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| **31 March 2017** |
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| Report by the Secretary-General |
| THE AFTER-SERVICE HEALTH INSURANCE (ASHI) LIABILITY |

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| SummaryThis document presents the situation of the After-Service Health Insurance (ASHI) liability as of 31 December 2016, following a request made by Council-14 to receive annual reports from ITU on ASHI liability and to present cost proposals to partially fund this liability, consistent with Recommendation 6 of the External Auditor’s reports on the accounts for 2012.Action requiredThe Council is invited to **take note** of this document.\_\_\_\_\_\_\_\_\_\_\_\_References[C16/46](http://www.itu.int/md/S16-CL-C-0046/en) and [Decision 5](http://www.itu.int/en/council/Documents/fin-hr/ref-dec005.docx) (Rev. Busan, 2014) |

**1 Introduction**

1.1 ITU Net Assets have evolved from a positive to a negative balance due to the treatment of the ASHI obligation under IPSAS, triggering the mandatory recognition of the present value of the future obligation related to After-Service Health Insurance (ASHI).

1.2 The ASHI programme, which is providing a continuation of health insurance after retirement for eligible employees in the form of a self-funded programme, was set up in 1967. Since then, the related costs shared between the Union and the staff have considerably increased due to the increase of the population of retirees covered and the increase in medical costs.

1.3 This situation was under scrutiny already before the International Public Sector Accounting Standards (IPSAS) implementation: under the United Nations System Accounting Standards (UNSAS) till 2009, the situation was detailed in a note to the financial statements. The unfunded obligation as per 31 December 2009 amounted to USD 181 million. Under IPSAS, however, a liability must be booked to reflect at the closing date the present value of what ITU should pay today – in case of cessation of activity – as expenses not covered by the assets of the ASHI fund, until there are no longer any ex-employees covered by the plan.

1.4 Although this situation is highly improbable, the Union is aiming to increase the fund coverage and thus reduce the related obligation. Actions have been taken in order to return to a situation where the health insurance plan presents surpluses in order to ensure the coverage on the pay-as-you-go basis and create resources available to fund the actuarial liability.

1.5 The ASHI-related obligation as of 31 December 2016 amounts to CHF 551.9 million. This significant increase from CHF 472.8 million at the end of 2015 is mainly due to the decrease of the discount rate used to calculate the present value of the future cumulated claims. Although this situation is linked with all-time low interest rates (ITU discount rate is based on AA corporate obligations return), the evolution of the discount rate is unpredictable in the long term and increases might have a significant positive impact on the ASHI obligation. ITU is committed to continue funding the ASHI obligation on a long-term basis, while focusing its effort on financing the health insurance scheme on a pay-as-you-go basis. It is to be noted that the estimated health insurance contributions from ITU related to active staff as well as retirees are included in the biennium budget presented to the Council.

1.6 In order to optimize its cost containment, ITU ended its participation in the Staff Health Insurance Fund (SHIF), created at the ILO, and as from 1 May 2014, implemented a staff health insurance scheme called the ITU Collective Medical Insurance Plan (CMIP). The plan, administered by ITU, is based on a contract signed with the companies Cigna/Vanbreda International, Cigna being the insurer and Cigna/Vanbreda being the claims administrator.

**2 Evolution of the ASHI liability in 2016**

2.1 The evolution of the ASHI liability since 2010 resulted in increasingly negative net assets as the actuarial losses were recorded in the net assets in full. At the end of 2016, the ASHI liability significantly increased due to the variation of assumptions and triggered an increase of the liability of CHF 79.1 million and a negative impact on ITU net assets of CHF 65.4 million.

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| Amount of obligations under the ASHI plan at 31 December 2016 and 2015 in the statement offinancial position | ***In thousands of CHF*31.12.2016** | ***In thousands of CHF*31.12.2015** |
| Balance at 31 December  | *472’801* | *512’661* |
| Total expenses recognized in the statement of financial performance | *22’229* | *22’889* |
| Actuarial losses recognized in net assets | *65’443* | *-55’572* |
| Contributions during the period | *-8’562* | *-7’177* |
| Unrealized exchange-rate loss / ( gain) | *0* | *0* |
| Amount of obligations under the ASHI plan at 31 December  | *551’911* | *472’801* |

2.2 The calculation of the ASHI liability is based on assumptions and adjustments based on experience of the year. In 2016, one major factor is impacting the valuation: the decrease of the discount rate. The analysis of the amount recognized in the net assets is illustrated below.

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| Analysis of actuarial losses recognized in net assets | ***In thousands of CHF*** |
|  | **31.12.2016** | **31.12.2015** |
| Obligation due to changes in assumptions | *42’746* | *3’238* |
| Obligation due to experience during the period | *22’697* | *(58’810)* |
| Losses /Gains in plan assets |  |  |
| Variation over the period |  *65’443* |  *(55’572)* |
| Cumulative amount recognized in net assets at 31 December | *322’ 579* | *257’136* |

2.3 Among the actuarial assumptions used in the actuarial valuation, the discount rate, increase of medical costs, and increase of salary have the most significant impact. A decrease of discount rate or increase in medical costs results in an increase of the ASHI liability, whereas an increase of salary results in an increase of the members’ and ITU’s contributions and support to the funding of the ASHI liability.

2.4 The discount rate is the variation that has the most significant impact on the value of the liability at the end of the year. The discount rate is based on AA Corporate obligations return, which strongly decreased in 2016 from 1.32% in 2015 to 0.92%.

2.5 The evolution of these assumptions is illustrated in the table below.

**Actuarial estimates retained for the actuarial valuation with significant impact on the IPSAS 25 Obligation and ITU Net asset**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|   | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|   |  |   |   |   |   |   |   |
| Discount rate | *3.25%* | 2.50% | 2.24% | 2.76% | 1.51% | 1.32% | 0.92% |
| Increase in medical cost | *3.80%* | *6.00%* | *5.70%* | *5.40%* | *5.10%* | *4.80%* | *4.50%* |
| Salary increase | *2.50%* | *3.80%* | *3.58% P* | *3.58% P* | *3.86% P* | *3.50%* | *3.50%* |
|   |   | *3.48% G* | *3.48% G* | *3.32% G* |  |   |

2.6 The evolution of the ASHI liability since 2010, as well as its impact on net assets is illustrated in the table below.

**Development of ITU net assets due to the recognition of an ASHI Obligation according to IPSAS 25**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| In thousand CHF |  **Jan. 10** |  **Dec. 10** |  **Dec. 11** | **Dec. 12** |  **Dec. 13** |  **Dec. 14** |  **Dec. 15** |  **Dec. 16** |
| Present value of unfunded obligation |  -172,364  |  -211,872  |  -278,684  |  -335,206  |  -314,127  |  -512,661  |  -472,801  |  -551,911  |
| Impact on net assets |  |  -39,706  |  -66,204  |  -45,851  |  26,498  |  -187,445  |  55,572  |  -65,443  |
| Opening amount recognized under effect of transition to IPSAS |  -172,364  |  |  |  |  |  |  |   |
|   |  |  |  |  |  |  |  |   |
| Cumulated ASHI Obligation in the Net assets |   |  -39,706  |  -105,910  |  -151,761  |  -125,263  |  -312,708  |  -257,136  |  -322,579  |
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**3 Actions taken**

3.1 Since 2010, the funding of the ASHI actuarial liability has been a concern and resulted in measures taken in order to ensure the financing of health insurance on a pay-as-you-go basis as well as the long-term funding of the ASHI liability.

***Increase in contributions***

3.2 Until 2013, the budget included only a charge of 3.31 percent representing the ITU contribution for health insurance for active and retired staff. In the 2014-2015 budget, this percentage was increased to 3.91 per cent in order to balance the contributions and the payment of health insurance-related claims. However, this increase is not sufficient to fund the liability. On the long term, this percentage should be reviewed and increased in order to primarily prevent a deficit of the plan and enable the building of reserves to ensure the financing on a pay-as-you-go basis. The proposed rate for ITU budget 2016-2017 was 4.70 per cent.

3.3 This increase is financed by the insured active and retired staff as well as by ITU.

3.4 Under the CMIP, these contributions are collected by ITU and fix annual premiums paid to Cigna/Vanbreda. Any surpluses between contributions and premiums are paid into the CMIP guaranty fund in order to fund future deficits.

***Creation of a CMIP guaranty fund***

3.5 In accordance with Decision 593, the provident fund has been closed and an amount of CHF 1.1 million was transferred to the CMIP guaranty fund. The 2016 surplus of the CMIP members’ contributions, as well as ITU contributions, against the premiums paid to Cigna/Vanbreda has been paid into the CMIP guaranty fund. This fund will be dedicated to the funding of the scheme on a pay-as-you-go basis.

3.6 Moreover, the calculation of the ITU residual guaranty fund in the SHIF scheme was finalized in 2016. The balance of the CMIP guarantee fund amounts to CHF 12.2 million as at end of 2016.

***Creation of funds for the long-term financing of the ASHI actuarial liability***

3.7 Council 2013 decided the creation of a CHF 4 million ASHI fund to be taken from the Reserve Account in order to start funding the ASHI obligation. Additional CHF 2 million, in 2013, CHF 1 million in 2014 and CHF 0.5 million in 2016 budgetary surpluses, were also paid into the ASHI Fund. The Council 2015 authorized the allocation of CHF 1 million to this fund through a withdrawal from the Reserve Account. At 31 December 2016, the ASHI Fund amounted to CHF 8.5 million.

3.8 Decision 5 was amended at the 2014 Plenipotentiary Conference in Busan, in order to instruct the Council to authorize the Secretary-General, in accordance with Article 27 of the Financial Regulations and Financial Rules, to allocate to the ASHI fund, from the Reserve Account, an amount up to that which is actually used to balance the biennial budget from the Reserve Account.

3.9 The variation of the obligation could fluctuate positively on a long-term basis due to the long-term variation of discount rates, as the current discount rates are historically low and triggered an exceptionally high negative impact on net assets.

3.10 The magnitude of the ASHI obligation and the current budgetary constraints do not currently allow a faster financing of the ASHI obligation. The evolution of the ASHI liability will continue to be carefully monitored.

***Review of the benefits provided and cost containment***

3.11 The common Health Insurance scheme with the ILO has been terminated to enable the transition to a privately insured plan with Cigna/Vanbreda as of 1 May 2014. The benefits from the previous scheme have been mirrored. However, a deductible has been introduced in order to contain costs. Moreover, the choice of the private insurer as the administrator of the CMIP has been made in order to improve costs containment, as well as the detailed reporting and analysis of the claims, in order to optimize the monitoring of the scheme. Further measures will be taken, if necessary, in order to ensure the CMIP financing on a pay-as-you-go basis.

***Participation in the United Nations working group on ASHI***

3.12 ITU is a member of the United Nations working group currently working on identifying options to contain health insurance costs and finance the ASHI liability. This group is considering the feasibility of a common ASHI system for all UN organizations.

3.13 Reference is made to the study conducted by the Advisory Committee on Administrative and budgetary Questions, which submitted its report to the United Nations General Assembly (UNGA) at its 68th session on 25 October 2013 (A/68/550). According to this report, the pay-as-you-go system remains the only viable solution considered. Considering the comprehensive long-term strategies for financing ASHI, a policy that set aside adequate funds to meet the costs of current plan participants as well as future benefit liabilities was proposed through:

- a charge equivalent to 4.5 per cent of total staff costs across all funding sources in order to cover the cost of benefits earned during the current period of active service with regard to active staff members who are currently accruing an entitlement towards ASHI;

- an additional charge, to be included in common staff costs, equivalent to 2 per cent of total staff costs across all funding sources in order to address the unfunded and already accrued liabilities. It was estimated that the full funding of these liabilities could be achieved in 20 years using this approach, after which the 2 per cent charge as well as the pay-as-you-go requirement would be discontinued.

3.14 The Advisory Committee also noted that the funding of ASHI is an issue of system-wide concern and should in the long-term be handled in a system-wide approach similar to that currently employed by the UNJSP.

3.15 As such future developments with systemic impact cannot be presumed, ITU increased in 2014 the contributions paid by the members and by the organization to ensure the financing of health insurance on a pay-as-you-go basis.

**4 Conclusion**

4.1 The issue of financing the ASHI obligation is common to many UN System organizations. The UN System Chief Executive Board for Coordination (CEB) High-Level Committee on Management (HCLM) has identified the need for a common approach to the funding of growing ASHI liabilities within its Priority Issues for 2013-2016. However, future decisions from the UNGA, which might result in a common approach of the ASHI management for UN organizations and specialized agencies, cannot be foreseen. Meanwhile, ITU will continue to focus on cost containment with the new service provider and has proposed an increase in the percentage of contributions for the CMIP members and for ITU in the 2018-2019 budget like the 2016-2017 budget in order to ensure the financing of health insurance on a pay-as-you-go basis. Furthermore, ITU will continue to fund the ASHI reserve as far as possible according to the budgetary surpluses.

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