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| **Council 2021 Virtual consultation of councillors, 8-18 June 2021** |  |
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| **Agenda item: ADM 17** | **Document C21/46-E** |
| **31 March 2021** |
| **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 2020, 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.  The 2020 version of this report ([C20/46(Rev.1)](https://www.itu.int/md/S20-CL-C-0046/en)) was prepared for submission to the 2020 session of the Council but was not reviewed.  Action required  The Council is invited to **take note** of this document. The Council is also invited to note document C20/46(Rev.1).  \_\_\_\_\_\_\_\_\_\_\_\_  References  [C20/46](https://www.itu.int/md/S20-CL-C-0046/en)(Rev.1) 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 so to ensure the coverage on a pay-as-you-go basis and create resources available to fund the actuarial liability.

1.4 The ASHI-related obligation as of 31 December 2020 amounts to CHF 631.87 million. This increase from CHF 611.89 million at the end of 2019 to CHF 631.87 million in 2020 could be explained by different factors. The main element impacting the valuation of the ASHI is the discount rate which is used to calculate the present value of the future cumulated claims. In 2020, the discount rate decreased from 0.6 per cent to 0.2 per cent.

1.5 A second element which has impacted the ASHI liability in 2020, is the level of contributions. As the average salaries and pensions denominated in CHF are lower than in the last full valuation in 2018, the premium paid are also lower leading to losses on the ASHI liability.

**2 Health medical plan in place at ITU**

2.1 In January 2020, the ITU integrated the UNSMIS (United Nations Staff Mutual Insurance Society). Joining this UN medical plan presents advantages for the staff as the contribution rate has been decreased and the deductible removed but also for ITU on a long-term approach due to the size of this plan. This plan brings together several organizations and specialized agencies of the United Nations based in Geneva. This health insurance plan includes the staff of the UN office in Geneva; UNHCR and WMO.

2.2 In order to join the UNSMIS medical plan in January 2020, ITU had to contribute to the reserve fund of this plan for an equalization. The level of the contribution had been agreed at the level of USD 19,53 million which were paid from the CMIP guarantee fund early 2020.

2.3 In addition, an extraordinary contribution to the reserve fund will be paid yearly for 13 years starting 2020. This extra-contribution aims at compensating the impact of the entrance of ITU population on the overall plan. This extra-contribution represents a total amount of USD 22.53 million split over 13 years.

2.4 The UNSMIS plan is based on a salary-based contribution of 3.4 per cent which was put in place as of 1 January 2020. The follow-up of the cost containment is managed by the UNSMIS Committee where ITU will have a seat as a new member.

**3 Evolution of the ASHI liability in 2020**

3.1 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 2020, the ASHI liability increased due to the variation of assumptions and triggered an increase of the liability of CHF 19.97 million.

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| **Amount of obligations under the ASHI plan at 31 December 2020 and 2019 in the statement of financial position** | ***In thousands of CHF* 31.12.2020** | ***In thousands of CHF* 31.12.2019** |
| Balance at 31 December 2020-2019 | 611,896 | 552,240 |
| Total expenses recognized in the statement of financial performance | 27,667 | 78,357 |
| Actuarial losses recognized in net assets | -2,815 | -12,038 |
| Contributions during the period | -4,878 | -6,663 |
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| Amount of obligations under the ASHI plan at 31 December 2020-2019 | 631,870 | 611,896 |

3.2 The following table shows an analysis of profit and loss charge or credit at the end of the financial period.

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| **Amounts recognized in the statement of financial performance** | ***In thousands of CHF*** | |
|  | **31.12.2020** | **31.12.2019** |
| Updating of obligation and contributions for the period |  |  |
| Service costs | 24,026 | 21,759 |
| Past Service cost (due to new scheme) |  | 50,029 |
| Finance charge | 3,641 | 6,569 |
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| Total | 27,667 | 78,357 |

3.3 Since 2016, 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.

3.4 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.

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

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|  | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Discount rate | 1.32% | 0.92% | 0.90% | 1.20% | 0.60% | 0.20% |
| Increase in medical cost | *4.80%* | *4.50%* | *4.20%* | *3.90%* | *3.00%* | *2.80%* |
| Salary increase | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.00%* | *3.00%* |
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**4 Actions taken**

4.1 Since 2010, the funding of the ASHI actuarial liability has been a concern and resulted in measures taken 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.

4.2 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.

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

4.3 Since the creation of the ASHI fund to start funding the ASHI obligation, a total amount of CHF 9 million was paid into the ASHI fund. As at 31 December 2020, the ASHI fund amounted to CHF 13 million.

4.4 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.

4.5 To assist the UN organizations in financing their long-term liability, the UN ASHI working group has proposed to the UN Assembly the creation, for each organization, of a dedicated financial reserve, where a contribution of 5.35 per cent of salary mass for officials recruited as from 1 January 2022 will be paid into. The final decision has not yet been made.

**5 Conclusion**

5.1 Regardless of the medical plan, the issue of financing the ASHI obligation remains and is still common to many UN System organizations. The report issued by the UN ASHI working group has still not been considered by the General Assembly. ITU will continue to pay close attention to the study of this report and to the recommendations that will emerge from it.

5.2 It should be noted that ITU will, to the extent possible, continue to fund the ASHI reserve according to the budgetary surpluses as well as to examine any other options that may be presented to the ITU management.

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