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

[To be read in conjunction with Document GC/61/5]

A. Introduction

1. As described under Note 5.3 of the IARC financial statements (Document GC/61/5), accrued staff benefits as at 31 December 2018 total €63.711 million, of which €57.605 million are unfunded. The slight increases from 2017 in liabilities (2%) and unfunded portion (1%) of accrued staff benefits are mainly derived from the After-Services Health Insurance (ASHI), which were affected largely by unrealized exchange rate loss.

2. In fact, the change in assumptions used for 2018 valuation of ASHI, i.e. increase of the discount rate and lower medical cost rate resulted in the decrease of ASHI liabilities. The valuation of ASHI liabilities was undertaken in US dollars as part of the calculation of the overall ASHI liabilities of WHO, while IARC's accounts are in euros. The depreciation of the euro against the US dollar as at 31 December 2018 as compared to 31 December 2017 resulted in an unrealized exchange rate loss, which had negative effect on this account.

3. For the 2018 valuation of ASHI, the World Health Organization (WHO) continue to adopt 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.

4. Recognizing Participating States request for clarifications on this subject at previous Governing Council sessions, this document was prepared to provide i) background information on the mandatory recognition of staff benefit liabilities, including ASHI in IARC financial statements, ii) further details of the escalated unfunded ASHI liabilities during 2012 to 2018, in conjunction with underlying reasons, and iii) IARC's plan to close the ASHI funding gap.

B. What is ASHI? Why does it need to be included in the IARC financial statements? How does it affect IARC's financial position?

5. Since 1 January 2012, IARC has fully implemented accrual based accounting in compliance with the International Public Sector Accounting Standards (IPSAS). IPSAS 25 required the recognition of employee benefit liabilities in the financial statements. The first time adoption of IPSAS resulted in changes to the assets, liabilities, and net assets/equity in the Statement of Financial Position. Accordingly, the audited Statement of Financial Position as at

31 December 2011 was restated showing an immediate decrease in net assets/equity of € 21.070 million, which was a net result of adjustments on designated voluntary contributions and the recognition of staff benefit liabilities as illustrated in Figure 1 below.

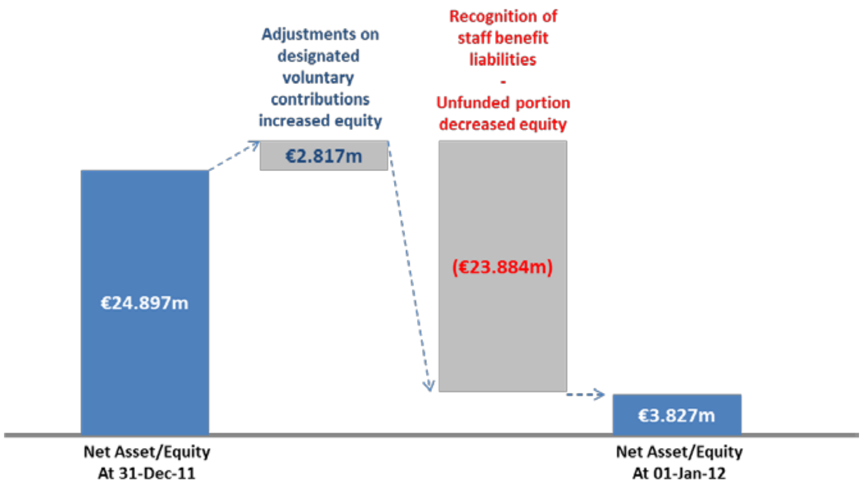


Figure 1 Change in IARC's net assets/equity brought by the first time adoption of IPSAS in 2012

6. The accrued staff benefit liabilities recognized in IARC financial statements include short-term benefits (e.g. accrued annual leave and accrued staff salaries), other long-term benefits (e.g. repatriation grant and travel), and post-employment benefit (i.e. ASHI) liabilities. Its impact on the net assets/equity at the end of 2011, shown in Figure 1, represented the total unfunded staff benefit liabilities, of which 99%, or €23.584 million, was due to unfunded ASHI liabilities.

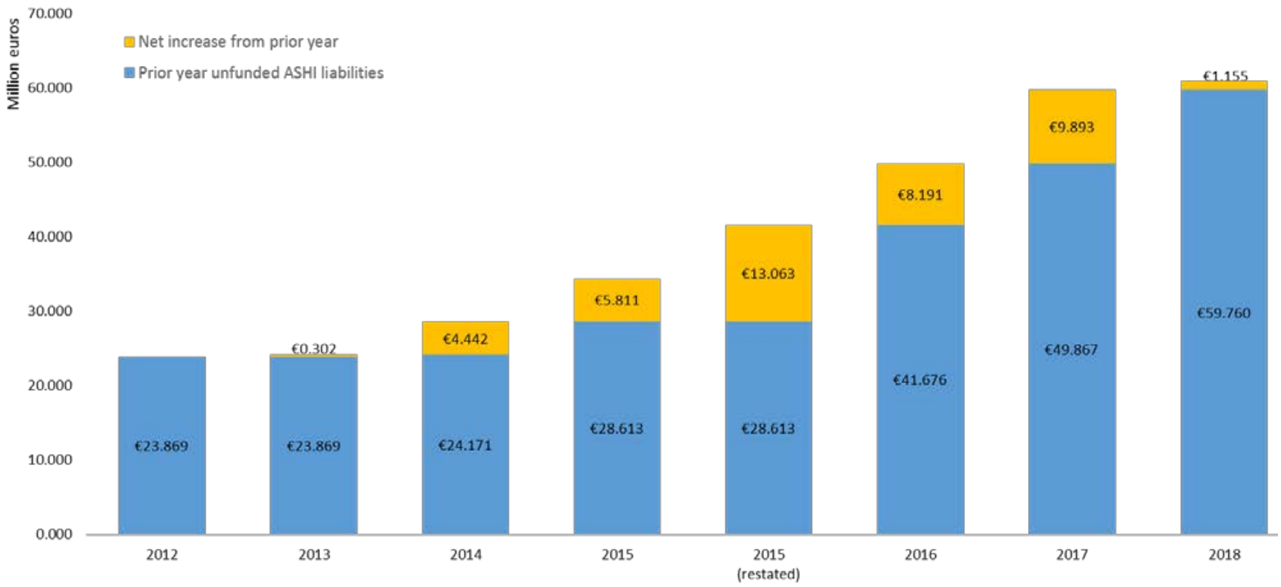
7. The short- and long-term staff benefit liabilities are financed mainly from the Non-payroll Staff Entitlement (TQ) and Terminal Payment (TP) funds maintained at IARC. The TQ and TP funds are accrued through budgetary provisions in percentages of staff cost. At the end of 2012, the unfunded portion of the short- and long-term staff benefit liabilities was €0.196 million and this deficit has been overturned since 2013. A new accrual fund, i.e. Post Occupancy Charge (POC), was established in 2018 for financing IARC's enabling and supportive functions. As at the end of 2018, the TQ, TP, and POC funds have a total net surplus of €3.310 million.

8. In-service and after-service staff health insurance liabilities are funded through the Staff Health Insurance (SHI) Fund administered by WHO Headquarters. The SHI Fund is sourced from the contributions made by active staff members, retirees, and the organization. The value of the Agency's SHI Fund and staff health insurance liabilities as at the end of the year are provided by WHO based on valuation carried out by an independent actuary. The ASHI funding gap at the end of 2012 amounted to €23.869 million and has been further widened to €60.915 million at the end of 2018, reflecting a 155% increase.

9. The overall unfunded staff benefit liabilities of €57.605 million presented in the Statement of Financial Position as at 31 December 2018 and Note 5.3 (as also mentioned in paragraph 1 above) is the net value of the unfunded ASHI liabilities and the surplus of TQ, TP, and POC funds based on the 2018 year-end valuation.

C. How high are the 2018 unfunded ASHI liabilities as compared to the prior years and what are the underlying reasons?

10. Figure 2 below provides the summary of the overall growth of the unfunded ASHI liabilities from 2012 to 2018, with details of the annual net increase broken down by three key components, i.e. impact of the euro/US dollar exchange rate fluctuation, impact of actuarial assumption changes and IPSAS 39 adoption, and real net increase of ASHI liabilities. Each of these components is further explained below.



Amount in million euros

	2012	2013	2014	2015	2015 (restated)	2016	2017	2018
Prior year unfunded ASHI liabilities	23.869	23.869	24.171	28.613	28.613	41.676	49.867	59.760
Net increase from prior year (see below)		0.302	4.442	5.811	13.063	8.191	9.893	1.155
Unfunded ASHI liabilities at year-end	**23.869**	**24.171**	**28.613**	**34.424**	**41.676**	**49.867**	**59.760**	**60.915**
% change from 2012 to 2018								**155%**
Details of net increase from prior year:								
Unrealized exchange rate (gain)/loss		-0.918	3.167	3.280	3.280	1.915	-6.207	2.784
Net increase/(decrease) from actuarial assumption changes and IPSAS 39		0.000	0.000	0.000	7.915	3.898	13.185	-4.776
Real increase/(decrease) in liabilities		1.220	1.275	2.531	1.868	2.378	2.915	3.147
Net increase from prior year		**0.302**	**4.442**	**5.811**	**13.063**	**8.191**	**9.893**	**1.155**

Figure 2 IARC's unfunded ASHI liabilities 2012–2018

Impact of the euro/US dollar exchange rate changes

11. 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. Consequently, the valuation of SHI assets and liabilities of WHO and all other entities are carried out in the WHO functional currency, i.e. US dollar.

12. 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 exchange rate as at 31 December.

13. 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 unrealized exchange rate gain or loss, which decreases or increases the unfunded liabilities respectively.

14. From 2014 to 2016, the depreciation of the euro value resulted in unrealized exchange rate loss, which increased the unfunded ASHI liabilities annually between €1.915 million and €3.280 million. On the contrary, the appreciation of the euro value against the US dollar resulted in an unrealized exchange rate gain of €6.207 million in 2017, which decreased the unfunded liabilities.

15. At the end of 2018, the euro value against the US dollar was depreciated, resulting in an unrealized exchange rate loss of **€2.784 million** (see calculation in the below table). In turn, again this increased the unfunded liabilities.

	2017	2018
2017 unfunded ASHI in US dollars	US$71 397 401	US$71 397 401
Exchange rate €/US$ as at 31 December	0.837	0.876
2017 unfunded ASHI in euros	**€59 759 625**	**€62 544 123**
Exchange rate loss in 2018		*€2 784 499*

16. The fluctuation of the unfunded liabilities due to the exchange rate changes is beyond the Agency's control. Nevertheless, such fluctuation is temporary and unrealized, and should not raise concerns.

Impact of actuarial assumption changes and IPSAS 39 adoption

17. The valuation of ASHI liabilities and assets is based on a set of assumptions, such as discount rate, inflation rate, salary increase, medical cost trend, mortality rate, 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 while a decrease in discount rate results in actuarial loss.

18. During 2012–2015, IARC had applied IPSAS 25 to the accounting and disclosure of staff benefits. In 2016, the International Public Sector Accounting Standards Board published IPSAS 39 to replace IPSAS 25 by 1 January 2018 and encouraged an earlier adoption. In line with WHO, IARC changed its accounting policy to recognize and disclose staff benefits in accordance with IPSAS 39, effective 1 January 2016.

19. Under IPSAS 39, the liabilities and assets of the plan are immediately recognized at each measurement date. The actuarial gains and losses are recognized in the net assets/equity affecting unfunded liabilities immediately. This is a change from IPSAS 25, in which actuarial gains and losses were deferred and potentially amortized over time.

20. The adoption of IPSAS 39 resulted in an increase of the 2015 ASHI liabilities and unfunded gap by €7.252 million as reported in Document GC/59/5, owing in particular to a decrease in the discount rate. Accordingly, the 2015 financial statements were restated.

21. In the 2017 valuation of ASHI, WHO adopted the salary increase, retirement, withdrawal, and mortality assumptions developed and suggested by the United Nations Joint Staff Pension Fund (UNJSPF) for consistency across the United Nations system. The mortality rate decrease due to this adoption increased the ASHI liabilities. Other changes in assumptions particularly the inflation rate increase and the slower assumed contribution growth (i.e. delaying the fully funded target from 2038 to 2050) also had significant impacts. Overall, the actuarial assumption changes resulted in a net increase in the unfunded ASHI liabilities from 2016 by €13.185 million.

22. For the 2018 valuation of ASHI, WHO continued to apply the same assumptions suggested by UNJSPF. Other changes in assumptions including the discount rate increase and lower medical cost rate had positive impacts. Overall, the actuarial assumption changes in the 2018 valuation resulted in a net decrease in the unfunded ASHI liabilities from 2017 by **€4.776 million.**

Real net increase of unfunded ASHI liabilities

23. The real net increase of unfunded ASHI liabilities from 2017 to 2018 after excluding the impacts of exchange rate and actuarial assumption changes described above, amounted to **€3.147 million.** This increase is the net value of service costs increase, contributions paid by staff members and the organization, actual SHI payment, administrative cost, interest, and loss on Gross WHO-Administered Plan Assets during 2018.

24. During 2017, PAHO's claims and administrative expenses related to former staff members (including IARC's) residing within PAHO's administrative jurisdiction exceeded their contributions by a total of US$ 8.867 million. The SHI Global Oversight Committee (SHI/GOC) (see the Annex below) decided, for the first time, to allocate this deficit to WHO/HQ, Regional Offices, and other entities (in accordance with SHI Rule F.8.4[1]) based on their opening balance of SHI assets at the start of the year, with adjustments for certain cash flows during the period. As a result, SHI Fund of IARC totalling €0.294 million was transferred to PAHO in 2017. There was no such transfer in 2018.

[1] SHI Rule F.8.4 provides a provision for earmarking 25% of active staff contributions to cover former staff deficits.

D. What measures is IARC implementing to manage the growing deficit in 2018?

25. About 30% of the Agency's liabilities with respect to ASHI are already covered and it is moving in the right direction to cover 100% over a long period of time. The funding gap is unrealized, in the sense that the deficit does not need to be immediately funded.

26. For context, the United Nations 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/72/5 Vol.I, page 170). The United Nations continues to explore options to fund the liabilities, including a possible United Nations system-wide approach.

27. IARC follows the plan set by WHO. The plan approved in 2017 targeted full funding by 2049 (in aggregate for the SHI Fund administered by WHO). This target was based on an actuarial funding study commissioned by the SHI/GOC in 2017. This target will be achieved through a 4% increase in contribution rate per year until 2019, 2% increase from 2020 to 2049, and no increase from 2050 onwards.

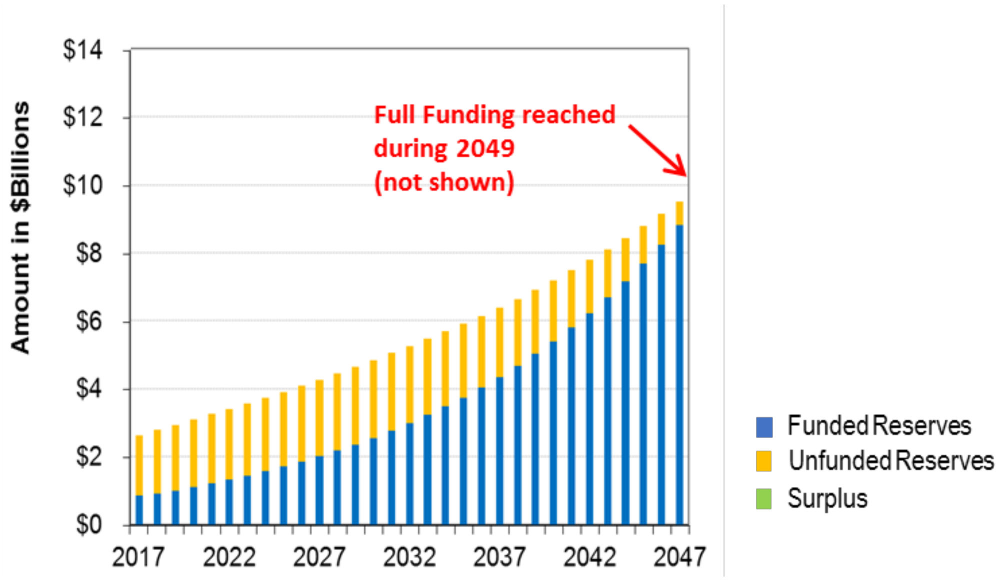


Figure 3 Plans to meet the Unfunded Deficit

28. The 2017 plan adjusted the previous target aiming to reach full funding by 2036. The slower assumed contribution growth of this revised plan reduces the near-term burden of increased contribution on active SHI participants and the organization as a whole.

29. Due to its significance, the plan to address the ASHI funding gap is reviewed regularly by the SHI/GOC. During its June 2019 meeting, the SHI/GOC is scheduled to discuss a further revision, bringing the full funding target forward from 2049 to 2043. This revised target is made possible largely by lower projected medical claim cost per capita and continued increase in contributions.

30. The below table summarizes the approved annual contribution rate increase from 2012 and the plan as from 2020 if the above revision is adopted.

Years	Annual contribution rate increase
2012	10%
2013–2019	4%
2020–2043	2%
2044 onward	0%

31. It has been agreed that it would be beneficial for the SHI/GOC to also consider the impact of preventive measures and the quality of healthcare (e.g. length of hospitalization) affecting medical costs in order to inform the actuary's future valuations.

32. In addition, SHI/GOC continues reviewing together with the actuary the assumptions used for valuation and making adjustment as appropriate.

Annex – SHI Global Oversight Committee

The role of SHI/GOC is to oversee the SHI and advise the WHO Director-General on SHI operations and management, finance and investments, audit and control, benefits and best practices, rules and Governance.

The SHI/GOC is composed of:

- WHO Assistant Director-General, General Management (ex officio, Chair); Comptroller (ex-officio, non-voting) (alternate Chair);
- A Director of Administration and Finance representing all WHO Regions (currently filled by IARC Director of Administration and Finance);
- A Representative designated by the Staff Committee at HQ and a Representative designated by a Regional Staff Committee;
- One member elected by the former staff members, at large, who are participants in the ASHI.