21.05 million increase due to financial assumption changes** in the 2020 actuarial valuation.

16. WHO based its discount rates on the yields on high-grade corporate bonds. The rates differ for each region and IARC is grouped under Europe. This discount rate fluctuates depending on the market. According to the sensitivity analysis in the 2020 actuarial report:

- 1% decrease of discount rate would increase liabilities by €44.17 million, and
- 1% increase of discount rate would lower liabilities by €30.94 million.

17. **Plan amendments: €7.89 million** liability increase was **due to a decision for the organization to solely absorb future contribution increases**. Previously, the growth in total (organization plus participant) after-service contribution percentages was shared proportionately between organization and participants. Now, this growth is borne entirely by the organization. By increasing the portion of future cost borne by the organization, this change increases IARC's liabilities. The amendment was recommended by the Staff Health Insurance's Global Oversight Committee (SHI/GOC) and approved by WHO Director-General in 2020.

18. **The Service Cost and interest on liabilities grew €6.23 million** in 2020. The Service Cost is the value of benefits earned during the year by IARC's active staff, since the liability is accrued gradually from hire date to retirement eligibility. The Service Cost primarily increased due to the same factors that drove the actuarial loss.

19. **Actuarial demographic assumptions and few other changes** were more favourable, resulting in **€2.96 million decrease** in liabilities. For the 2020 valuation, WHO continued adopting salary increase, retirement, withdrawal, and mortality assumptions developed and suggested by the United Nations Joint Staff Pension Fund for consistency across the United Nations system.

How IARC manages unfunded ASHI liabilities

20. The ASHI liabilities are long-term liabilities and the unfunded obligation does not need to be immediately funded. At the end of 2020, about 26% of the Agency's ASHI liabilities are already funded and the Agency continues working toward covering 100% over a longer period of time.

21. The decrease of the funded ratio in 2020 was due mainly to the drop in the discount rate, partially offset by strong asset performance. This was consistent with WHO and other agencies administered by WHO as shown in Figure 4 below. According the actuarial, improvements in the funded ratio are expected over time. Notwithstanding the decrease of the funded ratio, IARC's assets are growing steadily.

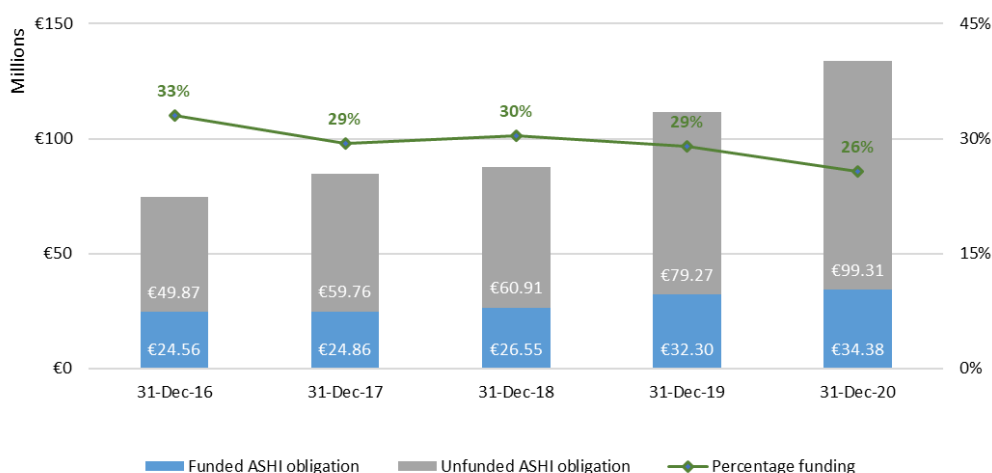


Figure 3: IARC's ASHI liabilities and funded status in 2016–2020 (amount in million euros)

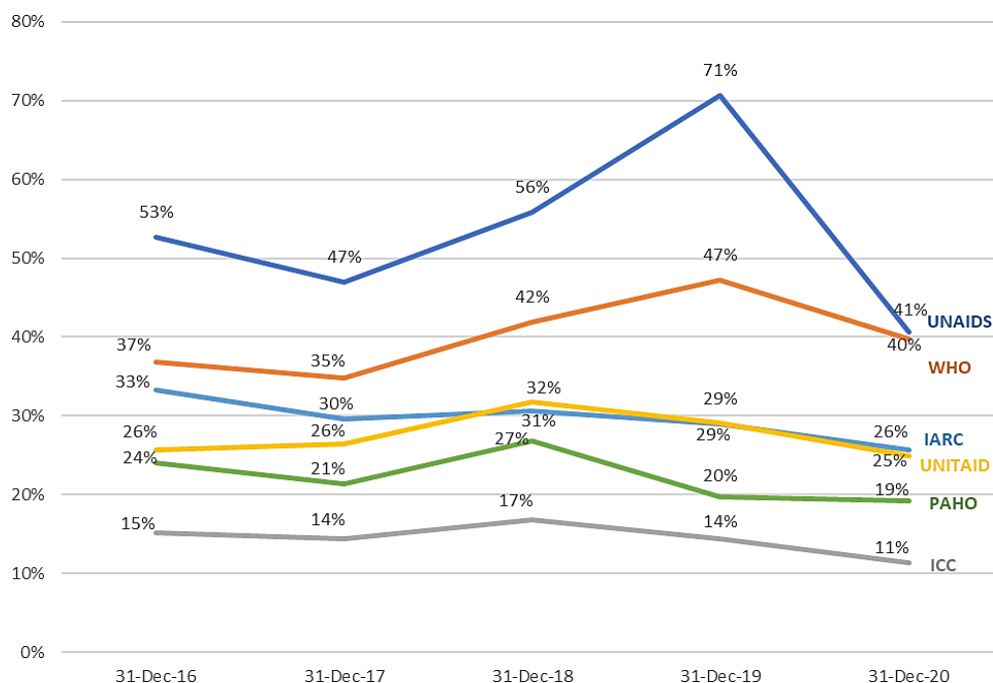


Figure 4: Percentage of IARC's funded ASHI liabilities in 2016–2020 compared with other agencies

22. For context, the United Nations Secretariat decided to apply the “pay-as-you-go” approach on the employee benefits liabilities for activities related to the regular budget and has started a monthly accrual to fund ASHI liabilities relating to extrabudgetary activities since 1 January 2017 ([Document A/73/5 Vol.I](#), page 170). The United Nations continues to explore options to fund the liabilities, including a possible United Nations system-wide approach.

23. At WHO's request, since 31 December 2018, the actuarial calculated a hypothetical "*current eligibility liability*" as if WHO had shut down and all active staff had separated at the valuation date. This analysis shows that the *current eligibility liability* represents only 63% of the ASHI liabilities as at 31 December 2020.

24. IARC follows the plan set by WHO. Based on an actuarial funding study commissioned by the SHI/GOC in early 2020, the full funding target could be achieved by 2035 (in aggregate for the SHI Fund administered by WHO). This target will be achieved through:

- increasing contributions (to be absorbed by the organization only);
- cost containment (through regular negotiations with health care providers to limit medical inflation, case management, and a review of plan design); and
- achieving the current target of a 4.5% investment return over a long-term time horizon.

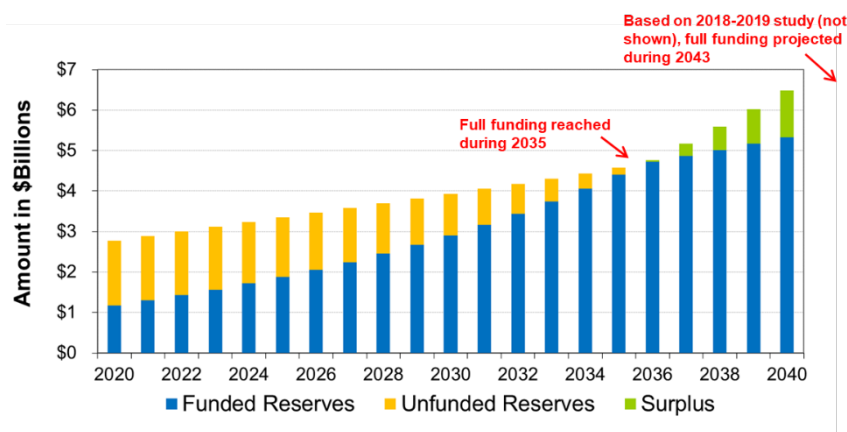


Figure 5: Projected reserve

25. The SHI/GOC has also considered the preventive measures and the quality of healthcare (e.g. length of hospitalization) as elements affecting medical costs in order to inform the actuary's future valuations. Furthermore, the SHI/GOC continues reviewing together with the actuary the assumptions used for valuation and making adjustment as appropriate.

26. The plan in place has been effective, resulting in lower claim costs per capita relative to general market trends in recent years and projected forwards. The contributions to the SHI fund intentionally exceed claims and administrative expenses, building up assets to help cover the existing funding gap and the new benefit accruals. In addition, investment on a portion of the assets has yielded good return. These led to the adjustment of the previous targets (2043 based on 2018–2019 study and 2049 based on 2017 study), aiming to achieve earlier full funding by 2035 as mentioned above.

27. Notwithstanding, during 2021 the actuarial will perform a new analysis based on the latest data to update the projected date for full funding of the ASHI liabilities.