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After-service health insurance: medical and dental reserve funds

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on after-service health insurance: medical and dental reserve funds (A/65/342). During its consideration of the report, the Advisory Committee met with the representatives of the Secretary-General, who provided additional information.

2. The report of the Secretary-General was submitted pursuant to section XI of General Assembly resolution 64/245, in which the Assembly decided to revert to the issue of the 83.1 million dollars from the medical and dental reserve funds included in the proposal of the Secretary-General on liabilities and proposed funding for after-service health insurance benefits (A/64/366), and requested the Secretary-General to provide the Assembly at its sixty-fifth session with information on the composition of those reserve funds.

3. The report of the Secretary-General on liabilities and proposed funding for after-service health insurance benefits (A/64/366) reviewed issues related to current and future liabilities, including the advantages and disadvantages of the current pay-as-you-go financing approach versus partial or full funding for the after-service health insurance benefits. Of the three funding alternatives proposed, the Secretary-General recommended funding alternative 3, which would require an initial infusion of funds into an independent segregated after-service health insurance reserve fund to begin to meet long-term funding goals (ibid., para. 64). For that purpose, the Secretary-General proposed the one-time transfer of a total of $425 million (ibid., para. 69), comprising:

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(a) The transfer of $290 million from unencumbered balances and miscellaneous income from the financial period 2008/09 under peacekeeping operations;

(b) The transfer of $135 million from existing reserve funds as follows:

(i) $51.9 million from the compensation reserve fund;

(ii) $83.1 million from the medical and dental reserves.

4. At the time of its consideration of the above-mentioned proposal, the Advisory Committee recommended against the transfer of $290 million from unencumbered balances from peacekeeping budgets for the 2008/09 financial period. However, in the light of the assurance by the Secretary-General that the transfer of $51.9 million from the compensation reserve fund and $83.1 million from the medical and dental reserves would not endanger those reserves, the Committee had no objection to the transfer of those amounts to the independent segregated special account approved by the General Assembly (A/64/7/Add.4, para. 31). The Committee's other comments and recommendations regarding the proposals by the Secretary-General on after-service health insurance benefits are contained in paragraphs 28 to 33 of its report (ibid.).

5. In addition to the issue of the $83.1 million from the medical and dental reserve funds, the Advisory Committee notes that the General Assembly, in its resolution 64/241 (para. 3), requested the Secretary-General to submit to it, at its sixty-seventh session, for its priority consideration, a report on managing after-service health insurance liabilities, bearing in mind that the pay-as-you-go principle is also one of the viable options.

II. Health insurance reserve funds

6. In his report to the General Assembly, the Secretary-General describes the purpose, management and funding of health insurance reserve funds (A/65/342, paras. 4-6), which are summarized below:

(a) The funds serve essentially as premium stabilization reserves for each of the Organization's self-insured health plans in order to manage large fluctuations in premium requirements;

(b) The management of the reserve funds have been maintained in accordance with prudent financial practices, taking into account insurance industry standards which provide that the reserves should be equivalent to about 3 to 4 months of claims;

(c) At Headquarters and at designated duty stations away from Headquarters, contributions to the United Nations various health insurance plans are made from assessed and extrabudgetary funds and the contributors to these plans include (i) staff and retirees, and (ii) the United Nations and other participating entities of the common system.

7. The Secretary-General explains that it is not possible to accurately allocate the health insurance reserve fund accumulations among the individual funding resources due to the reasons set out in paragraph 7 of his report, including the following:

(a) Staff of all fund types have participated in the plans at various weightings over time;

(b) Health insurance data have not been, and are not, maintained by funding source;

(c) Reserve accumulations have differed from year to year and from plan to plan, with staff and retirees having at times moved their coverage between the available plans owing to changes in their duty station or residence or for other reasons;

(d) Staff have transferred employment between the United Nations and the funds and programmes while continuing their coverage under the health plans administered by Headquarters.

8. Since the primary purpose of the insurance reserve funds is for premium stabilization, the Secretary-General states that the reserves, by their very nature, are applied to existing plan contributors in accordance with current sources of funding. For that reason, the United Nations uses a "premium holiday" to periodically distribute excess reserve amounts to all funding sources on the basis of current plan participant data. This has been and continues to be considered the most equitable means of returning excess health insurance reserve funds to all the funding sources (A/65/342, para. 8).

III. Composition of the $83.1 million from the health insurance reserve funds

9. Given the lack of a more accurate allocation process, the Secretary-General indicates in his report that the use of a premium holiday is considered the best approach for determining the composition of health insurance reserve accumulations (A/65/342, para. 9). An estimated composition of the $83.1 million from the reserve funds across funding sources is provided in the annex to his report. The Advisory Committee notes from the annex that, of the total of $83.1 million, the shares from the contributions by the staff and retirees and the Organization amount to $24.1 million and $59 million, respectively.

10. In this connection, the Advisory Committee further notes that, while it was proposed to transfer the $83.1 million from the health insurance reserves into an independent segregated after-service health insurance reserve fund (see A/64/366 and para. 3 above), it is now contemplated that the "premium holiday" approach should be used to return a part of the $83.1 million portion of the health insurance reserve funds to the various funding sources before the end of 2010 (A/65/342, para. 8). The Committee notes, however, that the report does not provide detailed information in this regard.

11. With respect to the question of returning a share of the health insurance reserve accumulations to Member States directly, rather than through the mechanism of a premium holiday, the Advisory Committee was informed that this was technically possible. The benefit of the premium holiday was, however, that contributions were returned to staff and Member States concurrently. Should contributions be returned to Member States directly, a modality for the return of the related staff contributions would need to be developed.

12. Upon enquiry, the Advisory Committee was informed that the total reserve balances, compared with the balances of $225.487 million as at 31 December 2008, had increased to $230.134 million as at 31 December 2009. The Committee was

provided with a table on health insurance reserve balances, including principal balance and income as at 31 December 2009, and the proposed transfer of the $83.1 million portion of the reserve as a percentage of the balance under each plan. The table is reproduced below:

(In millions of United States dollars)

		Reserve components		*Transfer proposed in document A/64/366*	
Health plan	*Reserve balances as at 31 December 2009*	*"Principal" balance*	*Income 1996-2009*	*Proposed transfer*	*Transfer as a percentage of reserve balance*
Medical Insurance Plan	66.110	49.155	16.955	35.000	52.94
Plans administered by United Nations Headquarters:					
Cigna	11.412	9.836	1.576	1.400	12.27
Empire Blue Cross	12.841	2.800	10.041	0.000	0.00
Aetna	83.951	49.182	34.769	32.700	38.95
Van Breda	55.820	40.597	15.223	14.000	25.08
Subtotal	**164.024**	**102.415**	**61.609**	**48.100**	**29.32**
Total	**230.134**	**151.570**	**78.564**	**83.100**	**36.11**

As is shown in the table above and in the report of the Secretary-General (A/65/342, para. 9), the amount of $83.1 million does not include any portion of the Empire Blue Cross reserve owing to the very low level of that reserve.

13. Upon enquiry, the Advisory Committee, was also provided with information on the reserve balances as at 31 December 2009, both with and without the $83.1 million, and the value of the reserve balances, expressed in months of plan costs, as follows:

(In millions of United States dollars)

Health plan	*Reserve balances as at 31 December 2009*	*Composition of 83.1*	*Balance without 83.1*	*Average monthly cost*	*Balance, without 83.1, as months of claim and administrative costs*
Medical Insurance Plan	66.110	35.000	31.110	1.086	28.65
Plans administered by United Nations Headquarters:					
Cigna	11.412	1.400	10.012	1.501	6.67
Empire Blue Cross	12.841	0.000	12.841	8.696	1.48
Aetna	83.951	32.700	51.251	6.742	7.6
Van Breda	55.820	14.000	41.820	6.065	6.9
Subtotal	**164.024**	**48.100**	**115.924**		
Total	**230.134**	**83.100**	**147.034**		

14. The Advisory Committee notes, from the table above, a considerable discrepancy in the reserve balances of the plans. The table indicates that even after a distribution of the $83.1 million, the reserves would vary from a high of 28.65 months of costs for the Medical Insurance Plan to a low of 1.48 months for Empire Blue Cross. The Committee was informed that, while the insurance industry benchmark for health insurance plans based in the United States of America was to maintain reserves equal to 3 to 4 months of claims, it was prudent for self-funded plans to maintain larger balances equivalent to about 6 to 7 months of claims. To maintain balances at this higher level made it possible to keep premium levels reasonably stable and to adequately cover expected claims while providing for the decrement in coverage value of the reserves arising from inevitable annual increases in the cost and utilization of medical services.

15. The Advisory Committee notes the considerably higher level of reserve balance, in terms of months of claim costs, for the Medical Insurance Plan for Locally Recruited Staff at Designated Duty Stations Away from Headquarters. The Committee was informed, upon enquiry, that the increase in the reserves of the Medical Insurance Plan within the past five years was chiefly attributable to the sharp increase in the number of participants in several field missions where the loss ratio, namely claims expenditures versus premium collections, was particularly low. The Committee was also informed that the Secretariat, along with the funds and programmes, was in the process of conducting an overall review of the Medical Insurance Plan with a view to updating coverage levels and harmonizing the provisions among the United Nations entities. It was anticipated that the results might have an impact on the reserves, although they would not significantly reduce the reserve balances in the short-term.

16. **The Advisory Committee, noting the significant variation in the levels of reserve balances maintained for the United Nations health insurance plans, is of the view that efforts should be made to establish guidelines to ensure greater consistency in this regard.**