

## FUNDING LIABILITIES FOR END-OF-SERVICE AND POST-RETIREMENT BENEFITS

### I. PURPOSE

1. This document serves to inform the Executive Committee on actions taken by UNHCR regarding the recognition of liabilities for end-of-service and post-retirement benefits, i.e. repatriation grant and travel, accrued annual leave and after-service health insurance (ASHI), and the organization's reflections to date on the funding of these liabilities.

### II. BACKGROUND

2. The United Nations System Accounting Standards (UNSAS) requires the disclosure of liabilities for end-of-service and post-retirement benefits. In accordance with these standards, UNHCR disclosed these liabilities in the notes to the financial statements up until 2006. They were not recognized in the financial statements nor were funds set aside to meet these obligations as they fell due. As with most other United Nations organizations, UNHCR currently accounts for these obligations on a "pay-as-you-go" basis.

3. In March 2007, the Controller for the United Nations instructed United Nations Funds and Programmes to recognize all end-of-service accrued benefits liabilities (such as after-service health insurance, accrued annual leave, and repatriation grant and travel), in their interim financial statements for 2006.<sup>1</sup>

4. As these instructions were not received until after the closure of its 2006 accounts, UNHCR committed to reflecting these liabilities in its financial statements as at 31 December 2007. UNHCR, therefore, established the Staff Benefits Fund to cover financial activities related to end-of-service accrued benefits liabilities, in respect of after-service health insurance, accrued annual leave, and repatriation grant and travel.

5. UNHCR's ASHI liability was estimated by a consulting actuary and valued at \$308 million as of 31 December 2007. The organization's liability related to repatriation benefits was actuarially determined to be \$26.5 million. Its liability for accrued annual leave was estimated to be \$33 million. Following instructions from the UN Controller and in preparation for adoption of the International Public Sector Accounting Standards (IPSAS),

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<sup>1</sup> Memorandum from Warren Sach, Assistant Secretary-General and Controller for the United Nations, dated 26 March 2007, on "Treatment of end-of-service accrued benefit liabilities such as ASHI, accrued annual leave and repatriation grants for the interim financial period through 31 December 2006"

these liabilities were recognized in full, at \$367.5 million, in UNHCR's financial accounts for the first time in 2007. As these liabilities are wholly unfunded, a negative equity resulted under the Staff Benefits Fund.

### III. FUNDING EMPLOYEE BENEFIT LIABILITIES

6. The magnitude of these liabilities merits consideration of an appropriate funding policy to ensure that adequate funds are put aside on a systematic basis to meet the costs of future liabilities. Current demographic trends show an increasing population of retirees covered under ASHI, as well as increasing utilization of medical services and medical costs in general.

7. Also, under the current "pay-as-you-go" plan, payments towards these liabilities are met from resources available in the period during which the payments are made. Therefore, current resources are made to bear the costs incurred in earlier periods.

8. Since UNHCR derives its income almost solely from voluntary contributions and requires the totality of its reserves and fund balances to implement operations worldwide, it does not have the ability to appropriate any unearmarked fund balances for an initial funding of the Staff Benefits Fund.

9. UNHCR has looked at funding mechanisms being considered or already in use by other UN organizations.

#### A. UNFPA

10. UNFPA's ASHI liability stood at \$61.6 million on 31 December 2005, the date of its latest published biennial assessment<sup>2</sup>. The organization set aside \$12 million in January 2006 and another \$10 million in December 2006 to fund its ASHI liabilities. UNFPA proposes to fund the remaining amount progressively over a number of years, and estimates that a 4 per cent staff cost surcharge should effectively cover the annual increase in the liability.

#### B. UNDP

11. UNDP's ASHI liability was \$406.9 million as at 31 December 2005. Since the 2000-2001 biennium, UNDP has made accounting accruals of \$54 million per biennium, and \$27 million in 2006, accounted for as Other Expenditure<sup>3</sup>. These accruals total \$189 million and are in addition to annual ASHI premium costs, which are included in the biennial support budget. The ASHI reserve has been invested separately and is disclosed in the UNDP financial statements. UNDP's unfunded liability as at 31 December 2006 was \$217.9 million.

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<sup>2</sup> In its report "United Nations Population Fund Estimates for the Biennial Support Budget for 2008-2009, Report of the Advisory Committee on Administrative and Budgetary Questions", DP/FPA/2008/2 dated 26 December 2007

<sup>3</sup> In its report "UNDP and UNIFEM Estimates for the biennial support budget, 2008-2009, Report of the Advisory Committee on Administrative and Budgetary Questions", DP/2008/5 dated 7 January 2008

### C. UNICEF

12. As at 31 December 2005, UNICEF's accrued ASHI liability amounted to \$292.4 million. UNICEF started funding its ASHI reserve in 2003, with an initial contribution of \$ 30 million. It continued to allocate \$ 10 million per year during the period 2004 to 2006, and infused an additional \$ 30 million for 2007<sup>4</sup>. It plans to set aside further \$ 10 million per year from 2008 to 2010.

13. UNICEF started to fund separation benefits in 2006, with an initial allocation of \$ 10 million<sup>5</sup>. It planned to build up the Separation Fund by monthly charges to Payroll, i.e. 6 per cent charge on net salary plus post adjustment for international Professionals, 6 per cent charge on net base salary for Headquarters General Service staff, and 3.5 per cent on General Service staff salaries in Field Offices.

### D. UNESCO

14. UNESCO plans to follow the same approach as the United Nations to address the situation of unfunded end-of-service and post-retirement benefit liabilities<sup>6</sup>.

### E. WIPO

15. In its revised budget for the biennium 2006-2007, WIPO introduced a provision of 6 per cent of biennial staff expenditure (CHF 16 million) to progressively cover the long-term liabilities of the organization for separation from service and ASHI<sup>7</sup>.

### F. WFP

16. As at 31 December 2006, WFP estimated its main employee benefit liabilities at \$173.3 million<sup>8</sup>. Seventy two per cent of the after-service medical coverage, separation payments scheme, and compensation plan reserve fund were funded as at the same date. The other employee benefits, i.e. repatriation grants, repatriation travel and removal costs, and accrued annual leave were all unfunded.

17. Among the alternatives considered by WFP to fund the liabilities are: a phased approach; full funding through direct donor contributions; and/or the use of other funds and reserves.

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<sup>4</sup> The document "Medium-term strategic plan: planned financial estimates for the period 2007-2010", E/ICEF/2007/AB/L.4 dated 25 July 2007 refers

<sup>5</sup> The document "Biennial support budget for 2006-2007", E/ICEF/2006/AB/L.1 refers

<sup>6</sup> The document "Financial Report and Audited Financial Statements of UNESCO for the period ended 31 December 2005 and Report by the External Auditor, Unfunded liabilities for employee benefits", 175 EX/INF.8 dated 28 July 2006 refers.

<sup>7</sup> In the report during the 12<sup>th</sup> Session of its Program and Budget Committee on the revised budget for the 2006/2007 biennium, WO/PBC/12/2 dated 19 July 2007 refers

<sup>8</sup> the document "Fourth Progress Report on the Implementation of International Public Sector Accounting Standards", WFP/EB.A/2007/6-A/1 dated 27 April 2007 refers

#### IV. CONCLUSION

18. The funding options proposed by the Secretary-General in his report to the General Assembly (A/61/730) in 2007 ranged from immediate full funding by a one-time assessment of Member States to a combination of funding mechanisms that would result in full funding within a 25-30 year timeframe. The General Assembly decided to defer consideration of these funding proposals. The United Nations is currently preparing a report for the 63<sup>rd</sup> session of the General Assembly (scheduled for the latter part of 2008) on the status of the liabilities and further analysis of the proposed funding of ASHI.

19. UNHCR intends to be guided by the approach that the United Nations will take to address the funding liabilities related to end-of-service and post-retirement benefits. The organization will continue to follow the current “pay-as-you-go” approach until a formal funding mechanism is adopted, but report the liabilities and related disbursements under the Staff Benefits Fund.