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Managing after-service health insurance

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 managing after-service health insurance (A/76/373). The Committee received additional information and clarification from the representatives of the Secretary-General, concluding with written responses dated 24 November 2021.

2. In its resolution 73/279 B, the General Assembly, inter alia: acknowledged with concern the importance of after-service health insurance liabilities and welcomed the efforts of the Secretary-General to propose measures to address the issue, while highlighting the potential important impact of the proposals on future budgets and the future entitlements of concerned staff; noted that the proposed payroll charge would entail an assessment on Member States and decided to maintain the pay-as-you-go funding of the United Nations after-service health insurance obligations; and noted with appreciation the proposal for an entitlement accrual mechanism. In the same resolution, the Assembly requested the Secretary-General to present to it comprehensive proposals at its seventy-fifth session, incorporating the following elements: (a) further details about the proposed change to the funding model for future recruitees, including medium- and long-term budgetary projections for the regular and peacekeeping budgets; (b) a mechanism that would associate the after-service health insurance premiums paid by the agency and the staff member's period of service within the system and information with respect to how such an entitlement accrual mechanism would be applied to staff members; and (c) projections regarding the proportion of staff in peacekeeping operations who would be entitled to after-service health insurance benefits.

3. Upon enquiry as to the reasons for the delay in the submission of the report of the Secretary-General, the Advisory Committee was informed that the report could only be ready for consideration during the main part of the seventy-sixth session of the General Assembly owing to the following factors, which affected the health

insurance team involved in the preparation of the report: the liquidity situation of the regular budget and the subsequent recruitment freeze introduced during 2020, which forced the prioritization of deliverables; the coronavirus disease (COVID-19) pandemic, which resulted in delays in securing required information from professional actuaries; and additional work, including the system-wide COVID-19 medical evacuation programme.

4. The report of the Secretary-General (A/76/373) includes information on medical cost containment (sect. II), valuation of after-service health insurance liabilities (sect. III), funding and investment proposals (sect. IV), after-service health insurance premium distribution (sect. V) and projections regarding staff in peacekeeping operations (sect. VI).

II. Background

5. The Secretary-General indicates that he has submitted seven related reports[1] on managing after-service health insurance, the three most recent of which reflected the work of the inter-agency Working Group on After-Service Health Insurance (comprising 18 system entities) established to implement General Assembly resolution 68/244 under the auspices of the Finance and Budget Network of the High-Level Committee on Management of the United Nations System Chief Executives Board for Coordination (A/76/373, para. 2).

6. The Advisory Committee recalls that the related discussions over recent years have focused on two areas: (a) health-care insurance plans, with a view to increasing efficiency and containing costs as requested by the General Assembly; and (b) after-service health insurance liability, involving actuarial valuation, funding and investment proposals.

Health insurance plans, premiums and reimbursements

7. Background information on the United Nations health insurance plans and cost-sharing ratios by the Organization and participants (both active and retired staff members) is provided in paragraphs 51 to 58 of the report of the Secretary-General. The following summary is based on the reports of the Secretary-General and information provided to the Advisory Committee:

(a) The United Nations health insurance plans provide the same coverage to both active and retired staff (as participants), subject to eligibility criteria;

(b) Payments for the insurance plans, reflected as monthly premiums, are shared by the participants and the Organization at ratios recommended by the International Civil Service Commission and approved by the General Assembly in its resolutions (resolution 69/251 being the most recent), as shown in table 6 and discussed in paragraphs 52 to 55 of the report of the Secretary-General (A/76/373);

(c) For active staff, the premiums are shared by staff (through payroll deductions) and the Organization (through common staff costs). For eligible retirees under the existing pay-as-you-go approach, the premiums are shared by retirees (through pension deductions) and the Organization (through after-service health insurance, budgeted under section 32 (special expenses), other staff costs and the support account for peacekeeping operations);

(d) Within the United Nations system, health insurance is provided to participants following mutual insurance principles and the principle of

[1] A/73/662, A/71/698 and A/71/698/Corr.1, A/70/590, A/68/353, A/64/366, A/61/730 and A/60/450 and A/60/450/Corr.1.

intergenerational solidarity that is the major point of difference between social health insurance and private health insurance (A/70/590, para. 29). With a set percentage of contributions, participants with higher salary and pension levels pay more for their monthly premiums, and active staff pay more than retirees, in addition to an individual participant's type of coverage and selected insurance plan (see the active staff contribution percentages in table 7 of A/76/373);

(e) Participants' medical costs are submitted, as medical claims, to the respective insurance plans' administrators. Insurance plans are self-funded and administered by third-party administrators at Headquarters in New York, while plans in Geneva are self-administered;

(f) **Premiums and reimbursements**. The Committee was informed that, given that the Organization's plans are self-insured, premiums are not paid to an insurance carrier. Instead, monthly contributions (premiums) by all participants and the Organization are combined in a fund from which the Organization reimburses payments for participants' medical claims. At Headquarters, annual plan premiums are developed with the assistance of third-party administrators, taking into consideration prior-year claims for both active and retired staff and projected increases in medical costs and the administrative fees of the third-party administrators;

(g) **After-service health insurance eligibility requirements**. Eligibility for subsidized after-service health insurance benefits is attained at the later of age 55 or 10 years of contributory service in a United Nations health insurance plan for retirees who receive pensions from the United Nations Joint Staff Pension Fund (A/76/373, paras. 1 and 58). For staff members recruited on or after 1 July 2007, the eligibility requirements include participation in a United Nations-system contributory health insurance plan for a minimum of 10 years at the time of retirement. For staff members recruited before 1 July 2007, the eligibility requirements include participation in a United Nations contributory plan for at least 5 years, provided that they pay the full premium for the period for which their participation falls short of the 10-year requirement for cost-shared participation (A/76/6 (Sect. 32), paras. 32.7–32.10).

Presentation

8. The Advisory Committee is of the view that the presentation of the report of the Secretary-General on managing after-service health insurance could have been improved by the provision of more background information on and technical explanations of health insurance plans and after-service health insurance liability funding. For example, a glossary of terms was provided in an annex to a previous such report (A/61/730, annex IV). **The Advisory Committee trusts that future reports of the Secretary-General on after-service health insurance will contain an updated and expanded glossary containing information on the Organization's health insurance plans and after-service health insurance liability, with a view to facilitating the consideration by the Committee and the General Assembly.**

III. Measures to reduce costs relating to health insurance plans

9. In its resolution 73/279 B, the General Assembly requested the Secretary-General to further explore options for the improvement of efficiency and the containment of costs, including liabilities associated with current and future staff, with a view to reducing the Organization's expenditure on health insurance plans and its after-service health insurance obligations, and to report thereon at its seventy-fifth session (see para. 3 above).

10. In paragraph 9 (a) to (f) of the report of the Secretary-General (A/76/373), measures implemented within the previous 10 years are listed, covering the following areas: Medicare part B requirement for eligible retirees residing in the United States of America; preventive care and wellness initiatives; health-care access (telemedicine features); expansion of medical provider networks and changes in the deductibles of the United States-based plans; communication campaigns (to help active staff and retirees to better utilize health plan options); and changes in the United Nations worldwide plan related to care provided in the United States.

11. Upon enquiry as to savings gained from the cost containment measures undertaken, the Advisory Committee was informed that, whereas some cost containment efforts may be quantified, including the cost avoidance related to provider network discounts, Medicare part B coverage or increased deductibles, the impact of other cost-saving measures, such as preventive care awareness, well-being programmes and improved education, cannot be measured. The Committee was informed that the network savings accounted for almost 50 per cent of total cost reduction.

12. On a related matter, the Advisory Committee received information, upon enquiry, on actual expenditures for health insurance costs paid for active staff members funded under the regular, peacekeeping and International Residual Mechanism for Criminal Tribunals budgets, which showed increases over a five-year period ($117.3 million for 2016, $119.9 million for both 2017 and 2018, $121.9 million for 2019 and $125.8 million for 2020). **The Advisory Committee acknowledges the cost containment efforts undertaken, but also notes the steady increases in health insurance expenditure incurred by the Organization for active staff members from 2016 to 2020 (see para. 47 below). The Committee recommends that the General Assembly request the Secretary-General to include information on budgeted and actual health insurance expenditure for active staff with all contract types eligible for access to the health insurance plans of the Organization in the context of future regular and peacekeeping budget submissions.**

Medicare part B and leveraging national health insurance plans at other duty stations

13. Information on the requirements and benefits of Medicare part B is provided in paragraph 9 (a) of the report of the Secretary-General. If eligible, United Nations retirees residing in the United States have been required, since 2011, to join Medicare part B, a federal programme that provides health insurance to eligible participants. The medical claims of eligible United Nations retirees are covered first under Medicare part B (as primary coverage), with the remaining costs covered by their respective United Nations health insurance plan. The Advisory Committee was informed, upon enquiry, that Medicare part B generally pays 80 per cent of the medical claims submitted by those retirees, and the United Nations health insurance plans pay the other 20 per cent. In his report, the Secretary-General indicates that savings resulting from the requirement that retirees enrol in Medicare part B coverage have proven to be greater than initially estimated, with reported reductions in claims to the United Nations health insurance plans totalling $24.8 million (or 8 per cent)[2] during 2020. The savings are expected to increase annually as the population of retirees enrolled in the Medicare programme continues to increase. The Committee was also informed that, while the Organization reimburses the eligible retirees for

[2] In the report of the Secretary-General, it is stated that the consulting actuaries have estimated that projected savings from this initiative have lowered the valuation of accrued after-service health insurance liabilities for the financial period ended 31 December 2020 by 8 per cent. This translates to an estimated $600 million reduction in accrued liabilities (A/76/373, para. 9 (a)).

their payment of premiums for the coverage of Medicare part B, compared with the reduced medical claims, the reimbursement paid by the Organization is lower (reimbursement of $9.9 million for 4,443 retirees in 2020).

14. Upon enquiry, the Advisory Committee was informed that the Secretariat had taken a number of measures to contain costs related to coverage for retirees who lived outside the United States, including leveraging national health systems to the extent possible. For example, the Organization has reached an agreement with the Government of Austria to allow United Nations retirees residing in that country to participate in the national insurance plan. The Committee recalls that the possibility of reproducing the experience of leveraging Medicare in the United States in other locations has been discussed in the previous reports of the Secretary-General, including the work conducted by the inter-agency Working Group, such as an inconclusive survey conducted in 2016 and a cost-benefit analysis in respect of the nine countries in which over half the United Nations Joint Staff Pension Fund beneficiary population resides (A/73/792, paras. 10 and 11).

15. **Taking into account the Secretariat's positive experience in leveraging national health insurance plans in the United States and Austria, the Advisory Committee recommends that the General Assembly request the Secretary-General to renew efforts to explore such opportunities with national Governments in countries with a significant population of Secretariat retirees, including the possibility of introducing further incentives or mandating retirees to participate in national plans, and to report on the outcome in the next report of the Secretary-General on after-service health insurance.**

Audit of medical claims

16. The Advisory Committee was informed, upon enquiry, that the Administration was finalizing and would publish, by mid-November 2021, a request for proposal for the audit of medical claims and policy evaluation for the Headquarters-administered health insurance plans (see para. 7 (e) above). The purpose of the audit is to assess: (a) the accuracy and completeness of claim adjudications; (b) whether claims are processed in accordance with plan provisions; (c) the accuracy of the third-party administrators billing the Organization for claims that it paid for reimbursement; (d) the accuracy and completeness of eligibility records; and (e) whether the overall performance of the third-party administrators meets desired operational standards in accordance with industry norms.

17. The Advisory Committee recalls that it has concurred with the recommendations of the Board of Auditors on the urgent need to improve internal controls over medical insurance expenditure, including by establishing adequate internal control mechanisms (A/74/5 (Vol. I), paras. 126–152; A/74/528, paras. 17 and 18). In its latest report (A/76/5 (Vol. I), para. 136), the Board continued to note mismatches between the diagnosis and the gender or age of the participants. **The Advisory Committee is therefore of the view that such an audit of the medical claims and third-party administrators' performance is overdue and looks forward to receiving the audit findings.**

IV. Eligibility projection for staff serving in peacekeeping operations

18. As requested by the General Assembly (see para. 2 (c) above), information on the projections for the eligibility of staff serving in peacekeeping operations is provided in the report of the Secretary-General (A/76/373, paras. 65–70). It is indicated that, as a part of the 2009 contract reforms, appointments of limited duration

contracts were discontinued effective 1 July 2009, with existing contracts converted to fixed-term or other contract types that include entitlement to after-service health insurance. Consequently, 94 per cent of staff funded under peacekeeping operations are currently covered by United Nations health insurance plans and have contracts providing entitlement to after-service health insurance.

19. In his report, the Secretary-General further indicates that this has resulted in comparable demographics for staff funded under the regular and peacekeeping budgets (A/76/373, para. 66), such as average age, years of service and eligibility for after-service health insurance, as reflected in table 8 of the report. By 31 December 2019, 16 per cent of peacekeeping staff had fully met after-service health insurance eligibility requirements, and an additional 41 per cent had completed the 10-year eligibility requirement and would be eligible to enrol upon satisfying the retirement requirement, compared with 19 per cent and 43 per cent, respectively, for staff funded under the regular budget. Consequently, the distribution of after-service costs under the pay-as-you-go approach chargeable to peacekeeping operations is projected to increase from the 15 per cent of prior years to an estimated 34 per cent by 2030 and to continue to increase thereafter until the ratio approaches the funding distribution of active staff, with decreasing percentages charged to the regular budget (see para. 41 below and A/76/373, table 8 and para. 70).

20. In considering the previous report of the Secretary-General, the Advisory Committee noted that staff working in peacekeeping operations were not included in the scope of the projections of the previous proposal (A/73/792, para. 22). **The Advisory Committee welcomes the inclusion of the information on projections for the eligibility of staff serving in peacekeeping operations (see paras. 42–46 below), as requested by the General Assembly.**

V. Recommendations on funding of after-service health insurance liability at the Secretariat

21. Information on the funding of the after-service health insurance liability is provided in section IV of the report of the Secretary-General (A/76/373). In paragraph 77 of the same report, the Secretary-General recommends:

(a) That the pay-as-you-go funding of the United Nations after-service health insurance obligation in respect of staff members recruited before 1 January 2023 be maintained;

(b) That the funding of the obligation in respect of officials recruited from 1 January 2023 be achieved through the implementation of a payroll charge corresponding to a level 6 per cent of salary costs and the establishment of a dedicated financial reserve;

(c) That the payroll charge be reviewed every three years and adjusted to accommodate variances against the projected accumulation of the dedicated reserve.

Funding of the obligation for staff recruited from 1 January 2023

22. For staff recruited from 1 January 2023, it is proposed that the Organization begin to accumulate a reserve to cover up to 75 per cent of projected cash-flow requirements once those staff members retire by establishing a charge equivalent to 6 per cent of staff costs (gross salary plus post adjustment costs) under common staff costs for the regular budget and peacekeeping funds. It is also proposed that the charge of 6 per cent be applied against the salary costs of all staff (not just those recruited from 2023) and all categories of staff (including staff on temporary appointments) (ibid., paras. 28–30). Upon enquiry, the Advisory Committee was

informed that the charge is proposed for all staff irrespective of their contractual status, including temporary staff (1,112 under the regular budget, according to 2019 census data) who are not entitled to after-service health insurance.

23. Upon enquiry as to the differences between the previous and new proposals of the Secretary-General, the Advisory Committee was informed that the new proposal is more comprehensive and has more details, as it contains information related to peacekeeping operations and the funding of after-service health insurance benefits for staff under extrabudgetary resources (see paras. 31–33 below). While in his report, the Secretary-General states that the proposed funding strategy is comparable to his previous proposals (A/73/662), the Committee notes differences contained in the new proposal compared with the previous one, as follows:

(a) **Funding levels**. Compared with the new proposal of gradual partial funding of up to 75 per cent only, in the previous proposal, "the payroll charge required to achieve full funding of the after-service health insurance liability" was referred to (A/73/662, para. 67);

(b) **Staff costs**. While the new proposal comprises payroll charges to gross salary plus post adjustment, the Secretary-General previously indicated that to "ensure accuracy, the assessment base taken to determine the payroll charge is the gross salary mass (excluding post adjustment) rather than total staff cost" (A/73/662, para. 67; A/73/792, para. 28);

(c) **Payroll charge percentages**. The new proposal entails a charge equivalent to 6 per cent of staff costs (with no indication as to whether or how an entitlement accrual mechanism is applied) (see paras. 27–30 below). In the previous proposal, the proposed payroll charge was 5.35 per cent (with the application of the entitlement accrual mechanism) compared with 6.45 per cent (without the application of the entitlement accrual mechanism) (A/73/662, paras. 71–81; A/73/792, para. 29). Both the previous and new proposals are based on the 3.5 per cent return on investment (see para. 36 below).

24. **The Advisory Committee notes that the new funding proposal of the Secretary-General presents significant differences with prior proposals, which are not identified in his report or explained upon enquiry.**

25. Furthermore, the Advisory Committee notes the lack of clarity in the funding proposal regarding staff recruited both before and after 1 January 2023 in that the new funding proposal implies the following: (a) for staff members recruited before 1 January 2023, the Organization will maintain the pay-as-you-go funding of the United Nations after-service health insurance obligation, to be covered under section 32 of the regular budget and the peacekeeping support account, once those staff retire and become eligible, while from 1 January 2023, the Organization would also pay a 6 per cent monthly charge against the costs for those staff members under the pay-as-you-accrue approach to build a reserve presumably only for new staff recruited from 1 January 2023 (see paras. 21 and 22 above); and (b) for staff members recruited after 1 January 2023, the proposed reserve under the pay-as-you-accrue approach would cover only up to 75 per cent of the after-service health insurance cash-flow requirement, and there is no explanation of how the remaining cash-flow requirements (25 per cent at least) would be covered and under which budgets, once those staff retire and become eligible. **The Advisory Committee is concerned that the funding proposals lack clarity and consistency in the explanation of how the two funding streams of the pay-as-you-go funding of after-service health insurance benefits for eligible staff recruited prior to 1 January 2023 and the pay-as-you-accrue funding of after-service health insurance benefits for eligible staff recruited as of 1 January 2023 would work, as it is proposed to apply a 6**

per cent charge against staff costs to all staff members regardless of their recruitment time and contract types.

26. The Advisory Committee requested justification for proposing a means to fund only up to 75 per cent of cash-flow requirements, compared with the full funding of the previous proposal. The Committee was informed that the partial funding of future after-service health insurance cash-flow requirements was proposed owing to the sensitivity of the estimation of future costs related to changing demographic and economic assumptions associated with actuarial projections, and that the proposal was not made for full funding so as to mitigate against the possibility of overfunding the after-service health insurance obligation. The Committee was also informed that the results of the proposed funding strategy would need to be reviewed and updated on an ongoing basis to refine annual funding requirements. **Notwithstanding the recommendation (A/76/373, para. 77 (c)) that the payroll charge be reviewed every three years and adjusted to accommodate variances against the projected accumulation of the dedicated reserve and the noted sensitivity of the estimation of future costs, the Advisory Committee is not convinced by the explanation of and rationale provided for the change from full to partial funding of up to 75 per cent of a potential reserve fund.**

Entitlement accrual mechanism

27. The Advisory Committee recalls that the Secretary-General previously reported that, having considered an entitlement accrual mechanism whereby the part of after-service health insurance premiums paid by the agency on behalf of a retired staff member would increase along with the staff member's time in service within the United Nations system, no consensus had been reached within the Working Group regarding the advisability of the entitlement accrual mechanism (A/73/662, paras. 44–48). The Committee notes that one of the elements in a new funding proposal requested by the General Assembly in its resolution 73/279 B relates to such an entitlement accrual mechanism and how the mechanism would be applied.

28. In paragraphs 60 to 64 of his report (A/76/373), the Secretary-General indicates that the foundation for the use of a theoretical pension was approved by the General Assembly in its resolution 61/264,[3] making it possible to effect this provision by July 2017 for all staff recruited since 1 July 2007. The full implementation of this provision was deferred in the light of consideration by the Working Group of alternative accrual mechanisms. Given the lack of consensus reached by the Working Group on such alternatives, the provision previously approved by the Assembly will be put into effect as at 1 January 2023. It is further indicated that, while it is difficult to estimate progressively increasing annual cost savings, the consulting actuaries have projected that this provision will ultimately result in participant contribution increases of up to 20 per cent for staff retiring with less than 25 years of service, with concomitant Organization cost savings of up to 5 per cent once all retiring staff are subject to this provision.

29. The Advisory Committee requested information on whether a proposal for an entitlement accrual mechanism was included in the funding proposal of the Secretary-General, but did not receive consistent responses. While it was informed that the planned implementation of the use of a theoretical pension was not a proposal per se, the Committee was also informed that, for the proposed transition to a pay-as-you-

[3] It is stated in para. 12 (b): "The application of a theoretical pension of a minimum of twenty-five years of service as the basis of assessing retiree contributions as opposed to using the actual number of years of service when less than twenty-five".

accrue approach and the implementation of the mechanism, both are proposed to be initiated in 2023; they are related, but not interdependent.

30. **The Advisory Committee notes the lack of clarity in the planned implementation of the use of a theoretical pension in the context of the proposed fund proposal for after-service health insurance, including whether it would have an impact on the level of the proposed charge of 6 per cent. In addition, the Committee notes the lack of information and related proposals for staff recruited before 1 July 2007 who are not covered by the use of a theoretical pension (see para. 28 above). The Committee is of the view that further information and clarification with respect to the use of a theoretical pension are required in this respect for the consideration of the funding proposal of the Secretary-General.**

Extrabudgetary after-service health insurance funds and management

31. In his report, the Secretary-General indicates that, since 2017, the United Nations has applied a rate against the salary costs of staff charged against extrabudgetary funds to provide for future after-service health insurance benefits (A/76/373, para. 31). Along with the continuation of pay-as-you-go financing from extrabudgetary resources for existing retirees, a 3 per cent charge was initially applied against the salary costs of staff, with the rate set at 6 per cent since 2019 of all staff funded from extrabudgetary resources. The extrabudgetary reserves amounted to $134.8 million as at 31 August 2021.

32. The Advisory Committee was informed, upon enquiry, that the existing funds for extrabudgetary after-service health insurance reserves are currently managed by the Treasury within the short- to medium-term portfolio. The Committee recalls that the Board of Auditors has pointed to the lack of a specific investment strategy for long-term funds in the main pool of the Secretariat, the purpose of which was to support continuous payments in the future of the end-of-service employee benefits, including after-service health insurance (A/76/5 (Vol. I), paras. 112–115). The Board has recommended that the Administration conduct a comprehensive analysis of the funds participating in the main pool in order to identify the funds associated with long-term liabilities and develop a tailored investment strategy and guidelines for them.

33. Upon enquiry, the Advisory Committee was further informed that steps had already been taken to establish a separate pool for the existing funds for extrabudgetary after-service health insurance reserves. It was indicated to the Committee that an asset allocation study had been undertaken, that the first draft had been received from the consultant and that work was also under way with the Office of Legal Affairs on the engagement of an external asset manager to implement the diversified asset allocation strategy. **The Advisory Committee notes the plan of the Secretariat to transfer the management of the extrabudgetary funds for after-service health insurance reserves from the short- to medium-term portfolio to a longer-term strategy with the engagement of an external asset manager. The Committee trusts that an update will be provided in future reports of the Secretary-General on after-service health insurance.**

Investment of an after-service health insurance reserve fund

34. In his report, the Secretary-General indicates that the funds to be accumulated through the introduction of pay-as-you-accrue funding for staff recruited from 1 January 2023 would be held in a segregated reserve fund and would be initially invested in the existing short- to medium-term pool managed by the United Nations Treasury. The Investments Section of the Treasury has the expertise to undertake the management of the reserve funds within its existing operations albeit with some

resource requirements. It is anticipated that, in the longer term, it would be necessary to assess the need for specialized assets management services as the after-service health insurance asset allocation strategy is implemented into a more diversified longer-term portfolio (A/76/373, paras. 42–50).

35. The Advisory Committee requested but did not receive information on the specific additional resource requirements of the Investments Section of the Treasury for managing the funds in the short to medium term. It was indicated to the Committee that, depending on the final approved funding model, some additional resources may be needed, several years in the future, if the reserves were to reach a significant size. The Committee was informed that the industry standard fee of an external asset manager is approximately 0.5 per cent per annum of the portfolio value.

36. With respect to the investment rate of return, in his report, the Secretary-General indicates that the baseline portfolio targeted return that can be used for after-service health insurance is the Pension Fund's current long-term investment objective, which is to meet or exceed a 3.5 per cent real rate of return (net of inflation, as measured by the United States consumer price index) in United States dollar terms annualized over the long term (15 years or longer). A review of the Fund's actual performance returns over the last 25 calendar years shows an average real return of 6.2 per cent per annum (ibid., para. 47). Upon enquiry, the Advisory Committee was informed that the rates of return on the existing funds for extrabudgetary after-service health insurance reserves, which are currently managed within the short- to medium-term portfolio by the Treasury, were 1.8 per cent for 2020, 2.7 per cent for 2019, 2.4 per cent for 2018 and 1.1 per cent for 2017. The Board of Auditors has indicated that, if the funds related to end-of-service employee benefits were invested in the same way as other operational funds in a cash pool, the rate of investment return would have been less than the discount rate used continuously, which may result in the Organization running the risk of insufficient funds to cover end-of-service liabilities in the long term (A/76/5 (Vol. I), para. 114; see also para. 43 below).

37. **Noting the concerns expressed by the Board of Auditors on the current management of the extrabudgetary after-service health insurance reserve funds (see para. 32 above) and the lower rates of investment return within the short- to medium-term portfolio (see para. 36 above), the Advisory Committee is not convinced by the proposal of the Secretary-General to initially invest after-service health insurance funds to be accumulated from regular and peacekeeping budgets in the existing short- to medium-term pool managed by the United Nations Treasury (see para. 33 above).**

38. The Advisory Committee recalls that the potential management of after-service health insurance reserves by the Pension Fund by broadening the Fund's mandate was previously considered, but the Working Group on After-Service Health Insurance, having explored that option, concluded that it was inadvisable and that the United Nations Joint Staff Pension Board found that it might be inappropriate owing to the distinct investment objectives of the Fund and of after-service health insurance benefits (A/76/373, para. 45; A/71/815, paras. 18–21). Upon enquiry, the Committee was informed that, although pension payments cover the same retirees, the liability profile of pension payments is not the same as that of after-service health insurance payments. The Committee was also informed that, within the United Nations system, each organization manages after-service health insurance reserves separately; however, through the Working Group on Common Treasury Services, there is a mechanism to share the results of solicitation exercises and the performance of external managers. The members of the Working Group on Common Treasury Services have also been working towards a framework document on after-service health insurance investment guidelines, as well as the goal of having a roster of investment managers from which each organization can choose, depending on the

asset allocation needs of each plan. Upon enquiry, the Committee was provided with an annex showing the policy and practice of other United Nations organizations regarding their management portfolio. **The Advisory Committee notes the efforts undertaken by the United Nations funds and programmes that have established an after-service health insurance reserve funded by extrabudgetary resources (see also para. 52 below). The Committee further notes the considerations raised by the Pension Fund. While noting that the General Assembly has not taken a decision on the funding of a reserve and investment of after-service health insurance liability for the organizations and the considerations, the Committee nonetheless maintains its view, as endorsed by the General Assembly in its resolution 71/272 B, that the role of the United Nations Joint Staff Pension Fund to provide a cost-effective solution in terms of investing assets set aside to fund future after-service health insurance benefits could be explored by system organizations where governing bodies have approved such funding (A/71/815, para. 21). The Committee therefore recommends that options for the management of a potential after-service health insurance reserve, in particular by the Pension Fund, should be further explored.**

39. **Overall, the Advisory Committee considers that the report of the Secretary-General does not provide a comprehensive proposal, as requested by the General Assembly. In presenting another substantial funding proposal introducing a change in the organization's approach to funding after-service health insurance liabilities, the Committee would have expected a more substantiated proposal with clear criteria for the application of pay-as-you-accrue as at 1 January 2023 versus the current pay-as-you-go funding streams, clearer justification for changes introduced to previous proposals and well-established and consistent funding and investment strategies. The Committee is therefore of the view that more information and clarification are required in order for the General Assembly to consider the proposals of the Secretary-General.**

After-service health insurance liability and valuation

40. Information on the updated actuarial valuation of after-service health insurance liabilities is provided in paragraphs 10 to 12 of the report of the Secretary-General. It is indicated that, on the basis of the 2020 actuarial valuation (see para. 45 below), the present value of the accrued liability of future benefits (net of retiree contributions) for the United Nations was estimated at $7,528 million as at 31 December 2020, compared with $6,832 million as at 31 December 2019. The Advisory Committee recalls that the after-service health insurance liability valuation is a point-in-time estimate of an agency's share of the cost of after-service health insurance coverage over the long term (based on the profile and entitlements of the insured persons and on actuarial assumptions as at the date of valuation) (A/73/792, para. 24).

41. The relative distribution of accrued liability across the three sources of funding (regular, peacekeeping and extrabudgetary) is illustrated in table 1 and figure I of the report of the Secretary-General. The Advisory Committee was informed, upon enquiry, that staff funded from the regular budget represented about 40 per cent of the active staff population entitled to after-service health insurance and about 77 per cent of after-service health insurance participants. It is anticipated that, in the years ahead, the proportion of after-service health insurance participants will begin to be more closely aligned with the portion of active staff charged to each funding type, leading to a smaller proportion of the overall liability under the regular budget because higher percentages would be attributable to staff funded under peacekeeping and extrabudgetary resources.

42. The Advisory Committee has noted the significant fluctuations of after-service health insurance liability valuation projections from year to year (A/73/792, para. 24).

In paragraph 12 of his report, the Secretary-General indicates that the valuation of accrued liabilities is highly sensitive to health insurance claims experience, demographics and financial factors, which collectively can cause considerable year-to-year variances in valuations. The most significant actuarial assumptions are the discount rate, the medical trend rate, life expectancy and the length of service of active staff. Regarding the discount rate, the Committee recalls that the Board of Auditors has observed that, from 2017 to 2020, the discount rates used in the actuarial valuation of the end-of-service liabilities were always higher than the annual rates of return of the main pool (A/76/5 (Vol. I), para. 112; see also para. 36 above).

43. In addition, in reviewing the valuation of the end-of-service liabilities (A/75/5 (Vol. I), paras. 131–145), the Board of Auditors has raised concerns over the accuracy of the census data used, in particular regarding the use of United Nations Joint Staff Pension Fund data for actuarial valuation, as well as other inconsistencies.[4] The Board expressed concern that the high level of errors that it noted in the entry-on-duty dates indicated a risk of high levels of error in the calculation of after-service health insurance liability.

44. Upon enquiry, the Advisory Committee was informed that the United Nations Joint Staff Pension Fund entry data were used in the most recent full-scale actuarial valuation (as at 31 December 2019). While providing some improvement, it was not a fully suitable substitute for years of participation in a health insurance plan of the United Nations owing to, among others, the following factors: the employment period may be interrupted; the contract types under which the staff were employed may not be counted towards eligibility for after-service health insurance; the periods of employment outside the Secretariat but within the United Nations system may count towards eligibility requirements; and a staff member participating in the pension plan may choose not to participate in the United Nations health insurance plans. The Committee was further informed that, for the upcoming actuarial valuation as at 31 December 2021, improvements would be made to the census data to better capture the participation period in the United Nations health insurance plans. In addition, the ratios of the after-service health insurance liabilities for the regular and peacekeeping budgets and extrabudgetary resources would be updated. **The Advisory Committee trusts that future actuarial valuations will reflect accurate census data and projections for the regular and peacekeeping budgets and extrabudgetary resources, including any changes to the age of mandatory separation (retirement age).**

45. The Advisory Committee notes from the report of the Board of Auditors that actuarially valued balances as at 31 December 2020 represent the results of the roll-forward exercise from 2019,[5] for which discount rates and health-care cost trend rates were updated for 2020; other assumptions were retained from those as at 31 December 2019, including the salary increase rate and the demographic assumptions (the same as those used for the latest United Nations Joint Staff Pension Fund valuation) (A/76/5 (Vol. I), paras. 147–163). **The Advisory Committee notes that the 2020 actuarial valuation, as a roll-forward exercise, retained some of the assumptions found to have a high level of error identified by the Board of Auditors with respect to**

[4] The Board noted that the Administration itself had expressed reservations about the Pension Fund dates, given that serving in another United Nations entity and contributing to the Pension Fund did not necessarily mean that a staff member had been enrolled in a health plan and that, in most entities, participation in such a plan was optional (A/75/5 (Vol. I), para. 137).

[5] Full actuarial valuation is usually undertaken every two years. In years between full valuations, independent actuaries perform a roll-forward exercise using participation data from the prior year with a partial update of actuarial assumptions.

entry-on-duty dates, which would indicate a risk of a high level of error in the calculation of after-service health insurance liability.

46. **As noted by the Board of Auditors, the quality, reliability and accuracy of the data are critical to the actuarial valuation of after-service health insurance liability. The Advisory Committee therefore intends to request the Board to conduct a review of the next full actuarial valuation, to be undertaken as at 31 December 2021.**

Recognition of employee benefit liabilities and pay-as-you-go approach

47. Figure IV of the report of the Secretary-General contains information on pay-as-you-go annual costs for the Organization for the period from 2023 to 2051, with a projected trend of continued upward spiralling. The Advisory Committee requested, but did not receive, a revised figure IV to include actual expenditure incurred by the Organization for the period from 2001 to 2021. The Committee was informed that related information for the years prior to 2012 was not readily available. The Committee was informed, upon enquiry, that the health insurance expenditure for retirees represented less than 2 per cent of the regular budget expenditure for 2008 and increased to 2.5 per cent for 2020. The Committee was also informed that the actual annual after-service health insurance expenditure amounted to $87.3 million, $82.9 million, $77 million and $87.7 million for 2017, 2018, 2019 and 2020, respectively, under the regular and peacekeeping budgets and the budget of the International Residual Mechanism for Criminal Tribunals. **The Committee notes from the information provided that actual expenditure for after-service health insurance for 2020 was at a similar level as that for 2017, with lower expenditure levels for 2018 and 2019 (see also para. 12 above).**

48. 48. Upon request, the Advisory Committee received tables with budgeted and actual expenditure for after-service health insurance under the current pay-as-you-go approach for 2012 to 2021 under the regular and peacekeeping budgets and the budget of the International Residual Mechanism for Criminal Tribunals (see the annex to the present report; see also para. 7 (b) and (c) above).

49. The Advisory Committee recalls that the General Assembly, in its resolution 61/264, noted that the International Public Sector Accounting Standards required that the accrued after-service health insurance liabilities and future accrued expenses be recognized on the face of the financial statements and that that requirement was irrespective of funding such liabilities. In the same resolution, the Assembly recognized that after-service health insurance benefit liabilities had been accrued from all sources of funding and decided to approve the establishment of an independent segregated special account to record after-service health insurance accrued liabilities and account for related transactions (A/73/792, para. 30).

50. **The Advisory Committee recalls that the organizations of the United Nations system have complied with International Public Sector Accounting Standard 39, which stipulates the recognition in the financial statements of liabilities related to employee benefits, but does not prescribe how those liabilities should be funded, leaving it to the discretion of the organizations to determine the optimal approach to ensuring that adequate resources are available to settle the recognized employee benefit liabilities as and when they fall due (A/73/792, para. 31; A/70/7/Add.42, para. 28; A/68/550, para. 17; see also para. 52 below).**

51. **The Advisory Committee further recalls that the General Assembly has recognized that after-service health insurance benefit liabilities have been accrued from all sources of funding (see resolutions 61/264 and 60/255). Taking into account its observations and recommendations above, the Committee is not**

convinced by the proposals of the Secretary-General and continues to believe that the objective of ensuring the availability of adequate resources to settle the recognized employee benefit liabilities can be achieved without necessarily and/or immediately creating a reserve (A/73/792, para. 32; A/68/550, para. 17) and therefore:

(a) **Reiterates its recommendation to continue with the pay-as-you-go approach at the present time,[6] as endorsed by the Assembly, including in its resolutions 73/279 B, 71/272 B, 70/248 B and 68/244;**

(b) **Recommends against the approval of recommendations (b) and (c) contained in paragraph 77 of the report of the Secretary-General (A/76/373).**

VI. Other matters

Impact of the funding proposal on the United Nations system

52. The Advisory Committee requested information on the impact of a potential decision of the General Assembly on the United Nations system organizations, including in terms of assessed and voluntary contributions. The Committee was informed that a number of United Nations system organizations, mainly those funded primarily from voluntary contributions, had already put in place funding strategies to progressively fund their after-service health insurance liabilities. For some organizations, especially those with assessed contributions, the governing bodies have postponed a decision on the matter until the Assembly's adoption of a funding strategy for the Secretariat. While a decision of the Assembly would not be binding on the other organizations of the United Nations system, it would serve as guidance while funding proposals are being considered by the governing bodies of the respective organizations.

VII. Conclusion

53. Action to be taken by the General Assembly is set out in paragraph 78 of the report of the Secretary-General (A/76/373). The Assembly is requested to take note of the recommendations formulated in that report and to approve the funding of the after-service health insurance obligation in respect of officials recruited from 1 January 2023 through the implementation of a payroll charge against salary costs.

54. **Subject to its observations and recommendations above, the Advisory Committee recommends that the General Assembly take note of the report of the Secretary-General.**

[6] A/73/792, para. 32; A/68/550, para. 17; A/70/7/Add.42, para. 28; and A/71/815, para. 36.

Annex

Budgeted and actual expenditure under regular budget, 2012–2021

(In thousands of United States dollars)

	2012–2013	2014–2015	2016–2017	2018	2019	2020	2021
Revised appropriation[a]	108 871.8	131 122.8	140 707.4	60 054.8	60 054.8	70 197.2	74 331.3
Expenditure	108 479.1	119 809.3	135 573.3	72 780.8	66 062.7	74 806.5	63 006.0[b]

[a] Source: sections of the proposed programme budget for the subsequent biennium/year.
[b] As at 31 October 2021.

Budgeted and actual expenditure under peacekeeping budget, 2011/12–2021/22

(In thousands of United States dollars)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19[a]	2019/20	2020/21	2021/22[b]
After-service health insurance budget funded under support account	8 400.0	8 484.0	8 886.8	10 310.8	10 350.6	10 837.0	10 346.0	10 448.8	11 013.4	11 094.1	11 090.0
Expenditure	7 890.1	8 274.4	8 770.9	9 147.2	9 013.0	9 974.3	10 212.8	8 044.2	12 451.8	11 778.3	3 847.7

[a] $2.5 million in expenditure for 2018/19 was recorded in 2019/20.
[b] As at 31 October 2021.

Budgeted and actual expenditure under International Residual Mechanism for Criminal Tribunals budget, 2012–2021[1]

(In thousands of United States dollars)

	2012–2013	2014–2015	2016–2017	2018–2019	2020	2021
Revised appropriation	–	–	842.6	2 451.9	1 481.6	1 278.6
Expenditure	–	–	475.4	2 431.9	1 353.1	1 122.8

[1] The Advisory Committee on Administrative and Budgetary Questions was informed that no specific allocation for after-service health insurance was in the first budget for the International Residual Mechanism for Criminal Tribunals begun in 2012–2013. In its resolution 70/243, the General Assembly authorized the Secretary-General to establish a sub-account within the Mechanism to manage, on a pay-as-you-go basis, the accrued liabilities for the after-service health insurance benefits to former staff of the International Criminal Tribunal for Rwanda and the Mechanism, and thereafter to former staff of the International Tribunal for the Former Yugoslavia upon its closure. Accordingly, a separate component was created with a provision for after-service health insurance included in the context of the 2016–2017 revised appropriation and subsequent budgets, as indicated in the table. The lower appropriation and expenditure in 2016–2017 reflect the initiation of that process in late 2016; they therefore do not reflect the costs for the full biennium.