|  |  |
| --- | --- |
| **Council 2018 Geneva, 17-27 April 2018** |  |
|  |  |
|  |  |
| **Agenda item: ADM 15** | **Document C18/46-E** |
| **4 April 2018** |
| **Original: English** |
| Report by the Secretary-General | |
| THE AFTER-SERVICE HEALTH INSURANCE (ASHI) LIABILITY | |

|  |
| --- |
| Summary  This document presents the situation of the After-Service Health Insurance (ASHI) liability as of 31 December 2017, 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  [C17/46](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 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 2017 amounts to CHF 617.25 million. This significant increase from CHF 551.9 million at the end of 2016 could be explained by different factors. One of them is the decrease from 0.92% to 0.90% 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. It has to be underlined that the current discount rates are historically low and leaded to an exceptionally high negative impact on net assets.

1.5 Nevertheless, the increase in 2017 is mainly due to the change of the assumptions given by the UN and specifically in the mortality table. Since 2010, the demographic assumptions have been based on the UN table which has been updated and implemented as at end 2017.

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 the ITU, is based on a contract signed with the Companies Cigna/Vanbreda International, Cigna being the insurer and Cigna/Vanbreda being the claims administrator. Since the ITU separation from the SHIF in 2014, there has been a litigation between ITU and ILO regarding the splitting of the guarantee fund. The arbitration took place in March and the result of this arbitration should be know during the year.

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 2017**

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 2017, the ASHI liability increased due to the variation of assumptions and triggered an increase of the liability of CHF 63.1 million and a negative impact on ITU net assets of CHF 47.1 million.

|  |  |  |
| --- | --- | --- |
| **Amount of obligations under the ASHI plan at 31 December 2017 and 2015 in the statement of financial position** | ***In thousands of CHF* 31.12.2017** | ***In thousands of CHF* 31.12.2016** |
| Balance at 31 December 2017-2016 | 551’911 | 472’801 |
| Total expenses recognized in the statement of financial performance | 25’375 | 22’229 |
| Actuarial losses recognized in net assets | 47’125 | 65’443 |
| Contributions during the period | -7’161 | -8’562 |
| Unrealized exchange-rate loss / (gain) | 0 | 0 |
| Amount of obligations under the ASHI plan at 31 December 2017-2016 | 617’250 | 551’911 |

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.

|  |  |  |
| --- | --- | --- |
| Analysis of actuarial losses recognized in net assets | ***In thousands of CHF*** | |
|  | **31.12.2017** | **31.12.2016** |
| Obligation due to changes in assumptions | *75’452* | *42’746* |
| Obligation due to experience during the period | *(28’327)* | *22’697* |
| Losses /Gains in plan assets |  |  |
| Variation over the period | *47’125* | *65’443* |
| Cumulative amount recognized in net assets at 31 December | *369’ 704* | *322’ 579* |

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**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | | 2017 | |
|  |  |  |  |  |  |  |  | |  | |
| Discount rate | *3.25%* | 2.50% | 2.24% | 2.76% | 1.51% | 1.32% | 0.92% | | 0.90% | |
| Increase in medical cost | *3.80%* | *6.00%* | *5.70%* | *5.40%* | *5.10%* | *4.80%* | *4.50%* | | *4.50%* | |
| Salary increase | *2.50%* | *3.80%* | *3.58% P* | *3.58% P* | *3.86% P* | *3.50%* | *3.50%* | | *3.50%* | |
|  |  | *3.48% G* | *3.48% G* | *3.32% G* |  |  |  | |

2.6 The evolution of the ASHI liability since 2011, 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. 11** | **Dec. 12** | **Dec. 13** | **Dec. 14** | **Dec. 15** | **Dec. 16** | **Dec. 17** |
| Present value of unfunded obligation | -278,684 | -335,206 | -314,127 | -512,661 | -472,801 | -551,911 | -617,250 |
| Impact on net assets | -66,204 | -45,851 | 26,498 | -187,445 | 55,572 | -65,443 | -47,125 |
|  |  |  |  |  |  |  |  |
| Cumulated ASHI Obligation in the Net assets | -105,910 | -151,761 | -125,263 | -312,708 | -257,136 | -322,579 | -369,704 |

**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 a 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. 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 The 2017 surplus of the CMIP members’ contributions, as well as ITU contributions, against the premiums paid to Cigna/Vanbreda have 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 The balance of the CMIP guarantee fund amounts to CHF 13.8 million as at end of 2017.

***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. Since this date, a total amount of CHF 4.5 million was also paid into the ASHI Fund. At 31 December 2017, after a result allocation of CHF 1 million, the ASHI Fund amounted to CHF 9.5 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 analyzing 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. Different scenario combining modifications of the premium and of the financing scheme is under evaluation. The aim of the study is to find alternatives to improve the long term sustainability of the plan. The result of the study will be known during the year.

**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. ITU is member of the ASHI working group where the feasibility of a common ASHI system for all the organization is still under evaluation. 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 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.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_