

160th SESSION OF THE EXECUTIVE COMMITTEE

Washington, D.C., USA, 26-30 June 2017

Provisional Agenda Item 5.4

CE160/22
10 May 2017
Original: English

AFTER-SERVICE HEALTH INSURANCE

Introduction

1. Under the PASB Staff Regulations and Rules, the Pan American Health Organization provides and is responsible for funding certain post-retirement employee benefits and entitlements, including the WHO Staff Health Insurance (SHI) Plan, in which PAHO participates.
2. The WHO SHI Plan is a defined benefit plan under which its sponsors, WHO and PAHO, promise to provide specific health insurance benefits and assume responsibility for providing the necessary financial resources to fund these accrued benefits over time. PAHO is responsible for determining the funding mechanisms of its portion of the liability, as well as for managing all plan assets set aside for these benefits, including After-service Health Insurance (ASHI).
3. This document is being provided to Member States as an informational update regarding steps PAHO is taking to fund the ASHI defined benefit obligation (DBO).

Background

4. The PAHO ASHI Trust Fund was established in 2010 to manage any resources made available to fund retiree long-term liabilities under the WHO SHI Plan. The assets do not include any part of the assets held by WHO.
 5. Every year since 2008, PAHO has contracted with Aon Hewitt, a global actuarial firm, to provide actuarial valuations for ASHI in order to comply with the International Public Sector Accounting Standards (IPSAS), which PAHO adopted in 2010. Aon Hewitt has also been contracted by WHO to provide similar valuations for all regions covered under the WHO SHI Plan.
-

Analysis

6. The most recent actuarial study determined that the PAHO ASHI DBO totaled US\$ 252.1 million¹ as of 31 December 2016. Also, as of 31 December 2016, the ASHI Trust assets totaled \$60.1 million. After other adjustments, the net unfunded liability totaled \$219.0 million. This amount represents an estimate of the additional funding required by PAHO in order to meet the future cost of providing health benefits to current retirees and active staff eligible to retire from PAHO with these benefits over time. In addition, at the end of December 2016, PAHO had a SHI Equity Account with \$4.5 million to be added to the ASHI Trust assets.

7. Since 2010, PAHO has made an additional contribution to the ASHI Trust Fund equivalent to 4% of the base pay of PAHO staff in order to provide funding towards this liability. In 2016, this contribution totaled \$2.8 million. Net investment revenue in 2016 for the PAHO ASHI Trust Fund was \$0.9 million.

8. Under IPSAS, PAHO must plan to fund the liability within a determined period of time. In consultation with WHO, and referencing actuarial projections and recommendations, PAHO has developed a strategy that involves combining the liabilities and assets of the WHO SHI Trust Fund and PAHO's ASHI Trust Fund to achieve efficiencies in meeting funding objectives. This is particularly important given that most of the health care covered under PAHO's ASHI obligation is delivered in the United States, where health care costs are significantly higher than in other WHO regions. It is expected that this funding strategy will enable PAHO to achieve full funding of its DBO liability jointly with WHO. PAHO and WHO annually review progress toward this goal, taking into account actuarial assumptions about the future evolution of market rates of return and health care cost trends.

9. Therefore, on 8 November 2016, PAHO and WHO signed a Memorandum of Understanding (MOU) on the Assets of the WHO Staff Health Insurance Plan. Upon entry into force of the MOU:

- a) PAHO will transfer the balance of the PAHO ASHI Trust Fund and the PAHO SHI Equity account (\$60.1 million and \$4.5 million at 31 December 2016, respectively) to the WHO SHI Trust Fund to be invested as SHI assets under the SHI investment policy. The assets will be recorded as PAHO SHI assets, and PAHO will continue to record its share of any SHI actuarial deficit in its annual financial statement.
- b) PAHO will transfer monthly to the WHO SHI Trust Fund the 4% ASHI contribution levied on payroll and, on an annual basis, any surplus of health insurance contributions of active staff over expenses from the previous calendar year.

¹ Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

- c) PAHO will participate in the meetings of the WHO Investment Committee on investment recommendations relating to the WHO SHI Trust Fund and PAHO will receive quarterly reports on investment performance.
- d) A joint actuarial valuation that has been contracted by the WHO SHI Plan will be performed on an annual basis, and will include PAHO census data, to achieve efficiencies and reduce administrative costs.

10. In addition, the WHO SHI Global Oversight Committee is evaluating proposals that will serve to control future health care costs in the United States in order to contain the future increase in the DBO.

11. PAHO's annual financial reports will include updates on progress toward reducing the ASHI actuarial deficit and meeting the defined benefit obligation.

Action by the Executive Committee

12. The Executive Committee is invited to take note of this report and recommend that this matter be considered in future years under the agenda item for the annual Financial Report of the Director.

- - -