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FUNDING OF WFP'S AFTER-SERVICE MEDICAL LIABILITIES

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LIST OF ACRONYMS USED IN THE DOCUMENT

ACABQ	Advisory Committee on Administrative and Budgetary Questions
CCAQ	Consultative Committee on Administrative Questions
FAO	Food and Agriculture Organization of the United Nations
IAEA	International Atomic Energy Agency
IAS	International Accounting Standards
ICAO	International Civil Aviation Organization
IFAD	International Fund for Agricultural Development
ILO	International Labour Office
IMO	International Maritime Organization
ITC	International Trade Centre
ITU	International Telecommunication Union
MIP	Medical Insurance Plan
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UPU	Universal Postal Union
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WMO	World Meteorological Organization



INTRODUCTION

1. The Executive Director's proposals for the funding of WFP's After-Service Medical Liabilities is presented to the Board in document WFP/EB. 3/99/3-C. In response to the FAO Finance Committee's deliberations on the subject, the present document has been prepared to provide updated and additional information on the subject, including the comments of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and United Nations system-wide comparative information.

ACABQ

2. In its first report on the proposed United Nations Budget for 1998–99, the ACABQ took note of the increase in after-service medical costs. The Committee recommended that the long-term implications and impact of this growth upon the organization should be addressed on a system-wide basis, in a report of the Secretary-General, along with practical indications of how the Secretariat intends to address this issue (A/52/7 para. 25). Recent indications from the United Nations secretariat are that it would not be possible to commence such a review until the end of the year 2000.
3. The recommendation of the ACABQ does not preclude United Nations system organizations from making provision in financial statements in accordance with United Nations Accounting Standards for after-service medical benefits. WFP has also been advised that the ACABQ does not anticipate an agreed system-wide approach to providing for such liabilities. The ACABQ in its report to the WFP Executive Board welcomed the document on the funding of WFP After-Service Medical Liabilities, agreed with the recommendations of the Executive Director and recommended adoption of the draft decision contained in that document. The report of the ACABQ is submitted in document WFP/EB.3/99/3(A,B,C)/2.

COMPARISONS WITH OTHER ORGANIZATIONS

4. Under International and United States Accounting Standards, after-service medical liabilities are to be provided for in the financial statements. The United Nations Accounting Standards allow for either provision in the financial statements or disclosure of the liabilities by way of a note. The flexibility in the United Nations Accounting Standards takes account of the different rules, financial circumstances and funding possibilities which influence the approach to be followed by individual United Nations organizations.
5. Annex I shows a comparison of the accounting treatment approaches of organizations in the United Nations system in respect of after-service medical liabilities. Although organizations are generally funding these liabilities on a pay-as-you-go basis, the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD) and the World Health Organization (WHO) have begun providing for the liabilities in the financial statements.
6. It would appear that the absence of a source of funding to cover the liabilities is the major difficulty faced by organizations when addressing this issue. In many organizations, the extent of liability is not known due to the absence of recent actuarial valuations. WFP's present financial situation would permit the Programme to fund these past liabilities



without burdening future budgets or drawing on undetermined future surpluses. The lack of a uniform approach to the funding of After-Service Medical Liabilities by organizations in the United Nations system, due to varying financial structures and circumstances, should not prevent WFP from taking action relevant to its circumstances.

OTHER ISSUES

7. The liability to the Programme arises because the contributions of retirees for After-Service Medical benefits is lower than the actual costs of the benefits. Annex II presents a comparison of the contribution per retiree paid by organizations in the United Nations system for after-service benefits. The variation in the amounts contributed by United Nations organizations is due to many factors, including demographics and differences in the benefits provided under individual schemes. The FAO scheme, which is applicable to WFP, shows contributions of US\$1,468 per annum, which is approximately 50 percent of the average United Nations or WHO contribution per retiree.
8. The suggestions that the after-service medical benefit liabilities could be met from increased retiree contributions should be considered, with reference to the FAO manual section covering these entitlements. An increase in the mandatory contribution of retirees, thereby reducing the level of the WFP contribution, could be achieved through a change in the manual. However, no such change can be applied retroactively and the present liability, as determined by actuarial valuation, remains that of WFP.

CONCLUSION

9. The information provided in the present information note may assist the Board in its deliberation on the proposal of the Executive Director endorsed by the ACABQ to provide for and fund the After-Service Medical Liabilities.



ANNEX I¹ACCOUNTING TREATMENT

General Note: UNFPA adheres to rules and procedures effected by UN/UNDP and all arrangements and transactions pertaining to medical coverage and administered directly by the Insurance Unit of the United Nations Headquarters. Therefore no specific reference is made to UNFPA in the text below. ITC is covered by references to the United Nations.

1. Contributions to retiree benefits

All organizations reported that contributions to retiree benefits are made on a “pay as you go” basis, i.e. as a current financial period expense. In many cases these expenses are not necessarily separately identified from general staff costs. In other cases the expense is specifically identified:

United Nations—resources are appropriated by the General Assembly under a specific line item in the biennial programme budget. Section 30, Table 30.3 of A/52/6/Rev.1 includes an amount of \$47.8 million with respect to 1998-1999 estimates.

ILO—contributions are charged to a separate budget line (CH.290 - contributions for the insurance of retired officials - \$9 million).

UNESCO—provides resources in a specific budget line “organization’s contribution for retirees’ health insurance” which is included under the budget of the Bureau that administers the Medical Benefits Fund.

WHO—reports that one quarter of current contributions (from both active staff and WHO) are set aside as a reserve. In addition WHO is funding part of the actuarial deficit by a special annual contribution over a ten-year period ending in 1998.

2. Liability for future benefits

The United Nations reflects this liability in a note.

UNICEF reflects liabilities only for the MIP plan.

WFP includes a note that the liability is estimated on the basis of an actuarial review carried out by FAO. This amount, as communicated by FAO, is disclosed in Schedule/Note 19.

FAO disclosed its latest estimate in Note 20 to the 1996–97 statements (see quantification in section 3 below).

ILO provides in Schedule 2.2.2 data on assets and liabilities of the Staff Health Insurance Fund. At 31 December 1997 the “guarantee fund” (operating reserve) of \$29 million exceeded the mandated minimum amount of \$7.3 million based on one-ninth of the expenditure of the Fund during the last three financial years.

WHO is considering reflecting the liability for future benefits and will also show the funded portion of the projected shortfall (i.e. the funded portion of the difference between estimated benefits payable and contributions receivable from staff and WHO).

UNIDO has for the 1996-1997 financial statements added a note stating UNIDO’s contribution to the scheme amounting to \$2.7 million, including an obligation of \$1 million

¹ Taken from ACC/1999/FB/90/CRP.11, page 13.



for amounts due to the United Nations for former UNIDO staff members insured by the United Nations insurance plan during 1986-1994.

In the financial statements no liability for future benefits was reflected by: UNDP, UNRWA, ILO, ICAO, UPU, ITU, WMO, IMO, WIPO, IFAD, UNIDO, IAEA.

UNESCO discloses in its statement of accounting policies that this unrecorded liability is an exception to its accrual basis of accounting.

3. Method of calculating liability and current estimate of amounts involved

The United Nations has engaged a consulting actuary to carry out an actuarial valuation of post-retirement health benefits. On the basis of the study it was estimated that the liability at 1 January 1995 covering all participants, regardless of funding source was:

- present value of future benefits after offset from retiree contributions \$1,062,456,000
- accrued liability after offset from retiree contributions \$786,839,000.

An updated actuarial evaluation as a 1 January 1997 is currently being carried out.

FAO's liability as calculated by an actuary was \$162.8 million as at 1/1/96 and \$195.1 million as at 12/31/97. FAO communicates to WFP and IFAD their "share" of the gross liability as calculated by the actuary.

WHO's latest (30 May 1997) actuarial evaluation calculates a liability of \$111 million with respect to the difference between estimated future benefits payable and contributions receivable from staff and WHO.

In the financial statements **no quantification of liability** was made by: UNDP, UNRWA, UNESCO, ICAO, UPU, ITU, WMO, IMO, WIPO, IFAD, UNIDO, IAEA.

4. Comments by external auditors on accounting treatment used

UNICEF's statements for 1994-1995 reflect that "full compliance is yet to be achieved in the area of disclosure of termination benefits".

FAO's auditors commented in the 1994-95 statements on the lack of quantification of liabilities but indicated that a consulting actuary was being retained.

The following organizations reported no comment:

UNDP, UNRWA, UNESCO, ICAO, WHO, UPU, WMO, IMO, WIPO, IFAD, UNIDO, IAEA.

5. Plans for changes to Disclosure or for Funding Liabilities

The United Nations has not at this stage formulated any mechanism for funding the liability.

UNDP has issued a RFA to determine the funding liability for the MIP plan for local staff and a RFA will be sent out to determine funding liability for all other staff.

FAO plans to change from a "pay as you go" to an accrual basis as from 1/1/98 for current contributions and to amortize arrears over a 30-year period.

IFAD plans disclosure of liability in the Notes, compliance with IAS as it becomes mandatory, including recognition of "full service cost" from 1998 onwards. Funding for current cost would be through the admin. Budget. Funding for the unfunded accrued liability is currently under discussion.



IAEA plans, beginning in 1998, to disclose the current year's expense in notes to the financial statement.



ANNEX II

**AFTER-SERVICE MEDICAL COSTS
COMPARISON OF ORGANIZATION CONTRIBUTIONS FOR RETIRED
CONTRIBUTORS¹
(US\$—AT 31 DECEMBER 1997)**

Organization	Amount
ICAO	837
UNESCO	1132
UPU	1425
FAO (WFP)	1468
IAEA	1654
IMO	1738
UNIDO	1999
WMO	2266
WIPO	2649
WHO	2768 ²
ILO	2801
ITU	2997
United Nations	3155

¹ Source—CCAQ(FB) document: ACC/1999/FB/90/CRP.11

² Of which average organization special contribution towards financing actuarial deficit per contributor: \$719

