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

[To be read in conjunction with Document GC/60/7]

A. Introduction

1. As described under Note 5.3 of the IARC financial statements (Document GC/60/7), accrued staff benefits as at 31 December 2017 total €62.487 million, of which €56.764 million are unfunded. The increases from 2016 in liabilities (18%) and unfunded portion (19%) of accrued staff benefits are mainly on the After-Services Health Insurance (ASHI), which were affected largely by the change in valuation assumptions including the inflation rate increase, the salary increase, the medical cost increase, the mortality rate decrease, and the slower assumed contribution growth.

2. For 2017 valuation of ASHI, the World Health Organization (WHO) adopted the 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.

3. Recognizing the request for clarifications from Participating States at previous Governing Council sessions, this document provides background information on the mandatory recognition of staff benefit liabilities including ASHI in IARC financial statements, further details of the escalated unfunded ASHI liabilities during 2012 to 2017 together with the underlying reasons, and the 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 the IARC financial position?

4. Since 1 January 2012, IARC has fully implemented the full accrual basis of 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.

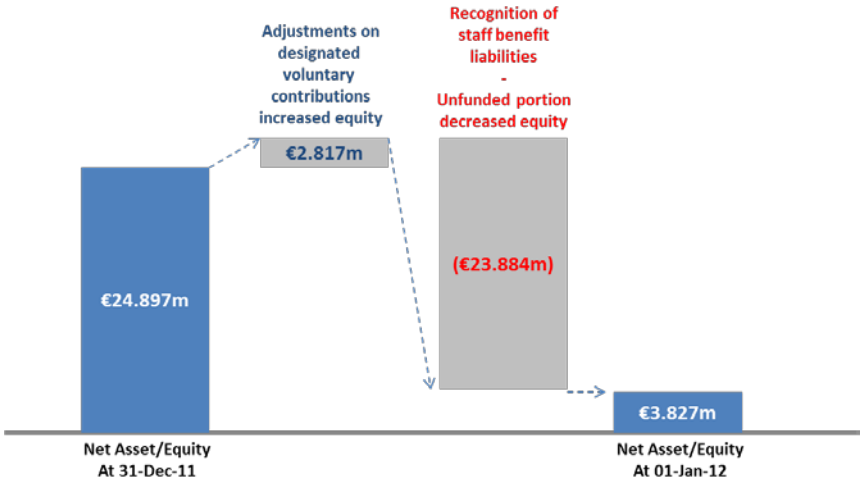


Figure 1 Change in net assets/equity brought by the first time adoption of IPSAS

5. 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 to 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 the unfunded ASHI liabilities.

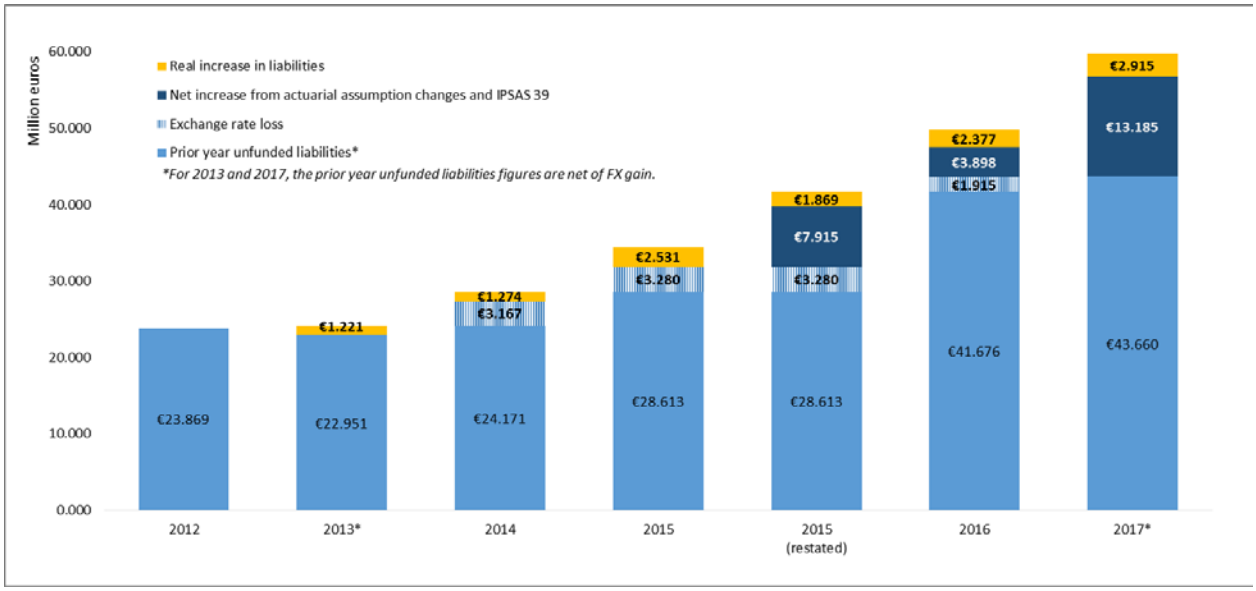
6. The short- and long-term staff benefit liabilities are financed mainly from the Non-payroll Staff Entitlement (TQ) and Terminal Payment (TP) funds maintained at IARC. The TQ and TP funds are accrued through budgetary provisions in percentages of staff cost. At the end of 2012, the unfunded portion of the short- and long-term staff benefit liabilities was €0.196 million. This deficit has been overturned since 2013 and at the end of 2017, the funds have a net surplus of €2.995 million.

7. 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 the active staff members, the 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 the valuation carried out by independent actuaries. The ASHI funding gap at the end of 2012 was €23.869 million and has been further widened to €59.759 million at the end of 2017, a 150% increase.

8. The overall unfunded staff benefit liabilities of €56.764 million presented in the Statement of Financial Position as at 31 December 2017 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 and TP funds based on the 2017 year-end valuation.

C. How high are the 2017 unfunded ASHI liabilities as compared to the prior years and what are the underlying reasons?

9. Figure 2 below provides the summary of the overall growth of the unfunded ASHI liabilities from 2012 to 2017, breaking down by three key components, i.e. the impact of the euro/US dollar exchange rate fluctuation, the impact of actuarial assumption changes and IPSAS 39 adoption, and the real net increase of ASHI liabilities. Each of these components is further explained below.



Amount in euro

	2012	2013*	2014	2015	2015 (restated)	2016	2017*
Prior year unfunded ASHI liabilities as in financial statements	23,868,631	23,868,631	24,171,124	28,612,693	28,612,693	41,676,152	49,867,062
Exchange rate gain		-918,024					-6,207,302
Prior year unfunded liabilities*	**23,868,631**	**22,950,607**	**24,171,124**	**28,612,693**	**28,612,693**	**41,676,152**	**43,659,760**
Exchange rate loss			3,167,251	3,279,992	3,279,992	1,915,097	
Net increase from actuarial assumption changes and IPSAS 39					7,914,722	3,898,459	13,184,784
Real increase in liabilities		1,220,517	1,274,318	2,530,969	1,868,745	2,377,355	2,915,080
Total unfunded ASHI liabilities	**23,868,631**	**24,171,124**	**28,612,693**	**34,423,654**	**41,676,152**	**49,867,062**	**59,759,625**
% change from 2012							150%

*For 2013 and 2017, the prior year unfunded liabilities figures are net of FX gain.

Figure 2 Unfunded ASHI liabilities

Impact of the euro/US dollar exchange rate changes

10. 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.

11. 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 value using the United Nations exchange rate as at 31 December.

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

13. From 2014 to 2016, the depreciation of the euro value resulted in the unrealized exchange rate loss, which increased the unfunded ASHI liabilities from €1.915 million to €3.280 million annually.

14. At the end of 2017, the appreciation of the euro value against the US dollar resulted in an unrealized exchange rate gain of €6.207 million (see calculation in the below table), resulting in a decrease in unfunded liabilities.

	2016	2017
2016 unfunded ASHI in US dollars	US$52 162 199	US$52 162 199
Exchange rate €/US$ as at 31 December	0.956	0.837
2016 unfunded ASHI in euros	**€49 867 062**	**€43 659 760**
Exchange rate gain in 2017		*€6 207 302*

15. 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

16. 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 and losses. For example, a decrease in inflation rate results in actuarial gain while a decrease in discount rate results in actuarial loss.

17. 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.

18. 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 the unfunded liabilities immediately. This is a change from IPSAS 25, in which actuarial gains and losses were deferred and potentially amortized over time.

19. 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.

20. For 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 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.

Real net increase of unfunded ASHI liabilities

21. The real net increase of unfunded ASHI liabilities from 2016 to 2017 after excluding the impacts of exchange rate and actuarial assumption changes described above, amounted to €2.915 million. The main factor contributing to this increase was the projected increase in the medical costs from 2.9% to 3.25%. This increase is the net value of service costs, contributions paid by staff members and the organization, actual SHI payment, administrative cost, interest, and SHI assets transferred to PAHO.

22. The increase of unfunded liabilities was partially due to the decrease in IARC's SHI Fund. During 2017, PAHO's claims and administrative expenses related to former staff members residing within PAHO's administration 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.

D. What measures is IARC implementing to manage the growing deficit in 2017?

23. 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 longer period of time. The funding gap is unrealized, in the sense that the deficit does not need to be immediately funded.

24. 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. The United Nations continues to explore options to fund the liabilities, including a possible United Nations system-wide approach (Document A/72/5 Vol.I, page 155).

25. IARC adopted WHO's latest plan approved in 2017, targeting full funding by 2050 (in aggregate for the SHI Fund administered by WHO). This target will be achieved through the 4% increase in contributions per year until 2019, 2% increase from 2020 to 2049, and no increase from 2050 onwards.

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

26. This is a change from the previous plan that aimed to reach full funding during 2036. The slower assumed contribution growth of this revised plan reduces the near-term burden of increased contribution on SHI participants and organization.

27. 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.

28. 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 Regional 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.

IARC has representation on the SHI/GOC through membership of the Director of Administration and Finance, who has been selected to represent his homologues in all WHO regional offices.