

March 2013



منظمة الأغذية
والزراعة للأمم
المتحدة

联合国
粮食及
农业组织

Food and
Agriculture
Organization
of the
United Nations

Organisation des
Nations Unies
pour
l'alimentation
et l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones Unidas
para la
Alimentación y la
Agricultura

FINANCE COMMITTEE

Hundred and Forty-eighth Session

Rome, 18 - 22 March 2013

2012 Actuarial Valuation of Staff-Related Liabilities

Queries on the substantive content of this document may be addressed to:

Mr Aiman Hija

Director and Treasurer, Finance Division

Tel: +3906 5705 4676

This document is printed in limited numbers to minimize the environmental impact of FAO's processes and contribute to climate neutrality. Delegates and observers are kindly requested to bring their copies to meetings and to avoid asking for additional copies. Most FAO meeting documents are available on the Internet at www.fao.org

EXECUTIVE SUMMARY

- This document updates the Finance Committee on the results of the actuarial valuation of the Organization's liability for staff-related plans (the "Plans") at 31 December 2012.
- Section *I. Introduction* describes the Plans, which provide distinct benefits to staff either on completion of service or as a result of work-related illness or injury. It also explains the purpose of annual actuarial valuations.
- Section *II. Results of Actuarial Valuation* summarises the total liability of the Plans as at 31 December 2012, 2011 and 2010 and provides the key assumptions used in those valuations. During 2012, the total liabilities of the Plans increased by a significant amount totalling USD 100.5 million from USD 1,152.0 million at 31 December 2011 to USD 1,252.5 million at 31 December 2012. The various reasons for the increase are detailed in this section.
- Section *III. Current Financial Situation* provides the total recorded, unrecorded and net balance sheet liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for the Plans as at 31 December 2012, 2011 and 2010, respectively. The total unfunded liability of the Plans as at 31 December 2012 was USD 871.0 million compared to USD 817.7 million at 31 December 2011.
- Section *IV. Accounting and Funding* provides a comparison of the annual Current Service Costs for the Plans for the three years ending 31 December 2013. The total Current Service Cost for 2013 is USD 40.8 million (2012 – USD 38.8 million). This section also includes full funding proposals for the ASMC plan and Terminal Payments Fund (TPF). The annual past-service ASMC funding amortization to fully fund the liability by 2040 amounts to USD 26.8 million, while the funding approved by Conference for 2012 and 2013 amounted to USD 7.05 million per year leaving a shortfall of USD 19.75 million per year. The annual past-service TPF funding amortization to fully fund the liability by 2025 amounts to USD 6.5 million for which no funding has ever been approved.
- Section *V. Comparison with other UN organizations* provides the Committee with a table comparing the status of the After Service Medical Coverage liabilities at various UN agencies.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the results of the 2012 actuarial valuation and the current financial situation, accounting and funding of the Organization's liability for staff-related plans at 31 December 2012. The Committee is invited to report to Council the biennial funding amounts necessary to fully fund the liabilities by 2040 (ASMC) and 2025 (TPF).

Draft Advice

- **The Finance Committee notes the amounts necessary to fully fund the ASMC and TPF past service liabilities by the target years of 2040 and 2025, respectively. The Finance Committee makes specific note of the following points:**
 1. **The growth in the value of the overall liability for after-service benefit plans has increased substantially in 2012 due mainly to the decrease in the discount rate accounting assumption; and**
 2. **The ASMC liability remains seriously under-funded. In the case of the TPF, no funding sources of past service liability have ever been approved and, therefore, any TPF payments in excess of the budgetary provision for current service cost will increase the structural cash deficit of the Organization.**

Introduction

1. FAO has four staff-related plans (the “Plans”) that provide benefits to staff members either upon completion of service or as a result of work related illness or injury. The Plans are as follows:

- **Separation Payments Scheme (SPS)** –According to the provisions of this plan the General Service category staff at Headquarters are entitled to receive a separation payment equivalent to 1/12th of the staff member’s Final Net Annual Salary Rate multiplied by years of service between 1 January 1975 and 31 December 1990, plus 1/13.5th of the staff member’s Final Net Annual Salary Rate multiplied by years of service after 1 January 1991.
- **Termination Payments Fund (TPF)** – The Termination Payment Fund comprises benefits payable to staff upon separation from service, specifically Repatriation Grant, Repatriation Travel and Removal, Commutation of Accrued Leave, Termination Indemnity, and where applicable, Death Grant.
- **After Service Medical Coverage (ASMC)** – is a medical insurance plan for retired staff and their families meeting certain eligibility criteria. The Basic Medical Insurance Plan provides partial reimbursements for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The premium of the Basic insurance is nominally shared between the retired staff member and the Organization.
- **Compensation Plan Reserve Fund (CPRF)** – The Compensation Plan provides benefits subject to certain limitations to staff members (including, inter alia, consultants and persons holding Personal Service Agreements) in the event of injury, illnesses, or death attributable to the performance of official duties. The benefits include annuities or lump-sum payments (supplementing the UN Pension benefits, if applicable) in the event of death or disability, and reimbursement of reasonable medical, hospital and directly-related expenses.

2. All of the above Plans are treated by the Organization as defined benefit plans. To meet the financial reporting requirements the Organization annually obtains from an external actuarial firm a valuation of all the Plans in order to:

- a) determine the Organization’s overall liabilities associated with the Plans;
- b) establish the annual expense related to the Plans’ maintenance;
- c) quantify recommended rates of contributions to fully fund the liabilities; and
- d) obtain information necessary to meet financial reporting requirements.

The actuarial valuations for 2012, 2011 and 2010 were all performed by AonHewitt (www.aon.com).

This document refers to the results of the actuarial valuation as at 31 December 2012 and the current financial situation, and accounting and funding of the Organization’s liability with information as at 31 December 2011 and 2010 as comparatives.

Results of Actuarial Valuations

3. A comparison of the total actuarial liability by plan as at 31 December 2012, 2011 and 2012 is detailed in Table 1.

Table 1

<i>(in USD Millions)</i>							
Plan	2012	Increase/ (Decrease)		2011	Increase/ (Decrease)		2010
		USD m	%		USD m	%	
CPRF	19.6	0.6	3.2%	19.0	1.4	8.0%	17.6
TPF	75.4	8.1	12.0%	67.3	6.5	10.7%	60.8
SPS	95.4	8.7	10.0%	86.7	(2.1)	-2.4%	88.8
ASMC	1,062.1	83.1	8.5%	979.0	3.6	-0.4%	982.6
Total actuarial liability	1,252.5	100.5	8.7%	1,152.0	2.2	0.2%	1,149.8

4. As detailed in Table 1 above, the net increase of USD 100.5 million in the actuarial liability between 2012 and 2011 was significant. The variations relating to the assumptions and methods as follows:

Sources of Changes of the Plans:	Variation USD millions
Expected change, without New Entrants*	35.9
Decrease in discount rates	92.3
Movement in Euro-USD exchange rate	29.3
Change in assumed medical trend rates	(26.2)
Claims and administrative expenses experience	(19.8)
Others	(11.0)
Total net increase	100.5

* Expected increase due to Service Cost (additional benefits earned) and Interest Cost, offset by expected decrease due to actual benefit payments

5. The actuarial valuation of the Plans requires the Organization to make certain assumptions in order to best estimate the cost of providing these benefits to its staff members. Such assumptions include demographic (e.g. mortality rates/estimates, rates of staff member turnover, claim rates under medical plans, etc.) and financial (e.g. discount rate, future salaries and benefits, future medical costs, etc.). Owing to changes in factors, both internal and external, the Organization, together with the actuaries, performs an annual review of the assumptions used in the actuarial valuation and adjusts them where it is deemed necessary for a more accurate calculation of the Plan liabilities. Like most actuarial calculations, annual valuations are subject to significant uncertainty and unpredictability. In particular, the values of the Organization's liabilities for the Plans are highly sensitive to changes in the EUR-USD exchange rate, the discount rate, and medical claims and anticipated medical inflation. For the purpose of 2012 actuarial valuation there were no significant changes in the basis of the

actuarial assumptions. The key assumptions used in the valuations of the Plans for 2012, 2011 and 2010 are presented below in Table 2.

Table 2

Key Assumptions	2012	2011	2010
Economic			
→ Discount rate			
ASMC	3.9%	4.3%	5.0%
SPS	2.5%	4.3%	4.7%
TPF	3.0%	4.4%	5.3%
CPRF	3.8%	4.4%	5.5%
→ Medical cost inflation rate	5% starting from 2013 to 2024; 4.5% for 2025-2044; 4% for 2045 and beyond	4% for 2012 to 2014, and 5% thereafter	5% starting from 2011
→ General inflation rate	2.5 % per year	2.5% per year	2.5% per year
→ Year end spot rate €/USD	1.33	1.29	1.31

Current Financial Situation

6. Table 3 below shows the total recorded and unrecorded liabilities¹ for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for all Plans as compared to the fair market value of earmarked long-term assets at 31 December 2012, 2011 and 2010, respectively.

¹ In 2012, the Organization changed its accounting policy related to the corridor method. At 31 December 2012 the organization recorded all of its liabilities and had no unrecorded liabilities. (Refer to para. 6 for explanation of change in accounting policy).

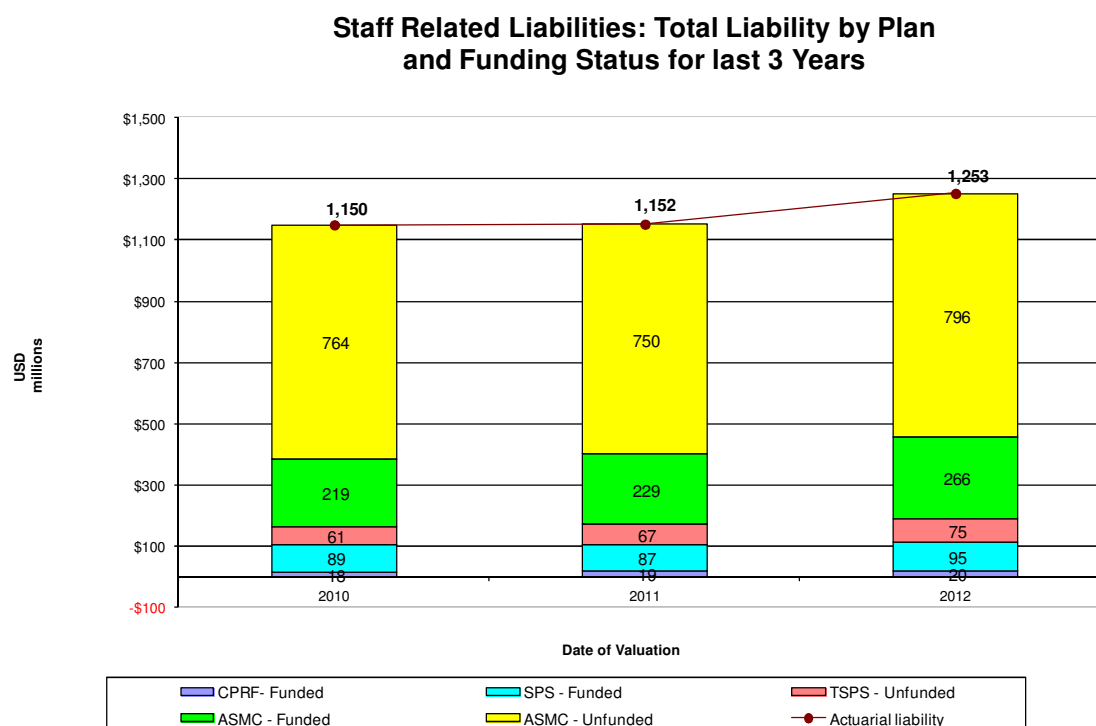
Table 3

Plan	2012	2011	2010
	USD millions	USD millions	USD millions
CPRF	19.6	19.0	17.6
TPF	75.4	25.9	22.9
SPS	95.4	85.2	88.5
ASMC	1,062.1	775.9	714.6
Total accrued liabilities	1,252.5	906.0	843.6
Add: Unrecorded liabilities	0.0	246.0	306.3
Total actuarially determined liabilities	1,252.5	1,152.0	1,149.9
Less: Earmarked long-term investments (at Fair Market Value)	(374.2)	(326.8)	(316.3)
Less: Advances to staff on SPS	(7.3)	(7.5)	(8.7)
Total unfunded liabilities *	871.0	817.7	824.9
* Of which:			
TPF	75.4	67.3	60.8
ASMC	795.6	750.4	764.1
Total unfunded liabilities	871.0	817.7	824.9

7. In prior years, in line with current International Public Sector Accounting Standards (IPSAS) guidance, the Organization has adopted the policy of utilizing the corridor method to recognize actuarial gains and losses. Under this method, actuarial gains and losses that exceed 10 per cent of the value of the actuarial liability are deferred and recognized over the expected average remaining working lives of the employees participating in the plan, which is currently estimated from 9.4 to 11.4 years. At 31 December 2011, USD 246.0 million was deferred. In 2012 the Organization changed its accounting policy to that of immediate full recognition, and at 31 December 2012 the full staff related liability in the amount of USD 1,252.5 was recorded. The reason for the change in policy was because future IPSAS is expected to change with respect to the corridor method and instead recommend the immediate recognition of all actuarial gains/losses.

8. Graph 1 below details the total liability by plan and its funding status:

Graph 1



9. During 2012, the carrying value of long-term investments earmarked by the Organization for the Plans increased by USD 47.4 million from USD 326.8 million at 31 December 2011 to USD 374.2 million at 31 December 2012. For comments on investments, reference should be made to the separate investments paper FC 148/7.

Accounting and Funding

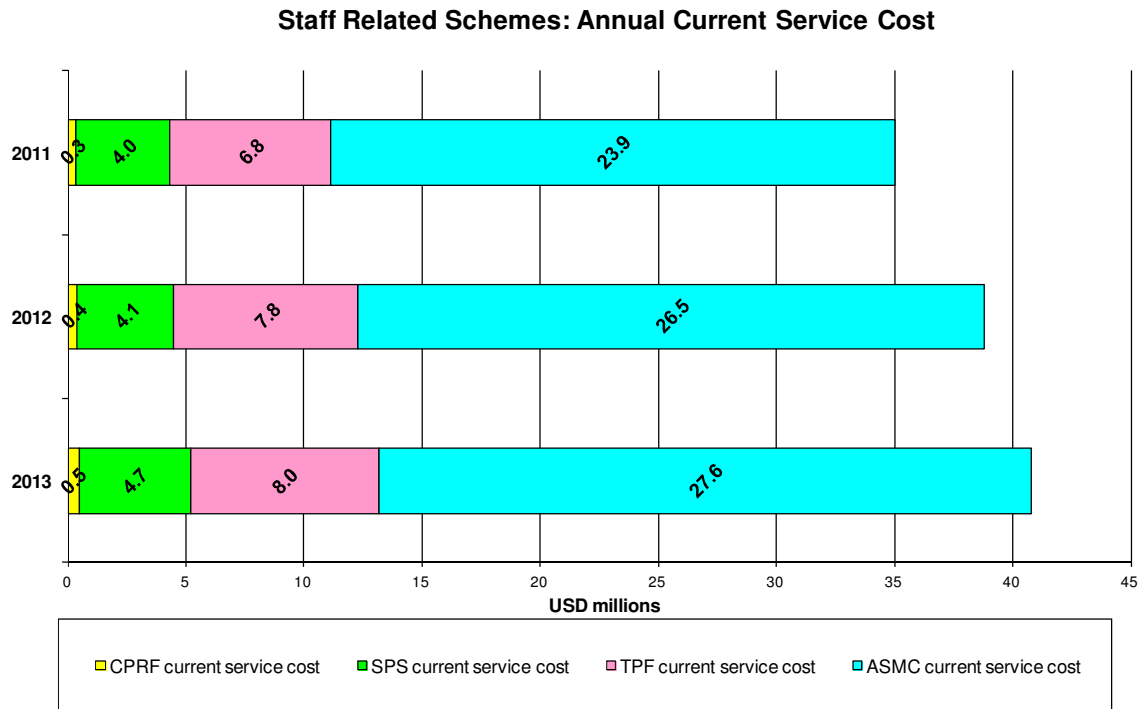
10. Table 4 and Graph 2 below show the annual Current Service Costs² for the three years ending 31 December 2013, which are based on the actuarial valuations for the preceding years at 31 December 2012, 2011 and 2010, respectively.

Table 4

Current service costs						
Plan	2013		2012		2011	
	USD millions	% total expense	USD millions	% total expense	USD millions	% total expense
CPRF	0.5	1.2%	0.4	1.0%	0.3	0.9%
TPF	8.0	19.6%	7.8	20.1%	6.8	19.4%
SPS	4.7	11.5%	4.1	10.6%	4.0	11.4%
ASMC	27.6	67.6%	26.5	68.3%	23.9	68.3%
Total	40.8	100.0%	38.8	100.0%	35.0	100.0%

² The current service cost is a standard component of staff costs and arises each year as active staff members provide their services in exchange for these benefits to be paid in the future. The above costs comprise both the Regular Programme and Trust Funds

Graph 2



11. In total, the 2013 service cost increased by a nominal USD 2.0 million of which USD 1.1 million relates to ASMC. The reasons for the increase in ASMC are as follows:

- increase of USD 3.0 million due to the decrease in the discount rate from 4.3% to 3.9%;
- offset by various decreases of USD 1.9 million including changes in assumed medical trend rates.

12. Conference Resolutions 10/99 and 10/2001 provide that long-term investments and any income which they generate are to be applied first to ensure the adequacy of funding of the SPS and CPRF. The Resolutions also provided that any additional investments and related income then be earmarked for the ASMC and subsequently for the TPF. As of 31 December 2012, both the ASMC and TPF continue to be underfunded (refer also to Table 3 and Graph 1). The earmarking of the long-term investments and the SPS advances to the plans is shown in Table 5 below.

Table 5

Long term investments and advances earmarked against the Plans			
Plan	2012	2011	2010
	USD millions	USD millions	USD millions
<i>Fully funded</i>			
CPRF	19.2	19.0	17.6
SPS	94.0	86.7	88.8
<i>Partially funded</i>			
ASMC	268.3	228.6	218.6
<i>Unfunded</i>			
TPF	0.0	0.0	0.0
Total funded liabilities	381.5	334.3	325.0
Funded by:			
Earmarked long-term investment	374.2	326.8	316.3
Advances to staff on SPS	7.3	7.5	8.7
	381.5	334.3	325.0

13. In accordance with Finance Committee and FAO Council guidance, the Secretariat has obtained from FAO's actuaries the annual amounts required to fully fund the ASMC and TPF liabilities using target dates of 31 December 2040 and 31 December 2025, respectively.

14. Based on the most recent actuarial valuation as of 31 December 2012, in order to fully fund the TPF past service liability of USD 75.4 million (using a 15-year amortization period starting in 2010), the Organization would need to contribute an additional USD 6.5 million per year (USD 13.0 million per biennium).

15. Based on the most recent actuarial valuation as of 31 December 2012, in order to fully fund the US Dollar value of the unfunded ASMC past service liability of USD 798.8 million (using a 30-year amortization period beginning in 2010), USD 26.8 million per year (USD 53.6 million per biennium) would need to be contributed. By comparison, assessments on Member Nations towards funding of the past service ASMC liability for the biennium 2012-13 currently amount to USD 7.05 million per year (USD 14.1 million per biennium) as approved by Conference in June 2011. This level of funding, based on the original target funding date of 31 December 2027, was first approved by Conference in November 2003 for the 2004-05 biennium, and has remained unchanged through subsequent biennia, notwithstanding the increase in the unfunded amount of the ASMC.

Comparison with other UN Organizations

16. In the previous FC report, FC 143/4, it was noted that the United Nations Secretary General was to submit a report on managing the UN's ASMC liabilities to the 67th session of the General Assembly. This paper was delayed to the 68th session of the General Assembly in the autumn of 2013. It should be noted that UN-wide ASMC information is provided for comparison purposes only and that the responsibility of addressing the funding of the liabilities lies with the Governing Bodies of each individual organization. This was also emphasized in the report of the Joint Inspection Unit (JIU/REP/2007/2) where it was recommended that the "*legislative bodies of each organization should provide adequate financing to meet the liabilities*".

17. For information purposes, Table 6 below shows a comparison of the ASMC liability of UN system organizations at 31 December 2011, 2010 and 2009.

Table 6

Comparative analysis of ASMC liability for UN system organizations

Organization	Total Liability			Funding Available			Liability recorded on the Balance Sheet			Liability not yet recorded on the Balance Sheet		Date of latest actuarial valuation if different from	Pay-as-you-go current retirees
	(USD million)			(USD million)			(USD million)			(USD million)			
	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-10	31-Dec-11	31-Dec-10	Yes/No
UN	2,302.5	2,472.6	3,654.4	-	-	-	2,302.5	2,472.6	3,654.4	-	-	31-Dec-11	Yes
ILO	509.5	564.0	738.0	36.2	40.0	48.5	509.5	564.0	738.0	-	-	31-Dec-11	Yes
FAO (a)	934.5	982.6	979.0	186.7	218.6	228.6	653.6	714.5	775.9	268.1	203.1	31-Dec-11	No
UNESCO	649.0	735.6	749.8	27.2	-	-	-	735.6	749.8	-	-	31-Dec-11	Yes
ICAO	54.2	65.8	62.7	-	1.4	1.4	-	65.8	62.7	-	-	31-Dec-11	Yes
WHO	1,000.0	1,365.0	1,236.0	450.0	478.0	444.0	450.0	478.0	528.0	887.0	264.0	31-Dec-11	Yes
UPU	5.6	21.0	40.3	-	-	-	-	-	36.8	21.0	3.0	31-Dec-10	Yes
ITU	188.0	-	302.5	-	-	6.9	-	-	302.5	-	-	2012	Yes
WMO	59.5	65.2	40.5	1.7	-	23.9	-	65.2	40.5	-	-	31-Dec-11	Yes
IMO	26.7	27.2	24.2	3.3	-	-	-	27.2	24.2	-	-	31-Dec-11	Yes
IFAD	61.3	56.2	51.8	60.0	66.8	65.7	61.3	56.2	51.8	-	-	31-Dec-11	No
WIPO	98.9	112.0	113.4	-	-	-	45.5	101.0	103.4	11.0	103.4	31-Dec-11	Yes
UNIDO	100.5	124.0	144.2	-	-	-	-	124.0	144.2	-	-	31-Dec-11	Yes
IAEA	244.0	244.0	111.2	-	-	-	-	145.0	111.2	99.0	-	31-Dec-11	Yes
UNWTO	3.8	3.8	3.6	-	1.1	1.2	-	1.1	1.2	2.7	2.4	31-Dec-07	Yes
UNICEF	464.0	507.0	-	210.0	240.0	-	-	-	-	507.0	-	31-Dec-09	Yes
UNFPA	87.5	87.5	163.3	79.0	84.5	114.6	87.5	87.5	163.3	-	-	31-Dec-11	No
UNHCR	347.4	286.5	350.7	-	-	-	347.4	286.5	350.7	-	-	31-Dec-11	Yes
UNDP	430.3	-	829.9	373.3	-	453.2	373.3	-	453.2	-	376.7	31-Dec-11	Yes
UNCDF	10.6	-	-	-	-	-	-	-	-	-	-	31-Dec-09	Yes
UN WOMEN	20.2	-	-	-	-	-	-	-	-	-	-	31-Dec-09	Yes
UNRWA	-	-	-	-	-	-	-	-	-	-	-	N.A.	
WFP	181.8	203.7	230.6	107.4	112.8	145.3	181.8	203.7	230.6	-	-	31-Dec-11	No
UNOPS	-	-	39.9	-	-	18.3	-	-	18.3	-	21.6	31-Dec-11	Yes
UNAIDS	-	-	63.2	-	-	29.2	-	-	-	-	34.0	31-Dec-11	Yes
PAHO	202.6	257.7	-	22.3	24.6	-	-	186.5	-	71.2	-	31-Dec-10	No
ITC	37.1	39.3	-	-	-	-	37.1	39.3	-	-	-	31-Dec-09	Yes

(a) Liability not yet recorded on the Balance Sheet reflects FAO's use of the corridor method, as permitted under IPSAS 25, for deferring recognition of a portion of actuarial liabilities. In 2012 FAO changed its accounting policy to immediate recognition of the liability.