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| **Council 2020** |  |
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| **Agenda item: ADM 17** | **Revision 1 to****Document C20/46-E** |
| **9 October 2020** |
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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 2019, 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[C19/46](http://www.itu.int/md/S19-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 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 2019 amounts to CHF 611.89 million. This significant increase from CHF 552.24 million at the end of 2018 to CHF 611.89 million in 2019 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 2019, the discount rate decreased from 1.2 per cent to 0.60 per cent.

1.5 Although the ITU integrated the UNSMIS plan on 1 January 2020, this parameter was taken into consideration for the 2019 valuation. This led to an increase in the provision due to the revaluation of the service cost.

1.6 During 2019, the ITU was still part of a staff health insurance scheme called the ITU Collective Medical Insurance Plan (CMIP) put in place in 2014. The plan, which was administered by ITU, was based on a contract signed with the Companies Cigna/Vanbreda International, Cigna being the insurer and Cigna/Vanbreda being the claims administrator. Under the CMIP, the contributions were collected by ITU and fixed annual premiums paid to Cigna/Vanbreda.

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 2019**

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 2019, the ASHI liability increased due to the variation of assumptions and triggered an increase of the liability of CHF 59.65 million.

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| **Amount of obligations under the ASHI plan at 31 December 2019 and 2018 in the statement offinancial position** | ***In thousands of CHF*31.12.2019** | ***In thousands of CHF*31.12.2018** |
| Balance at 31 December 2019-2018 | 552,240 | 617,250 |
| Total expenses recognized in the statement of financial performance | 78,357 | 28,548 |
| Actuarial losses recognized in net assets | -12,038 | -87,277 |
| Contributions during the period | -6,663 | -6,281 |
| Unrealized exchange-rate loss / (gain) | 0 | 0 |
| Amount of obligations under the ASHI plan at 31 December 2019-2018 | 611,896 | 552,240 |

2.2 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*** |
|  | **31.12.2019** | **31.12.2018** |
| Updating of obligation and contributions for the period |  |  |
| Service costs | 21,759 | 23,025 |
| Past Service cost (due to new scheme) | 50,029 |  |
| Finance charge | 6,569 | 5,523 |
| Expected return on assets under the ASHI plan | 0 | 0 |
| Total | 78,357 | 28,548 |

2.3 For the last three years and 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.

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.

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|   | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Discount rate | 1.51% | 1.32% | 0.92% | 0.90% | 1.20% | 0.60% |
| Increase in medical cost | *5.10%* | *4.80%* | *4.50%* | *4.10%* | *3.90%* | *3.00%* |
| Salary increase | *3.86% P* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.00%* |
| *3.32% G* |  |   |  |  |  |

**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.

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

3.2 In 2019, due to the increase of the premium, the contributions received did not cover the premiums to be paid to Cigna. The 2019 deficit of the CMIP amounting to CHF 2 million 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.

3.3 The balance of the CMIP guarantee fund amounts to CHF 20.3 million as at the end of 2019.

3.4 The CMIP guarantee fund was utilized beginning of 2020 to pay the entrance fees to UNSMIS scheme as of 1 January 2020.

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

3.5 Since the creation of the ASHI fund to start funding the ASHI obligation, a total amount of CHF 8 million was paid into the ASHI fund. At 31 December 2019, after a result allocation of CHF 500,000, the ASHI fund amounted to CHF 12 million.

3.6 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.

***CMIP Committee activities***

3.7 Considering the increasing deficit of the plan for two years but also the constant increase of the premium requested by CIGNA, the CMIP Committee investigated alternatives to improve the long-term sustainability of the plan. After discussions and negotiations, a recommendation from the CMIP Committee, validated by the Joint Advisory Committee (JAC) was made to the Coordination Committee (CoCo). Following unanimous approval, the Secretary-General took the decision to leave the CMIP with Cigna and to join the UNSMIS as of 1 January 2020.

3.8 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 contribution, agreed at the level of USD 19,53 million, was paid from the CMIP guarantee fund in early 2020.

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

3.10 Joining this UN medical plan presents advantages not only 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.

3.11 The plan brings together several organizations and specialized agencies of the United Nations based in Geneva and includes the staff of the UN office, UNHCR, and WMO.

**4 Conclusion**

4.1 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 been transmitted but not yet 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.

4.2 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 now part of the UNSMIS Committee where ITU will have a seat as a new member.

4.3 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 examine any other options that may be presented to the ITU management.

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