EXECUTIVE SUMMARY

This information note provides an overview and update on the results of the valuation of WFP employee benefits liabilities at 31 December 2010.

Section I - Introduction

1. This section briefly describes WFP's employee benefit plans and explains the purpose of the valuation of the liabilities accruing to the organisation from these benefits.

Section II – The 2010 Valuation of WFP Employee Benefit Liabilities

2. This section provides:-

    a) the key assumptions used in the actuarial valuation and WFP internal valuation for the last two years;

    b) the explanations of the change in the value of employee benefits liabilities as compared to the 2009; and

    c) a comparative summary of WFP employee benefit liabilities by plan as at 31 December 2010 and 2009.

3. The value of WFP's employee benefits liabilities increased by US$29.9 million (11%), from US$278.7 million in 2009 to US$308.6 million in 2010. The overall increase is the net result of an increase in the valuation of long-term employee benefits of US$31.0 million, and a decrease in the valuation of short-term employee benefits of US$1.1 million. The main reasons for the changes in the value of the liabilities are:-

    a) A net change in the expected liability as a result of the additional accrual of current service and interest cost net of actual benefit payments from the plans during 2010;

    b) A change in the discount rate used by the actuaries;

    c) A change in the year-end EUR-USD exchange rates; and

    d) Changes in demographic experience throughout the year, compared to previous valuations.

Section III - Funding position

4. This section provides an analysis of WFP's funding of its employee benefit liabilities. WFP also sets aside cash and investments for liabilities that have been funded, this section recommends additional investments be set aside based on the movements in the liabilities during 2010.

Section IV - Other Funding considerations

5. During the 2010 Annual Session (WFP/EB.A/2010/16), the Board approved a plan to provide for unfunded employee benefits liabilities through the inclusion of the required additional annual funding of US$7.5 million in the standard staff cost over a15 year period.

SECTION I - INTRODUCTION

6. WFP employee benefits consist of:-

   a) Post-employment benefits are payable after completion of employment and are defined benefit plans:-

      - After-Service Medical Plan (ASMP), which allows eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP);

      - The Separation Payments Scheme (SPS), a plan which funds the severance pay of WFP General Service staff at the Rome duty station upon separation from service; and

      - The Compensation Plan Reserve Fund (CPRF) provides compensation to all staff members, employee and dependents in case of death, injury or illness attributable to the performance of official duties.

   b) Other long-term employee benefits are employee benefits (other than post-employment benefits) that do not fall due wholly within 12 months after the end of the financial period in which the employees render the related service. These consist of home leave and other separation-related benefits such as accrued leave, death grants, repatriation grants and repatriation travel and removal expenses.

   c) Short-term employee benefits are employee benefits that fall due wholly within 12 months after the end of the financial period in which the employees render the related service. Short-term employee benefits consist of annual leave and education grant.

7. WFP annually values all of these employee benefit liabilities. In accordance with standard business practice, liabilities arising from post-employment benefits and other separation-related benefits are determined by consulting professional actuaries. At 31 December 2010, US$279.7 million of the employee benefits liabilities was calculated by professional actuaries.

8. WFP reviews and selects the methods and assumptions that will be used by the actuaries in the year end annual valuation. As prescribed by IPSAS 25, an entity shall use the Projected Unit Credit Method to determine the value of its defined benefit obligations and related current service cost. IPSAS 25 provides the guidance on the actuarial assumptions, which should be unbiased and are an entity's best estimates of the variables that will determine the employee benefits liability. Actuarial assumptions comprise financial assumptions (discount rate, future salary levels, and the expected rate of return on plan assets) and demographic assumptions (staff turnover rates, mortality rates, medical claims rates).

9. Short-term employee benefits, some of the long-term employee benefits related to locally recruited staff members (ASMP, CPRF and death grant) and home leave are valued internally by WFP, based on actual data and trends for the past three years. At 31 December 2010, such liabilities totaled US$28.9 million.

SECTION II - THE 2010 VALUATION OF WFP'S EMPLOYEE BENEFIT LIABILITIES

10. WFP's total employee benefit liability increased from US$278.7 million end 2009 to US$308.6 million end 2010 (US$29.9 million, 11%). The change in liability is detailed in Table 1:

TABLE 1. EMPLOYEE BENEFIT LIABILITY 2009/10					
	Closing 2009 Liability	**Benefits payments**	**Annual Cost increase/ (decrease)**	**Net total change increase/ (decrease)**	**Closing 2010 Liability**
- After Service Medical Plan	181.9	(2.7)	24.5	21.8	203.7
- Separation Payments Scheme	20.6	(0.6)	2.6	2.0	22.6
- Compensation Plan Reserve Fund	6.6	(0.6)	2.0	1.4	8.0
Post-employment employee benefits liabilities	**209.1**	**(3.9)**	**29.1**	**25.2**	**234.3**
Other long-term employee benefits liabilities	**46.3**	**(3.2)**	**9.0**	**5.8**	**52.1**
Short-term employee benefits liabilities	**23.3**	**0.0**	**(1.1)**	**(1.1)**	**22.2**
Total Employee benefits liabilities	**278.7**	**(7.1)**	**37.0**	**29.9**	**308.6**

11. The increase in the post-employment benefits is mainly due to an increase in the ASMP of US$21.8 million.

12. Other long-term employee benefits increased by US$5.8 million, mainly due to an increase in the repatriation grant of US$3.7 million and accrued leave of US$1.3 million.

13. Short-term employee benefits decreased by US$1.1 million. This is due to the decrease in the short-term annual leave liability. This liability is calculated as a total walk-away liability at year end less the long-term portion of accrued leave liability as calculated by the actuaries. Therefore, the increase of the long-term accrued leave liability as stated in the paragraph 10 of this document resulted in the decrease of accrued leave short-term portion.

14. Table 2 highlights the key changes in assumptions made by the actuaries in the 2010 actuarial valuation exercise, i.e. those changes in assumption which resulted in a material impact on the value of post-employment benefits and other separation–related benefits:-

	TABLE 2.KEY ASSUMPTIONS CHANGES	**2010**	**2009**	**Impact on liability**
	Financial assumptions			
1	Discount rate (All Plans)	5.00%	5.40%	increase
2	Year end EUR-USD rate (All Plans)	1.314	1.443	decrease
3	Medical cost increase (ASMP only)	6.00%	7.00%	decrease
	Demographic assumptions			
4	Coverage of Spouses (ASMP only)			
	male retirees	85%	80%	increase
	female retirees	55%	45%	increase
5	Repatriation Grant (OSRB only)			
	payable to % of retirees	80%	65%	increase

15. The actuarial method used by the actuaries is the projected unit credit method. Under this method, each period of service gives rise to an additional unit of benefit entitlement to eligible participants and therefore increases the liability to WFP.
16. The net employee benefits liability is the present value of the defined benefit obligation at the reporting date adjusted for any actuarial gains or losses not recognized. These actuarial gains and losses are eventually recognized using the corridor approach. Under the corridor approach, actuarial gains and losses up to 10 percent of the defined benefit obligation are not recognized as revenue or expense so as to allow the gains and losses the reasonable possibility of offsetting over time. The actuarial gains or losses over 10 percent of the defined benefit obligation are amortized over the average remaining service of active staff for each benefit, apart from other separation-related benefits for which no corridor approach is applied.

17. Current service cost is the increase in the present value of the defined benefit obligation resulting from the employee service in the current period. For example, with respect to the After Service Medical Plan, a staff member earns the post-employment medical benefit over the period the employee provides the service (working life) to WFP. Or alternatively, WFP spreads the cost of providing this benefit to the staff member post-employment over the staff member's working life. In this manner the ASM liability increases with each year of service provided by the employee (by way of the current service cost).

18. There were two main changes in the assumptions used by the actuaries in their valuation exercise in 2010 which had a material impact on the net increase in value of the employee benefit liability:-

- **The change of the discount rate**

  The discount rate is used to reflect the time value of money, a financial concept that assumes that a dollar today will be worth more in the future because it can be invested and generate a return of interest. In order to determine the present value of the long-term liabilities, the actuarial valuation calculates their future value first and then discounts to the present value using a discount rate. The discount rate at 31 December 2010 was 5.00% (5.40% in 2009 valuation). The decrease of the discount rate assumes less return of interest can be generated in future and therefore, the present value of the liabilities increased.

- **The movement in the year end EUR-USD exchange rates**

  The Euro depreciated against the US Dollar from $1.443 at end 2009 to $1.314 at end 2010, resulting in a decrease of the value of employee benefit liabilities, as the USD equivalent of those employee benefits liabilities which are incurred in Euro is lower this year due to the Euro depreciation.

19. Table 3 below presents the change in the defined benefit obligation between 2009 and 2010 with consideration for the key assumption changes in the 2010 actuarial valuation (for post-employment and other separation-related employee benefits). The table includes those employee benefits liabilities calculated by professional actuaries (US$279.7 million). The balance not included represents those employee benefits liabilities calculated internally by WFP (US$28.9 million).

TABLE 3. DBO MOVEMENTS 2010/2009	**ASMP**	**OSRB**	**SPS**	**CPRF**	**Total**
Defined Benefit Obligation at 31 December 2009	**206.4**	**41.6**	**18.0**	**5.0**	**271.0**
- Expected change due to benefit accruals net of benefit paym	21.4	2.2	2.1	0.1	25.8
- Discount Rate Change from 5.4% to 5.0%	21.2	1.8	0.7	0.3	24.0
- Movement in year end EUR-USD exchange rate	(14.9)	(0.3)	(2.1)	-	(17.3)
- Change in Spousal Coverage at Retirement	10.9	0.3	-	-	11.2
- Change in medical claims expenses	(7.5)	-	-	-	(7.5)
- Miscellaneous Demographic Experience	2.6	2.0	2.4	(0.1)	6.9
Defined Benefit Obligation at 31 December 2010	**240.1**	**47.6**	**21.1**	**5.3**	**314.1**
- Unrecognized Gain/(Loss)	(36.5)		1.5	0.6	(34.4)
Net Employee benefits liabilities	**203.6**	**47.6**	**22.6**	**5.9**	**279.7**

SECTION III – FUNDING POSITION

20. Out of the total employee benefit liability of US$308.6 million at 31 December 2010, US$173.5 million (56%) has been 'funded' – i.e charged to relevant funds and projects - (US$143.4 million, 51% at 31 December 2009).

21. As a result of our investment policy, the long-term employee benefits that have been funded have cash and investments set aside. At 31 December 2010, funded long-term employee benefits totaled US$166.3 million.

22. At 30 June 2010, WFP determined the funded long-term employee benefits portion of US$149.3 million, and increased the level of investments set aside for the full amount of it.

23. At 31 December 2010, the funded portion of long-term liabilities has further increased by US$17.0 million.

TABLE 4. FUNDING POSITION OF EMPLOYEE BENEFITS COMPARATIVE TABLES FOR 2010/2009

	2010			2009			US$ change
	Total	**Funded**	**Unfunded**	**Total**	**Funded**	**Unfunded**	**Funded**
After Service Medical Plan	203.7	112.8	90.9	181.9	91.0	90.9	21.8
Separation Payments Scheme	22.6	22.0	0.6	20.6	20.0	0.6	2.0
Compensation Plan Reserve Fund	8.0	1.9	6.1	6.6	0.3	6.3	1.6
Post-employment employee benefits liabilities	**234.3**	**136.7**	**97.6**	**209.1**	**111.3**	**97.8**	**25.4**
Accrued Leave	13.4	8.3	5.1	12.1	7.0	5.1	1.3
Death Grant	1.5	0.3	1.2	1.3	0.1	1.2	0.2
Repatriation Grant	26.5	10.3	16.2	22.8	6.6	16.2	3.7
Repatriation Travel/Removal	6.2	6.2	-	5.5	5.5	0.0	0.7
Home Leave	4.5	4.5	-	4.6	4.6	0.0	(0.1)
Other long-term employee benefits liabilities	**52.1**	**29.6**	**22.5**	**46.3**	**23.8**	**22.5**	**5.8**
Total Long- term employee benefits liabilities	**286.4**	**166.3**	**120.1**	**255.4**	**135.1**	**120.3**	**31.2**
Short-term employee benefits liabilities	**22.2**	**7.2**	**15.0**	**23.3**	**8.3**	**15.0**	**(1.1)**
Total Employee benefits liabilities	**308.6**	**173.5**	**135.1**	**278.7**	**143.4**	**135.3**	**30.1**

SECTION IV – OTHER FUNDING CONSIDERATIONS

24. During the 2010 Annual Session (WFP/EB.A/2010/16), the Board approved a plan, to fund unfunded employee benefits liabilities by including required additional annual funding of US$7.5 million in the standard staff cost over a 15 year period starting from year 2011.

25. At 31 December 2010, the balance of the total employee benefits liabilities in the amount of US$135.1million was not funded. Out of the total unfunded US$135.1 million, the amount of US$120.1 million pertains to long-term employee benefits liabilities.

26. WFP reviews the standard staff cost rates for each biennium and adjusts based on actual experience. In October 2010, the revised standard staff cost rates were published (RMB2010/002) with the scope to include unfunded staff liabilities in the standard staff costs. The additional provision was built into the standard position cost rates starting from 01 January 2011 of 3.00% for PSA staff costs and 4.00% for non PSA staff costs.