INTERNATIONAL LABOUR OFFICE

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SECOND ITEM ON THE AGENDA

After-service health insurance: Review

Purpose of the document

This paper provides an overview of the status of after-service health insurance at the International Labour Office. Guidance is sought from the Governing Body on alternative approaches to financing the liability.

Relevant strategic objective: Not applicable.

Policy implications: Depending on the guidance provided by the Governing Body.

Legal implications: None.

Financial implications: Depending on the guidance provided by the Governing Body.

Follow-up action required: Depending on the guidance provided by the Governing Body.

Author unit: Office of the Treasurer and Financial Comptroller (TR/CF).

Related documents: GB.162/9/23; GB.241/PFA/9/5; GB.320/PFA/11.

I. Introduction

1. In accordance with decisions of the Governing Body, [1] the ILO's Staff Regulations [2] and the Regulations of the Staff Health Insurance Fund, [3] staff members acquire the right to subsidized after-service health insurance (ASHI) coverage if they meet certain eligibility criteria. The cost of former officials' ASHI coverage is shared between themselves and the ILO.

2. International Public Sector Accounting Standard (IPSAS) 25 requires that the Office's liability for this acquired right be accounted for on a full accrual basis and be reported as such in the ILO's financial statements. This requirement ensures that the financial statements reflect completely all current and long-term liabilities. The ASHI liability reported in the ILO financial statements refers to total estimated cost in respect of all current retirees and all active staff members with sufficient service to have achieved eligibility for ASHI.

3. The total ASHI liability is an estimate calculated by an independent actuary taking into consideration the trends in health-care costs, mortality rates, the demographic make-up of the insured population, inflation and so on. It is based on an approach developed by the actuarial profession and endorsed by accounting standard setters as being the most accurate method for projecting the amount of the Organization's future obligation. While the Organization's assets are currently sufficient, in aggregate, to cover all liabilities, there is no separate or specific funding of the ASHI liability.

4. Many former officials cannot benefit from national social security coverage as a result of their service with the ILO or other United Nations (UN) system agencies. The ILO's ASHI coverage is therefore an important element of social security for former officials, as it enables the Organization to ensure their access to appropriate health care wherever they reside at a cost that takes into consideration their pension income. The ASHI entitlement extends to the dependent spouses and children of former officials and is consistent with that of other UN system organizations.

5. In his report to the Governing Body in 2013, [4] the External Auditor recommended that the ILO should evaluate options for the long-term funding of its ASHI liability. The Independent Oversight Advisory Committee, in its report to the Governing Body in March 2014, [5] recommended that the Office should, in consultation with the Governing Body, explore and implement measures that are designed to fully fund the ASHI liability over an appropriate period of time. The present document provides a summary of the scope of the existing ASHI arrangements and outlines mechanisms for the funding of future ASHI liabilities.

[1] GB.162/9/23 and GB.241/PFA/9/5.

[2] Art. 8.1.

[3] Arts 1.1 and 1.3(d), (e) and (f).

[4] ILO: *Financial report and audited consolidated financial statements for the year ended 31 December 2012 and Report of the External Auditor*, International Labour Conference, 102nd Session, Geneva, 2013, paras 45–63.

[5] GB.320/PFA/11, para. 9, recommendation 4.

6. Actuarial valuations of the ILO's ASHI liability are carried out yearly in accordance with the prescribed IPSAS methodology. [6] As at 31 December 2013, the ILO's ASHI liability in respect of all currently eligible active staff and former officials was an estimated US$799.1 million. As mentioned in paragraph 24 below, the 2013 level of the ILO's ASHI liability has been favourably impacted by a recent strengthening of global interest rates, a determining factor in the ASHI liability valuation. The valuation is highly sensitive to movements in these rates and the positive impact in 2013 may or may not be confirmed in the future.

7. The ILO fulfils its immediate obligations in respect of the financing of health insurance for former officials from the regular budget, on a pay-as-you-go basis. The amount of this obligation grows as staff members retire and existing retirees age and require more frequent and more complex health care.

II. Scope of the existing ASHI arrangements at the ILO

8. ASHI coverage is provided by the Staff Health Insurance Fund (SHIF). The SHIF is governed by a Management Committee comprising an equal number of representatives appointed by the Director-General and representatives elected by the Fund's insured persons, including both active staff members and retired officials. The Management Committee governs the Fund in accordance with the SHIF Regulations and Administrative Rules, as approved by the insured persons and the Management Committee respectively and implemented upon approval of the Director-General.

9. The SHIF provides 24-hour worldwide comprehensive major medical insurance coverage in replacement of primary national social security systems and local supplementary health insurance schemes. In recognition of the mobility of international civil servants, retired officials and their families, the SHIF Regulations provide for free choice of medical practitioner, pharmacist and medical establishment, without geographic restriction. The SHIF provides benefits for the inpatient and outpatient treatment, including dental and optical treatment, of both illness and accident-related conditions.

10. The SHIF Regulations and Administrative Rules provide for certain limits on various types of treatment and an overall maximum liability in respect of claims submitted by an insured person in any given year. Limits and the maximum yearly liability are adjusted periodically by the Management Committee to reflect trends in the costs of medical care and exchange rate fluctuations. Hardship provisions also exist to ensure that participants maintain access to care in case of chronic or serious medical conditions.

11. To contain costs, the SHIF cooperates with other Geneva-based international organizations to jointly negotiate pricing agreements with hospitals, clinics, laboratories and pharmacies in the Geneva area, where some 65 per cent of costs are incurred. In locations where concentrations of persons insured by the SHIF are low, cost containment is most effectively achieved by channelling claim settlement through third-party administrators, [7]

[6] Following international competitive bidding, the ILO engages an external actuarial firm to undertake regular valuations.

[7] Third-party administrators are external service providers whose services range from full health insurance claim settlement to the renegotiation with health-care providers of charges that are inflated compared with those covered by domestic insurers with large insured populations. By representing several insurers, third-party administrators are able to leverage scale and negotiate reduced charges.

as is the case in the United States where the SHIF already has a third-party administrator agreement in place.

12. In the few countries where enrolment of former officials in the national social security scheme is compulsory, health insurance benefits paid under these schemes are supplemented by benefits paid by the SHIF acting as a secondary insurer. In these cases, adjustments to the national social security scheme can have an effect – positive or negative – on the benefits paid by the SHIF and thus on the ILO's ASHI liability.

13. To benefit from ASHI coverage, officials retiring from the ILO must have reached the age of 55, must have had at least ten years' service with the UN or a specialized agency and must have, during the five years immediately preceding their cessation of service, been insured by the SHIF. To be eligible for ASHI coverage, former officials must also be in receipt of a United Nations Joint Staff Pension Fund (UNJSPF) pension.

14. Dependent spouses and children of former officials are eligible for health insurance coverage provided that they meet certain age and dependency criteria, which are based on the requirements set out in the ILO Staff Regulations. Surviving spouses are entitled to continued ASHI coverage provided that they were insured by the SHIF as a dependant at the time of the former official's death and that they receive a UNJSPF survivor's pension.

Table 1. Number of insured persons covered by the SHIF
(including surviving spouses of former officials)

	2013	2012	2011	2010
Active staff	2 975	3 098	3 112	3 079
Retirees and survivors	2 291	2 274	2 255	2 232
Total insured	**5 266**	**5 372**	**5 367**	**5 311**
Annual growth in number of retirees	17	19	23	–
Annual percentage growth	0.7	0.8	1.0	–
Ratio of retirees to active staff	0.77	0.73	0.72	0.72

III. Current financing of ASHI

15. The SHIF is a self-funded and self-administered scheme whose income is derived from contributions assessed upon the salaries or pensions of insured persons and from contributions paid on their behalf by the ILO as their current or former employer. The sharing of contributions between staff and former officials, and the ILO, is governed by a cost-sharing provision contained in the SHIF Regulations and approved by the Governing Body.

16. Contribution rates are established by the SHIF Management Committee and approved by the Director-General subject to budgetary implications which are considered by the Governing Body as part of the normal programme and budget process (see table 2). To ensure that the solvency of the SHIF is maintained, the rates are adjusted periodically based on studies prepared by an independent external actuary. The Office share of health insurance contributions in respect of active staff is included as part of the payroll cost and charged to either the regular budget or the relevant extra-budgetary project or entity. The Office share of contributions for former officials is financed exclusively from the regular budget.

Table 2. The SHIF contribution rates as from 1 January 2010

	Paid by the official	Paid by the ILO
Active staff (per cent of remuneration)		
Official	3.30	3.30
Dependent spouse	0.99	0.99
First dependent child	0.33	0.33
All other dependent children	0.33	0.33
Eligible former officials and survivors (per cent of UNJSPF pension)		
Former official of survivor	3.30	6.60
Dependent spouse	0.99	1.98
First dependent child	0.33	0.66
All other dependent children	0.33	0.66

17. Benefits paid in respect of medical care provided to former officials, their survivors and dependants exceed contributions paid by the former officials and by the Office on their behalf. The resulting shortfall is offset by the excess of contribution revenue over benefits paid relating to active staff members.

IV. The SHIF operational reserves

18. Due to the limitations of the pay-as-you-go approach, the ILO has accrued an unfunded liability estimated at $799.1 million as at 31 December 2013. No reserves have been constituted specifically to finance the ASHI liability. The SHIF Regulations require that a guarantee fund be maintained to ensure the SHIF's short-term solvency, but that fund is not intended to cover the ILO's ASHI liability.

19. The guarantee fund balance at the end of 2013 was $54.5 million. The statutory level of the guarantee fund is equal to not less than one-sixth nor more than one-half of the expenditure of the SHIF during the preceding three financial years. If the cash outflow required to meet benefit payments exceeds the contributions paid to the SHIF by the ILO and the insured persons, the guarantee fund temporarily finances the deficit until the SHIF Management Committee, the Director-General and the Governing Body adjust the contribution rate to avoid further deficits.

20. The guarantee fund is represented by assets in the consolidated financial statements which, as do other assets, offset the Organization's liabilities. The funds are invested in accordance with strict guidelines approved by the ILO Investment Committee, by delegation of the SHIF Management Committee, and are managed by an independent investment manager.

V. Actuarial valuation of the ASHI liability

21. The ASHI liability is a "point-in-time" estimate of future costs based on the staff and retiree profile as at the date of the valuation. It is a snapshot of how active staff and former officials' entitlements to ASHI coverage translate into the ILO's share of the cost of that coverage for the entire duration of the ILO's financial obligation. The ASHI valuation does not take into account any future development or decrease of the ILO's obligation, whether planned or unplanned, attributable to variances in staffing levels, changes to the ILO's contracts policy or conditions of insurance.

22. Since the 2008–09 biennium, the full amount of the ASHI liability, calculated in accordance with IPSAS requirements, has been recognized in the ILO's accounts. Based on the 2013 actuarial valuation, the present value of the accrued liability for the ILO was estimated by the ILO's actuary at $799.1 million. Table 3 shows the liability at the end of each of the past four years.

Table 3. Calculation of accrued ASHI liability at 31 December
(in millions of US$)

Entity	2013	2012	2011	2010
Regular budget [1]	748.0	805.5	686.8	523.4
Turin Centre – International Training Centre of the ILO	51.1	52.0	51.2	40.2
Total	**799.1**	**857.5**	**738.0**	**563.6**

[1] Including extra-budgetary financed activities.

23. The ASHI liability valuation is highly sensitive to cost, demographic and financial factors, and year-to-year variances can be significant. The principal factors which cause the change in the annual value of the liability, collectively referred to as actuarial financial assumptions, are the discount rate, medical trend rate, life expectancy and length of service of active staff.

Actuarial financial assumptions

24. The key financial assumption utilized by the actuary to calculate the ASHI liability is the discount rate. The discount rate assumption is derived from current interest yields on high-quality corporate bonds and reflects the "time value of money". The discount rate is a determining factor as ASHI benefits will be paid out over many years. The higher the discount rate, the more favourable its effect on the level of liability. Conversely, the liability can be negatively impacted by an even modest decrease in the discount rate.

25. The decline in global interest rates from 2009 to 2012 had a significant effect on the discount rate (see table 4) and consequently the ASHI liability valuations. Should the discount rate continue to strengthen following its increase in 2013, the ILO's estimated ASHI liability will continue to be favourably impacted.

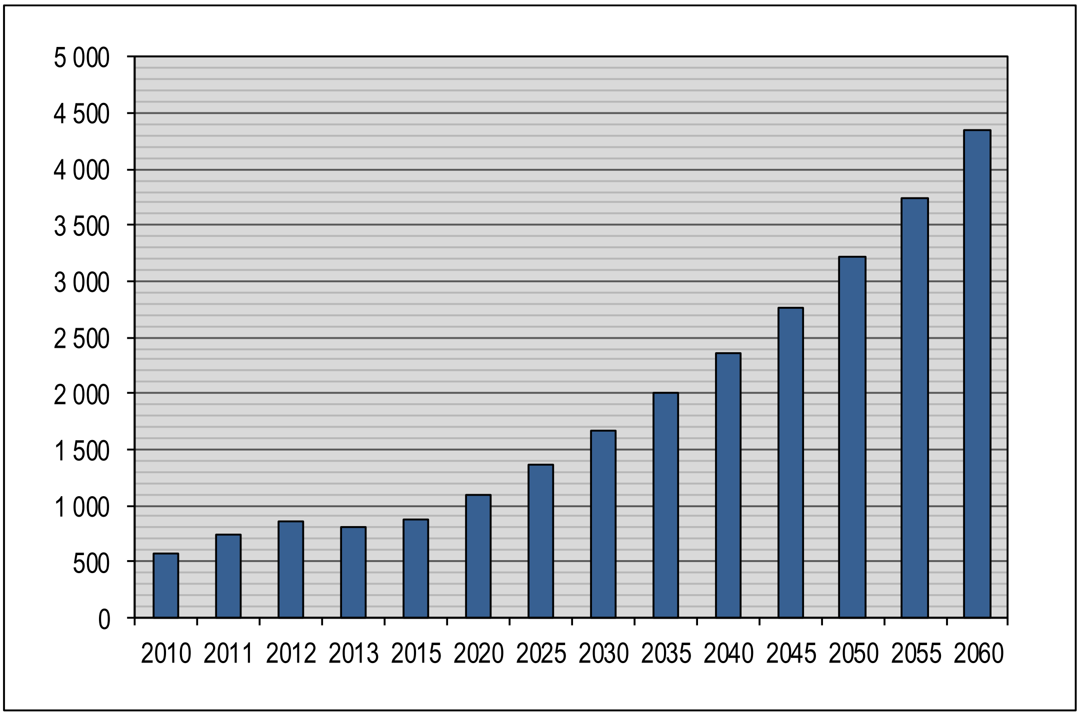
Table 4. Discount rate utilized in ILO actuarial studies (per cent)

Financial assumption	2013	2012	2011	2010	2009	2007
Discount rate (ILO)	3.05	2.50	2.67	3.50	4.25	4.00
Discount rate (Turin Centre)	3.84	3.56	2.67	3.50	4.25	4.00

26. The medical cost trend rate also significantly impacts the outcome of the ASHI valuation. It reflects the evolution of the SHIF's benefit expenditure accounting for the real growth in the liability after removing the effect of growth in the insured population and currency fluctuations. The long-term medical trend rate is assumed to be 3 per cent and has remained reasonably stable. Based on information provided by the actuary, a 1 per cent change in the medical cost trend rate would increase or decrease the liability by approximately $130 million.

27. The Office commissioned an actuarial study to determine the growth in the liability including the impact of the recent increase of the retirement age to 65 for staff hired after 1 January 2014. The study projected that the ASHI liability will reach almost $4.4 billion by the end of 2060, as shown in figure 1.

Figure 1. Projected ASHI liability (in millions of US$)



VI. Funding of projected ASHI costs for active staff and retirees

28. The cost of future pension benefits is budgeted and recorded as part of staff costs. The pension contributions are invested by the UNJSPF until the pension benefits are paid. No comparable financial provisions are currently made by the ILO in respect of the funding of ASHI. Instead, the ILO's contributions toward the financing of health care for former officials and their dependants is transferred to the SHIF through the 2:1 matching of contributions paid by former officials. The budgetary charge and transfer occurs on a pay-as-you-go basis.

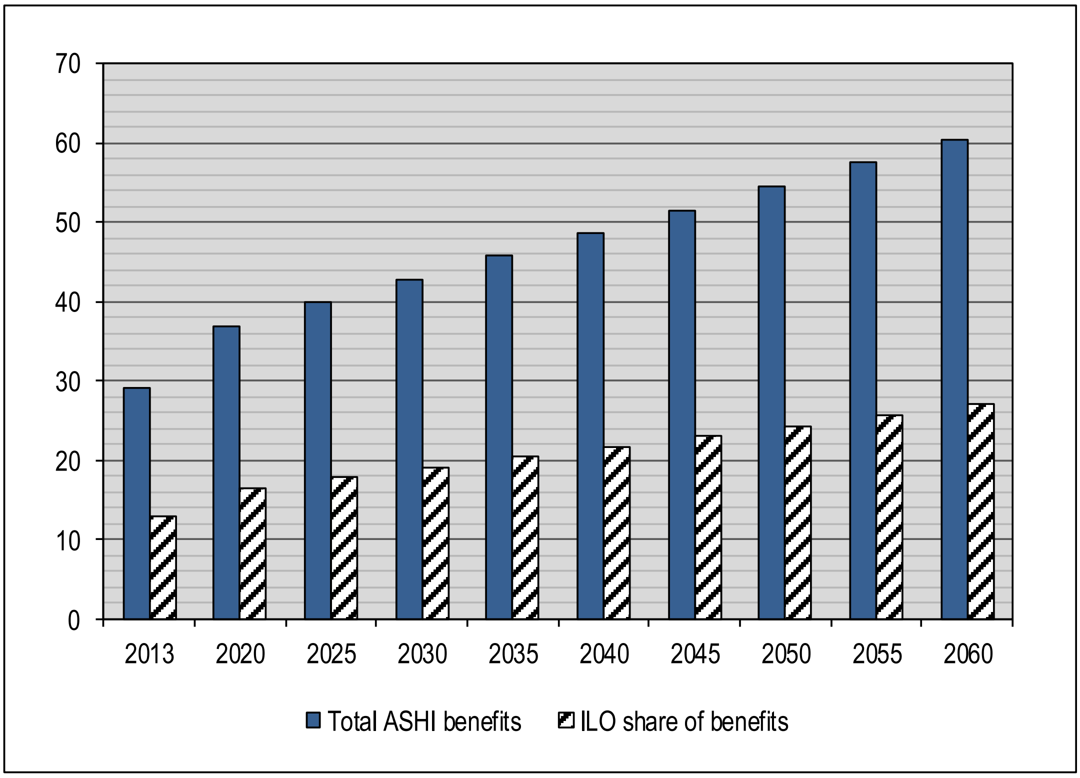
A. Funding on a pay-as-you-go basis

29. While the pay-as-you-go approach provides the resources required to fund the ILO share of the ASHI contributions year by year, it does not enable the ILO to build a reserve to fund the accrued long-term liability or its future growth. Nor does it attribute the cost of future ASHI benefits to the period during which the benefit was earned.

30. The 2013 actuarial study included a calculation of the long-term implications of the continued funding of the ASHI liability on a pay-as-you-go basis, excluding the impact of any price inflation. The study projected that benefits paid to former officials would increase on an annual basis from $29.1 million in 2013 to $60.5 million in 2060. The cost to the regular budget would, assuming the current cost sharing arrangements are maintained, increase from $13 million in 2013 to $27 million in 2060 (see figure 2).

31. The study assumed that the number of active staff members would remain constant and that the excess of contributions paid by them and by the Office on their behalf over benefits paid to them would continue to offset the loss resulting from the difference between contributions paid by and in respect of former officials and benefits paid to them. The study concluded that ASHI costs would rise from the current 3.2 per cent of the regular budget to some 6.7 per cent by 2060. [8]

Figure 2. Projected growth of ASHI benefits and ILO share
(excluding impact of price inflation)



B. Long-term strategy for funding the ILO's regular budget ASHI liability

32. Developing an ASHI liability funding policy is complex and must take into consideration the existing liability, its projected growth in relation to both active staff and former officials, and the sensitivity factors identified in paragraph 23 above related to staff funded directly or indirectly from the regular budget, technical cooperation (TC) and Regular Budget Supplementary Account (RBSA) projects, the Turin Centre's budget, and other sources.

33. As discussed above, certain sensitivity factors have greater impact on the valuation than others. For example, the discount rate used for the valuation changes each year and has a major impact, even when the variance appears minor. In 2005 the discount rate was 4.5 per cent and in 2007, shortly before the financial crisis, it stood at 4 per cent. By contrast, the 2012 discount rate was 2.5 per cent. Were the discount rate to return to pre-crisis levels, the estimated liability could decrease by well over $100 million.

[8] Assuming no real increases in the ILO's regular budget during this same period.

C. "Save-as-you-go" approach

34. In order to evaluate the ILO's regular budget ASHI liability funding options, the actuary was asked to determine the level of payroll charge that would be necessary to finance the current liability and its projected growth. The study was based on: assumptions of a constant number of active staff; continued growth in the number of eligible retirees based on demographic analysis; growth in active staff salaries based on historical experience; and the current medical cost trend rate described above.

35. The study considered funding the ASHI liability to accumulate different funding levels – 60, 80 and 100 per cent – over a ten-, 25-, 40- or 45-year period.

36. In addition, it was assumed that the funds generated by the payroll charge would be invested through an external investment manager. The study took into consideration different investment yield assumptions – 3.5, 4.0 and 4.5 per cent. The range of yields relate to the mix of currencies that currently represent the cash outflow of SHIF benefits to former officials and would not involve excessive risk. Finally, it was assumed that the regular budget would continue to cover the employer's share of SHIF contributions in respect of former officials on a pay-as-you-go basis.

37. The study indicated that to finance 60, 80 or 100 per cent of the projected liability over a 45-year period, an annual payroll charge of 6.99, 9.32 or 11.64 per cent respectively would be required for the regular budget (see table 5). [9]

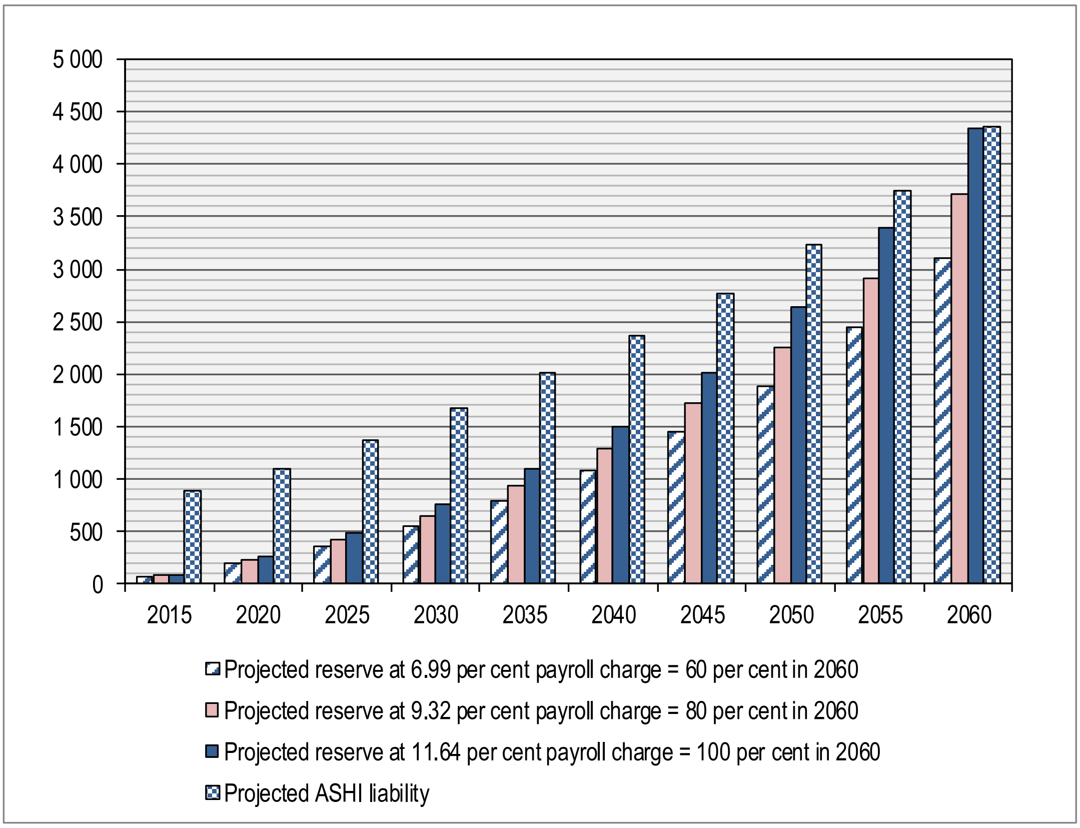
Table 5. Payroll scenarios

	Funding level (% of total liability)		
	60%	**80%**	**100%**
Rate required to fund growth in the liability assuming a 3.5% return on invested reserve over 45 years	6.99%	9.32%	11.64%
Reserve accumulated by 2060 in millions of US$	3 102.7	3 723.1	4 343.4
Cost in millions of US$ per biennium, based on 2012–13 costs at UN operational rate of exchange unadjusted for future salary increases	30.1	40.5	50.6

38. Figure 3 illustrates the reserve that would accumulate under different payroll contribution scenarios. Once the reserve reaches a substantive level, consideration could be given to how further gains from investment transactions could be utilized: either to further fund the actual ASHI liability or to reduce the charge to the regular budget for the ILO's pay-as-you-go contributions to the SHIF in respect of former officials. Given the many financial and demographic variables which will change over 45 years, funding the current estimated liability at a 100 per cent level may not be a fully justifiable goal. Whatever target level is agreed, the rate of the payroll charge could be adjusted periodically by the Governing Body to reflect changes in financial or demographic conditions.

[9] Assuming an investment yield of 3.5 per cent.

Figure 3. Comparison of ASHI reserve accumulated using differing payroll charges



39. An alternative approach could be to establish an annual payroll charge in order to fund only the growth in the ASHI liability over a 45-year period (see table 6).

Table 6. Payroll scenarios (growth only)

	Funding level (% of total liability)		
	60%	**80%**	**100%**
Rate required to fund growth in the liability assuming a 3.5% return on invested reserve over 45 years	5.82%	7.76%	9.69%
Reserve accumulated by 2060 in millions of US$	2 373.8	2 994.2	3 614.5
Cost in millions of US$ per biennium, based on 2012–13 costs at UN operational rate of exchange unadjusted for future salary increases	25.1	33.7	42.1

40. As described in paragraphs 29–31 above, while the ILO could continue paying the medical costs of retirees on the current pay-as-you-go basis, the annual requirements will increase and will consume a proportionately larger share of the ILO's total resources.

D. ASHI reserves for other entities and extra-budgetary funded activities

41. **Turin Centre:** The Office requested the actuary to calculate the amount necessary for the Turin Centre to finance the projected growth in its ASHI liability attributable to the service of existing staff. As the Turin Centre is a controlled entity of the ILO, for financial reporting purposes, the Centre's liability of $51.1 million at 31 December 2013 forms part of the ILO's total liability. Currently, the employer's share of SHIF contributions for former Turin Centre officials is a charge against the regular budget of the ILO. The actuary's calculations assumed that the ILO regular budget would continue to finance the ASHI contributions on a pay-as-you-go basis which totalled $1,531,000 for the Turin Centre for the 2012–13 biennium.

42. A new charge to fund the growth of the Turin Centre's ASHI liability could be considered for inclusion in the budget of the Centre. The following table shows the rate required to fund alternative percentages of the growth in the liability over a 45-year period.

Table 7. Turin Centre payroll scenarios (growth only)

	Funding level (% of total liability)		
	60%	**80%**	**100%**
Rate required to fund growth in the liability assuming a 3.5% return on invested reserve over 45 years	4.54%	6.05%	7.56%
Reserve accumulated by 2060 in millions of US$	107.0	159.7	212.4
Cost in millions of US$ per biennium, based on 2012–13 costs at UN operational rate of exchange unadjusted for future salary increases	0.9	1.2	1.5

43. **International Social Security Association (ISSA):** For administrative and historical reasons, the Office has continued to cover the ISSA's share of its former officials' health insurance contributions, which in 2013 amounted to some $220,000. In accordance with the ISSA's agreement with the ILO, whereby the ISSA assumes all costs incurred by the ILO in connection with the use of ILO employment contracts for ISSA staff, consultations have commenced on introducing arrangements to finance the health insurance of former ISSA officials, currently covered by the regular budget, on a pay-as-you-go basis. It is agreed that these costs should ultimately be fully covered by the ISSA. However, due to the recent absorption of rental costs by the ISSA as a consequence of the ILO headquarters renovation work, a deferred implementation date for the full transfer of the ASHI costs is being negotiated. The ASHI liability in respect of former ISSA officials, amounting to $12.9 million at 31 December 2013, is not an ILO liability and is not recognized in the ILO's financial statements.

44. **TC funds and RBSA:** Although no charges are levied against the regular budget to fund the ASHI liability, in 2013 the Office began allocating charges related to staff financed from extra-budgetary sources (donor-financed TC projects and RBSA). Logically, the cost of ASHI pertaining to periods of employment funded from extra-budgetary sources should be a charge against those contributions and not against the regular budget. In 2013, based on calculations provided by the actuary, the Office implemented a payroll charge of 2.7 per cent [10] to cover the ILO's future ASHI obligation towards TC project staff financed from extra-budgetary funds. As at 31 December 2013, the reserve accumulated in respect of extra-budgetary projects amounted to $1.2 million.

45. Ultimately, this will either serve to offset future growth in the ASHI liability or be available to pay employer contributions in respect of ASHI for retirees from TC projects. In the meantime, the regular budget is continuing to absorb the ILO's share of the cost of ASHI for former officials of extra-budgetary TC projects. The payroll charge does not

[10] The employment pattern of staff funded from extra-budgetary contributions differs from that of staff financed by the regular budget. Many staff members funded from extra-budgetary sources are subsequently recruited for positions funded by the regular budget and many leave with insufficient service to be eligible for ASHI. Therefore, the rate necessary to finance the liability for staff funded from extra-budgetary sources is lower than that that would be required to finance regular budget funded staff. The Office will continue to monitor the growth of the liability in respect of staff funded from extra-budgetary sources and adjust the contribution rate as required.

address the estimated accumulated liability as at 1 January 2013 since it was not considered reasonable to levy a charge from current donors to offset the ASHI liability associated with staff of extra-budgetary projects closed in previous years.

46. The funds collected through the charges to the Turin Centre and other entities, once they are implemented, as well as the funds collected through charges against extra-budgetary TC funding and RBSA, will be held in separate reserves. Once the total funds collected in these reserves reach an appropriate level, they will be separately and conservatively invested. The gains from investment transactions will be added to the reserves to offset the growth in the related ASHI liabilities.

VII. Financial and legal implications of changing the scope and coverage of the ASHI arrangements and the contribution levels

47. The information above is based on the assumption that the current level of ASHI benefits payable to former officials and to active staff members upon their retirement would remain unchanged. Changes to the terms and conditions of the ASHI arrangements and a change in the normal age of retirement could have an impact on the ILO's ASHI liability and ongoing costs. The financial implications of any changes could only be accurately assessed on the basis of detailed proposals.

48. The Office has also considered the legal implications of changing: (a) the scope and coverage of the ASHI arrangements; and (b) the levels of the ILO contributions in respect of former officials and active staff members. From a legal standpoint, any significant changes to the scope, coverage and contribution levels that would be detrimental to the insured persons could constitute a breach of the acquired rights of officials as recognized by the case law of the ILO Administrative Tribunal and reflected in article 14.7 of the ILO's Staff Regulations.

49. While the assessment as to whether a change would breach the acquired rights of officials could only be made on the basis of specific proposals, it can be concluded that modifications that would affect the acquired rights of serving officials would be admissible only prospectively, that is, for new staff members. Specific analysis would be required to determine the exact legal implications of any changes, for newly recruited staff, to the scope and coverage of the ASHI arrangements or to contribution levels.

VIII. Organizations in the common system facing similar challenges

50. As of the end of 2011, with the adoption of IPSAS, all UN-system organizations had recognized in their financial statements their liability for ASHI as calculated by independent actuaries. This has significantly increased awareness throughout the UN system of the extent of the ASHI liability.

51. Information on the total ASHI liability of each UN-system organization at the end of 2011 was collected by the secretariat of the Chief Executives Board for Coordination (CEB) and published in a document presented to the UN General Assembly in 2013. [11] A summary of

[11] UN: *Managing after-service health insurance liabilities: Report of the Secretary-General*, General Assembly, 68th session, 2013, A/68/353.

this information is contained in the appendix to the present document, showing that, although the majority of organizations have not yet started funding their ASHI liability, a number of organizations, including some specialized agencies, have taken initial steps. Various approaches have been utilized by the organizations to accumulate reserves, including one or more of the following:

(a) annual or biennial appropriations from their regular or core budgets;

(b) appropriation of prior period surpluses;

(c) payroll charges to all funds or solely to extra-budgetary funded activities; and

(d) investment earnings on accumulated balances of their ASHI reserve or health insurance fund.

IX. Conclusion

52. The unfunded liability of ASHI amounted to $799.1 million at 31 December 2013, with no specific assets reserved against the liability. The actuarial studies referred to in this document have estimated that this liability will continue to rise significantly and that relying on a pay-as-you-go approach will result in an increasing percentage of the regular budget being required to fund ASHI.

53. As active service with the Office leads to an entitlement upon retirement, it would be reasonable to ensure that the costs of that entitlement are accumulated during the period of active service. Such an approach will ultimately reduce the burden on the regular budget in future years.

54. Once fully constituted, a reserve equivalent in amount to the ASHI liability would ensure that the ILO’s cost-sharing obligation in relation to ASHI would be met should the Organization no longer be in a position to fulfil that obligation on a pay-as-you-go basis. Furthermore, the investment earnings from the reserve would provide the ILO with a means to minimize the charge to the regular budget on a continuing basis.

55. Guidance is sought from the Governing Body on:

(a) the wider application of the mechanism to levy a payroll charge on personnel costs of non-regular budget related projects and programmes to cover the future costs of ASHI;

(b) the introduction of a payroll charge in the regular budget of the Organization to accumulate a reserve to partially cover the ASHI liability with a corresponding increase in the biennial budget for this purpose; and

(c) the provisional earmarking of future underspending of the approved budget for transfer to an ASHI reserve.

Appendix

ASHI liability for organizations of the UN common system at 31 December 2011
(in millions of US$)

Organization or entity	Total liability	Plus liability unrecognized using corridor method	Total liability	Less available funding	Unfunded liability	Per cent funded
UN	3 654	–	3 654	–	3 654	0.0
ICTR	43	–	43	–	43	0.0
ICTY	27	–	27	–	27	0.0
FAO [1]	979	246	1 225	229	996	23.4
IAEA [2]	143	–	143	–	143	0.0
ICAO [2]	62	–	62	–	62	0.0
IFAD	52	–	52	66	-14	126.9
ILO	738	–	738	48	690	6.5
IMO	24	–	24	–	24	0.0
International Trade Centre	58	–	58	–	58	0.0
ITU	302	–	302	7	295	2.3
PAHO [1]	181	74	255	27	228	14.9
UNAIDS	63	–	63	29	34	46.0
UNCC	5	–	5	–	5	0.0
UNCCD	9	–	9	–	9	0.0
UNCDF	10	–	10	–	10	0.0
UNDP	830	–	830	453	377	54.6
UNEP	77	–	77	–	77	0.0
UNESCO	750	–	750	–	750	0.0
UNFCCC	29	–	29	–	29	0.0
UNFPA	163	–	163	115	48	70.6
UN-Habitat	17	–	17	–	17	0.0
UNHCR	351	–	351	–	351	0.0
UNICEF	783	–	783	270	513	34.5
UNIDO	144	–	144	–	144	0.0
UNJSPF	45	–	45	–	45	0.0
UNODC	30	–	30	–	30	0.0
UNOPS	40	–	40	18	22	45.0
UNU	10	–	10	–	10	0.0
UN-Women	22	–	22	–	22	0.0
UNWTO	4	–	4	1	3	25.0
UPU [1]	40	15	55	–	55	0.0
WFP [1]	231	33	264	145	119	62.8
WHO	1 236	–	1 236	444	792	35.9

Organization or entity	Total liability	Plus liability unrecognized using corridor method	Total liability	Less available funding	Unfunded liability	Per cent funded
WIPO [1, 2]	120	10	130	–	130	0.0
WMO	40	–	40	–	40	0.0
Total	**11 312**	**378**	**11 690**	**1 852**	**9 838**	**16.4**

[1] Using corridor method. [2] Converted to US$ at UN operational rate of exchange at 31 December 2011.