

Monday 11 and Tuesday 12 May 2020

To be held by webconference (due to COVID-19 pandemic and travel restrictions)

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

[To be read in conjunction with [Document GC/62/7](#)]

1. This document provides supplementary information on the unfunded After-Services Health Insurance (ASHI) liabilities as at 31 December 2019 as described under Note 5.3 of the IARC financial statements ([Document GC/62/7](#)) and underlining reasons leading to the net increase from the prior year.
2. Further background information on the mandatory recognition of staff benefit liabilities, including ASHI, in IARC financial statements and the escalation of unfunded ASHI liabilities during 2012 to 2018 can be found in document [GC/61/Inf.Doc. No.4](#).

Increase of unfunded ASHI liabilities from the prior year

3. The overall unfunded staff benefit liabilities as at 31 December 2019 amounted to €75.51 million, increasing from €57.60 million as at the end of 2018, detailed in Table 1 below. Short- and long-term staff benefit liabilities are fully funded; the funding gap of €75.51 million represents the net value of the unfunded ASHI liabilities and the surplus of TQ, TP, and POC funds¹ as at the end of 2019.

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

	31-Dec-19	31-Dec-18	Amount increase/ (decrease)	Note
Short-term staff benefit liabilities	902 205	868 214	33 991	
Other long-term staff benefit liabilities	2 077 480	1 928 140	149 340	
Post-employment benefit liabilities (i.e. ASHI – unfunded portion)	79 274 695	60 914 661	18 360 034	Para. 4
Total liabilities related to staff benefits	82 254 380	63 711 015	18 543 365	
Total available TQ, TP, and POC funds	(6 704 060)	(6 106 270)	(597 790)	
Other funding source	(39 000)	-	(39 000)	
Total unfunded staff benefit liabilities as at 31 December	75 511 320	57 604 745	17 906 575	Para. 3

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/62/7)

4. Unfunded ASHI liabilities increased by €18.36 million or 30% from the prior year. Figure 1 below provides the breakdown of key factors contributing to this increase, i.e. exchange rate loss, financial assumption changes, demographic changes, and others. Each of these factors are further explained below.

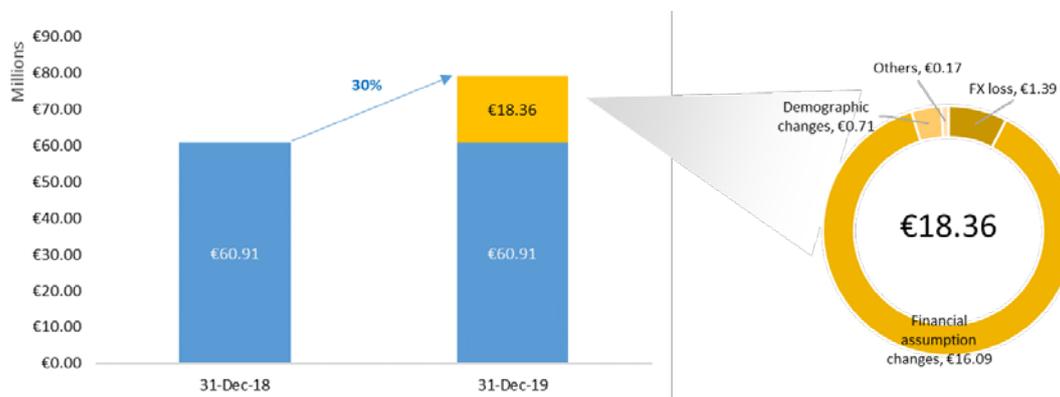


Figure 1: Key factors contributing to an increase of IARC's unfunded ASHI liabilities in 2019

Impact of the euro/US dollar exchange rate changes

5. 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.

6. 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.

7. 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.

8. At the end of 2019, the euro value against the US dollar was depreciated, resulting in an unrealized exchange rate loss of **€1.39 million** (see calculation in the below table). In turn, again this increased the unfunded liabilities.

Table 2: Calculation of exchange rate loss in 2019

	31-Dec-19	31-Dec-18
2018 unfunded ASHI in US dollars	US\$69 537 284	US\$69 537 284
Exchange rate €/US\$ as at 31 December	0.896	0.876
2018 unfunded ASHI in euros	€62 305 407	€60 914 661
<i>Exchange rate loss in 2019</i>	<i>€1 390 746</i>	

9. 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 financial assumption changes

10. 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 while a decrease in discount rate results in actuarial loss.

11. In 2019 valuation, the discount rate was sharply decreased from 1.3% to 0.6% while the inflation rate was slightly decreased from 1.4% in 2018 to 1.3%.

12. The updated discount rate alone resulted in the actuarial loss of €18.73 million. This was partially offset by net reductions to expectations for general and medical inflation (€2.60 million) and other financial assumption changes (€0.04 million).

13. Overall, the actuarial financial assumption changes in 2019 valuation resulted in a net increase in the unfunded ASHI liabilities from 2018 by **€16.09 million**.

14. 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 actuarial report, 1% decrease of discount rate would increase liabilities by €36.30 million while 1% increase of discount rate would lower liabilities by €25.46 million.

Impact of actuarial demographic assumption changes

15. For the 2019 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.

16. Census data was updated as of 31 October 2019 (proxy for 31 December 2019). Last census data update was September 2016. Updated data for IARC included additional three headcounts.

17. Rates of separation (death, disablement, pre-retirement withdrawal, and retirement), were also updated based on the United Nations' Task Force harmonization guidance.

18. WHO was informed by the Task Force of a technical change made to the mortality assumption after the issuance of the valuation report and decided, in consultation with the Actuarial, determined that the change was immaterial to the 31 December 2019 valuation and did not reflect the change.

19. Overall, the actuarial demographic assumption changes in 2019 valuation resulted in a net increase in the unfunded ASHI liabilities from 2018 by **€0.71 million**.

Impact of other factors

20. Besides the exchange rate loss, financial assumption changes, and demographic changes, the unfunded ASHI liabilities as at the end of 2019 were increased by **€0.17 million** due to net effect of other factors. Those included the projected service costs that were partially offset by the favourable plan amendment adopted during 2019, net increase of contributions paid by staff

members, the organization and retirees, interest income, and gain on Gross WHO-Administered Plan Assets during 2019.

How IARC manages unfunded ASHI liabilities

21. About 29% 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.

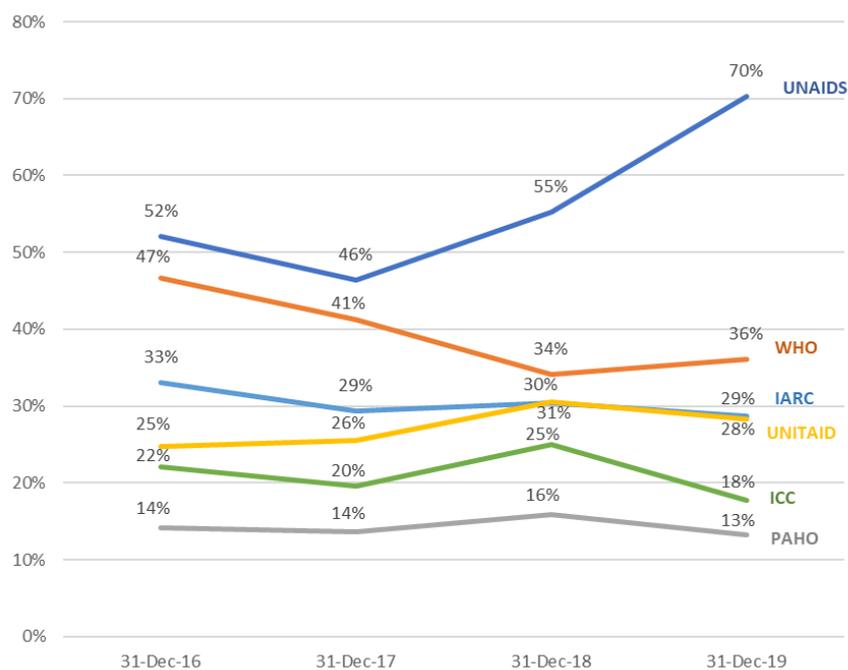


Figure 2: Percentage of IARC’s funded ASHI liabilities in 2016–2019 compared with other agencies

22. 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/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. IARC follows the plan set by WHO. Based on an actuarial funding study commissioned by the Staff Health Insurance’s Global Oversight Committee (SHI/GOC) 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 by 2% per annum;
- 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.

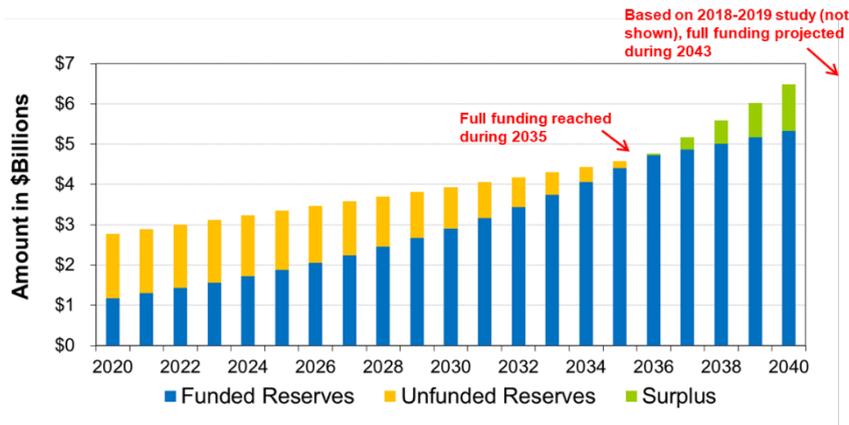


Figure 3: Projected reserve

24. 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 deficit and the new benefit accruals. In addition, investment on a portion of the assets has yielded good return. This led to the adjustment of the previous targets (2043 based on 2018–2019 study and 2049 based on 2017 study), aiming to achieve the earlier full funding by 2035.

25. 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.

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