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| **Council 2019 Geneva, 10-20 June 2019** |  |
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| **Agenda item: ADM 15** | **Document C19/46-E** |
| **23 April 2019** |
| **Original: English** |
| Report by the Secretary-General | |
| THE AFTER-SERVICE HEALTH INSURANCE (ASHI) LIABILITY | |

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| Summary  This document presents the situation of the After-Service Health Insurance (ASHI) liability as of 31 December 2018, 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 required  The Council is invited to **take note** of this document.  \_\_\_\_\_\_\_\_\_\_\_\_  References  [C18/46](http://www.itu.int/md/S18-CL-C-0046/en) and [Decision 5](http://www.itu.int/en/council/Documents/fin-hr/ref-dec005.docx) (Rev. Dubai, 2018) |

**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 was set up in 1967, provides a continuation of health insurance after retirement for eligible employees in the form of a self-funded programme. Since then, the increase of the population of retirees covered and the increase in medical costs have triggered a considerably increase in the related costs shared between the Union and the staff.

1.3 The ASHI liability reflects at the closing date the present value of what ITU should pay today in case of cessation of activity. 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.

1.4 The ASHI-related obligation as of 31 December 2018 amounts to CHF 552.24 million. This significant decrease from CHF 617.25 million at the end of 2017 to CHF 552.24 million in 2018 could be explained by different factors. One of them is the increase from 0.90 per cent to 1.20 per cent of the discount rate used to calculate the present value of the future cumulated claims.

1.5 Nevertheless, the decrease in 2018 is also due to the change of the assumptions including the new medical claims table reflecting the good claims experience in the recent past.

1.6 Since 2014, in a view of optimizing its cost containment, ITU 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. The decision on the arbitration between ITU and ILO with regard to the splitting of the guarantee fund, following the ITU/ILO separation, was made in July 2018. An amount of USD 9.4 million has been paid by the ILO to ITU. The amount has been allocated to the guarantee fund of the health insurance scheme (CMIP).

1.7 ITU is committed to continue funding the ASHI obligation on a long-term basis, while focusing its efforts 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.

**2 Evolution of the ASHI liability in 2018**

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 2018, the ASHI liability decreased due to the variation of assumptions and triggered a decrease of the liability of CHF 65 million and a positive impact on ITU net assets of CHF 87.2 million.

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| **Amount of obligations under the ASHI plan at 31 December 2018 and 2017 in the statement of financial position** | ***In thousands of CHF* 31.12.2018** | ***In thousands of CHF* 31.12.2017** |
| Balance at 31 December 2017-2016 | 617,250 | 551,911 |
| Total expenses recognized in the statement of financial performance | 28,548 | 25,375 |
| Actuarial losses recognized in net assets | -87,277 | 47,125 |
| Contributions during the period | -6,281 | -7,161 |
| Unrealized exchange-rate loss / (gain) | 0 | 0 |
| Amount of obligations under the ASHI plan at 31 December 2018-2017 | 552,240 | 617,250 |

2.2 The calculation of the ASHI liability is based on assumptions and adjustments based on experience of the year. The analysis of the amount recognized in the net assets is illustrated below.

2.3 It has to be noted that further to a decision of the UN IPSAS task force all the assumptions related to the ASHI valuation have been harmonized among the UN agencies.

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| --- | --- | --- |
| Analysis of actuarial losses recognized in net assets | ***In thousands of CHF*** | |
|  | **31.12.2018** | **31.12.2017** |
| Obligation due to changes in assumptions | -98,029 | 75,452 |
| Obligation due to experience during the period | 10,752 | -28,327 |
| Variation over the period | -87,277 | 47,125 |
| Cumulative amount recognized in net assets at 31 December | 282,427 | 369,704 |

2.4 Among the actuarial assumptions used in the actuarial valuation, the discount rate (based on AA corporate obligations return), the increase of medical costs and the increase of salary have the most significant impacts. 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.

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

**Actuarial estimates retained for the actuarial valuation with significant impact on the IPSAS 39 Obligation and ITU Net asset**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|  |  |  |  |  |  |  |  |  |
| Discount rate | 2.50% | 2.24% | 2.76% | 1.51% | 1.32% | 0.92% | 0.90% | 1.20% |
| Increase in medical cost | *6.00%* | *5.70%* | *5.40%* | *5.10%* | *4.80%* | *4.50%* | *4.10%* | *3.90%* |
| Salary increase | *3.80%* | *3.58% P* | *3.58% P* | *3.86% P* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
|  | *3.48% G* | *3.48% G* | *3.32% G* |  |  |  |  |

2.6 The evolution of the ASHI liability since 2012 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 39**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| In thousand CHF | **Dec. 12** | **Dec. 13** | **Dec. 14** | **Dec. 15** | **Dec. 16** | **Dec. 17** | **Dec. 18** |
| Present value of unfunded obligation | -335,206 | -314,127 | -512,661 | -472,801 | -551,911 | -617,250 | -552,240 |
| Impact on net assets | -45,851 | 26,498 | -187,445 | 55,572 | -65,443 | -47,125 | 87,277 |
| Cumulated ASHI Obligation in the Net assets | -151,761 | -125,263 | -312,708 | -257,136 | -322,579 | -369,704 | -282,427 |

**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 Since 2014, the percentage of the ITU contribution 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 further deficit of the plan and enable the building of reserves to ensure the financing on a pay-as-you-go basis.

3.3 This increase would be 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.

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

3.5 In 2018, due to the increase of the premium, the contributions received did not cover the premiums to be paid to Cigna. The 2018 deficit of the CMIP amounting to KCHF 919.4 has been withdrawn from the CMIP guaranty fund. This fund will be dedicated to the funding of the scheme on a pay-as-you-go basis.

3.6 The balance of the CMIP guarantee fund amounts to CHF 22.3 million as at the end of 2018.

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

3.7 Council 2013 decided the creation of an ASHI fund in order to start funding the ASHI obligation. Since this date, a total amount of CHF 7.5 million was also paid into the ASHI fund. At 31 December 2018, after a result allocation of CHF 1 million, the ASHI fund amounted to CHF 11.5 million.

3.8 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.

***Follow up on cost containment***

3.9 To monitor the health insurance scheme, a management committee has been created. Representatives of active staff, retirees, Staff Council, and the General Secretariat are part of the committee. The role of the committee is mainly to manage the scheme by analysing and, if necessary, making recommendations to the Secretary-General of ITU in connection with renegotiating the premiums, deductibles, and benefits relating to the scheme, in light of the financial situation of the scheme and the needs of the insured persons.

3.10 Further to Recommendation 3/2014 made by the External Auditor, a full actuarial study on the health insurance scheme is ongoing. Based on the first results of the actuarial study which was not satisfactory, the CMIP committee is investigating alternatives to improve the long-term sustainability of the plan.

**4 Conclusion**

4.1 The issue of financing the ASHI obligation is common to many UN System organizations. ITU was part of the UN ASHI working group. This topic is now finalized and transmitted to the UN Secretary-General. All comments received from HLCM members during the review of the draft report have been reflected in the final report to the extent possible. The Report is currently under review by the ACABQ before being transmitted to the General Assembly.

4.2 Meanwhile, ITU will continue to focus on cost containment with the service provider and has proposed an increase in the percentage of contributions for the CMIP members and for ITU in the 2020-2021 budget from 3.91% to 4.7 % 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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