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Food and Agriculture Organization of the United Nations

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Продовольственная и сельскохозяйственная организация Объединенных Наций

Organización de las Naciones Unidas para la Alimentación y la Agricultura

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الأغذية والزراعة
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FINANCE COMMITTEE

Hundred and Eightieth Session

Rome, 18 - 22 May 2020

2019 Actuarial Valuation of Staff Related Liabilities

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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 2019.
- 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 summarizes the total liability of the Plans as at 31 December 2019, 2018 and 2017 and provides the key assumptions used in those valuations. During 2019, the total liabilities of the Plans increased by an amount totalling USD 117.1 million from USD 1 364.5 million at 31 December 2018 to USD 1481.6 million at 31 December 2019. 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 2019, 2018 and 2017 respectively. The total unfunded liability of the Plans as at 31 December 2019 was USD 928.5 million compared with USD 875.9 million at 31 December 2018.
- Section IV. Accounting and Funding provides a comparison of the annual Current Service Costs for the Plans for the three years ending 31 December 2020. The total Current Service Cost for 2020 is USD 45.5 million (2019 – USD 39.2 million).

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the results of the 2019 actuarial valuation and the current financial situation, accounting and funding of the Organization’s liability for staff-related plans at 31 December 2019.

Draft Advice

The Committee:
- noted that total staff related liabilities as at 31 December 2019 amounted to USD 1 481.6 million, representing an increase of USD 117.1 million from the valuation at 31 December 2018;
- further noted that the net increase in the valuation at 31 December 2019 was primarily due to changes in the following actuarial assumptions: a decrease in the discount rates applied; offset by the movement in the year-end Euro-United States Dollar exchange rate, changes in the claims and administrative expenses experience and a decrease in assumed medical cost trend.

I. 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): the provisions of the SPS apply only to staff members in the General Service category at headquarters and are paid on separation from the Organization or on promotion to the Professional category;
- Termination Payments Fund (TPF): the TPF 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 reimbursement for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The premium of the Basic Medical Insurance is nominally shared between the retired staff member and the Organization; and
- Compensation Plan Reserve Fund (CPRF) – the CPRF 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 abovementioned 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 2019, 2018 and 2017 were all performed by Aon Hewitt (www.aon.com). This document refers to the results of the actuarial valuation as at 31 December 2019 and the current financial situation, and accounting and funding of the Organization's liability with information as at 31 December 2018 and 2017 as comparatives.

II. Results of Actuarial Valuations

3. A comparison of the total actuarial liability by plan as at 31 December 2019, 2018 and 2017 is detailed in Table 1.

Table 1

(in USD Millions)		Increase/ (Decrease)			Increase/ (Decrease)		
Plan	**2019**	***USD m***	***%***	**2018**	***USD m***	***%***	**2017**
CPRF	22.7	*4.1*	*22.0%*	18.6	*(2.4)*	*-11.4%*	21.0
TPF	62.5	*6.9*	*12.4%*	55.6	*(2.5)*	*-4.3%*	58.1
SPS	48.2	*1.3*	*2.8%*	46.9	*(5.6)*	*-10.7%*	52.5
ASMC	1,348.2	*104.8*	*8.4%*	1,243.4	*(152.4)*	*-10.9%*	1,395.8
Total actuarial liability	**1,481.6**	***117.1***	***8.6%***	**1,364.5**	***(162.9)***	***-10.7%***	**1,527.4**

As detailed in Table 1 above, the net increase of USD 117.1 million in the actuarial liability between 2019 and 2018 was significant. The variations relating to the assumptions and methods were as follows:

Table 1a

Sources of Changes of the Plans from 2018 to 2019	**Variations USD millions**
Expected change, without new entrants*	42.7
Decrease in discount rates	225.4
Movement in Euro-USD exchange rate	(20.5)
Claims and administrative expenses experience	(54.9)
Decrease in assumed medical cost trend	(44.8)
Changes in Assumed Uptake of Coverage at Retirement	(23.7)
New Entrants in Past Year	3.9
Claims and Participant Contributions Different Than Expected	(6.9)
Other demographic experience	(4.9)
Others	0.8
Total net increase	**117.1**

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

4. 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 Euro-United States Dollar exchange rate, the discount rate, and medical claims and anticipated medical inflation. The key assumptions used in the valuations of the Plans for 2019, 2018 and 2017 are presented in Table 2.

Table 2

Key Assumptions	**2019**	**2018**	**2017**
Economic			
Discount rate			
ASMC	2.0%	2.9%	2.5%
SPS	0.6%	1.3%	1.1%
TPF	2.2%	3.2%	2.7%
CPRF	3.4%	4.4%	3.7%
Medical cost inflation rate	4.10% during 2020, decreasing 0.05% annually to 3.70% in 2028 and later years	4.6% for 2019 decreasing 0.1% every 2 years to 4.1% in 2029, and then decreasing 0.1% every year to 3.7% in 2033 and later years.	4.6% for 2018 decreasing 0.1% every 2 years to 4.1% in 2029, and then decreasing 0.1% every year to 3.7% in 2033 and later years.
General inflation rate	Varies by plan (1.8% - 2.2%)	Varies by plan (1.8% - 2.2%)	2.5 % per year
Year end spot rate €/USD	1.12	1.14	1.20

III. Current Financial Situation

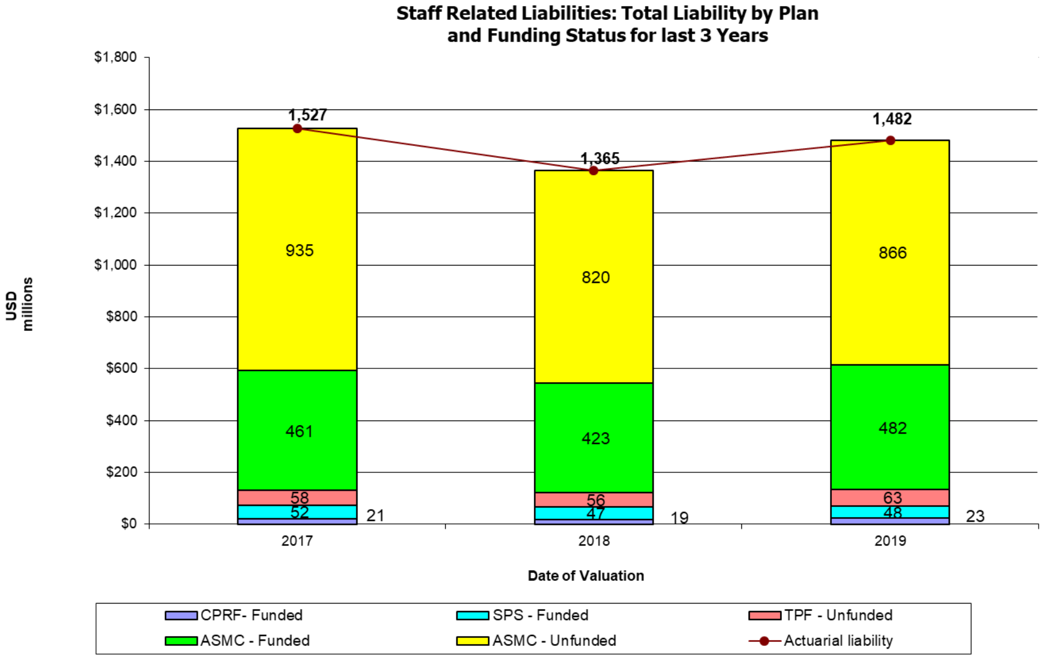
5. Table 3 below shows the total recorded liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for all Plans as compared to the fair market value of earmarked long-term assets at 31 December 2019, 2018 and 2017 respectively.

Table 3

	2019	**2018**	**2017**
	USD millions	**USD millions**	**USD millions**
Plan			
CPRF	22.7	18.6	21.0
TPF	62.5	55.6	58.1
SPS	48.2	46.9	52.5
ASMC	1,348.2	1,243.4	1,395.8
Total actuarially determined liabilities	**1,481.6**	**1,364.5**	**1,527.4**
Less: Earmarked long-term investments (at Fair Market Value)	(553.1)	(488.6)	(534.3)
Total unfunded liabilities **	**928.5**	**875.9**	**993.1**
** Of which:			
TPF	62.5	55.6	58.1
ASMC	866.0	820.3	935.0
Total unfunded liabilities	**928.5**	**875.9**	**993.1**

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

Graph 1



6. During 2019, the carrying value of long-term investments earmarked by the Organization for the Plans increased by USD 64.5 million from USD 488.6 million at 31 December 2018 to USD 553.1 million at 31 December 2019. For comments on investments, reference should be made to the Report on Investments 2019 (document FC 180/3).

IV. Accounting and Funding

7. Table 4 and Graph 2 below show the annual Current Service Costs[1] for the three years ending 31 December 2020, which are based on the actuarial valuations for the preceding years at 31 December 2019, 2018 and 2017 respectively.

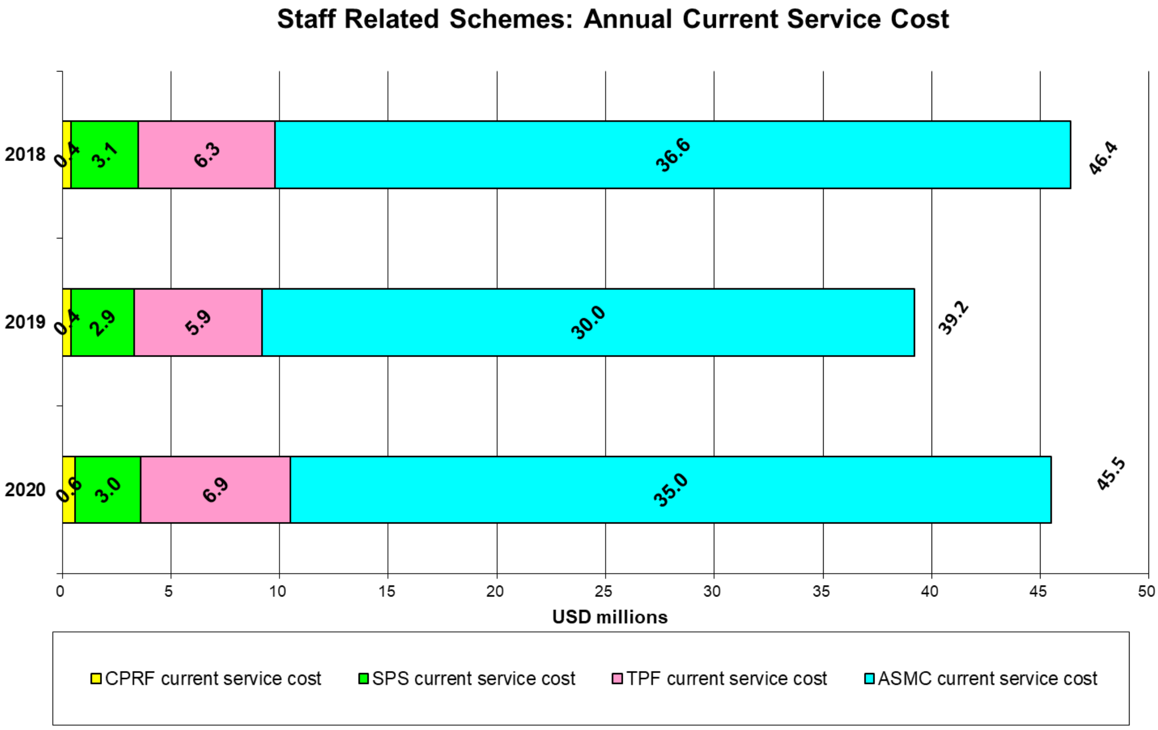
[1] The current service cost is a standard component of staff costs and arises each year as active staff members provide their services in exchange for these benefits to be paid in the future. The aforementioned costs comprise both the Regular Programme and Trust Funds.

Table 4

Current service costs						
Plan	**2020**		**2019**		**2018**	
	USD millions	***% total expense***	**USD millions**	***% total expense***	**USD millions**	***% total expense***
CPRF	0.6	*1.3%*	0.4	*1.0%*	0.4	*0.9%*
TPF	6.9	*15.2%*	5.9	*15.1%*	6.3	*13.6%*
SPS	3.0	*6.6%*	2.9	*7.4%*	3.1	*6.7%*
ASMC	35.0	*76.9%*	30.0	*76.5%*	36.6	*78.9%*
Total	**45.5**	***100.0%***	**39.2**	***100.0%***	**46.4**	***100.0%***

8. In addition to the figures presented above, the actuaries are presently analysing the requirement for a potential increase in the current service cost amount for the CPRF for benefits payable to non-staff human resources. This does not however impact on the CPRF liability reported at 31 December 2019.

Graph 2



9. In total, the 2020 service cost will increase by USD 6.3 million, of which USD 5.0 million relates to an increase in ASMC. The reasons for the increase in ASMC service cost include:

- an increase of USD 9.2 million due to the decrease in the discount rate from 2.9 percent to 2.0 percent;
- an increase of USD 2.1 million due to new entrants;
- Offset by a decrease of USD 2.6 million due to changes in claims and administrative expenses and assumed medical cost trend;

- Offset by a decrease of USD 3.7 million, the change in the Euro-United States Dollar exchange rate and other demographic experiences.

10. 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 2019, 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 are shown in Table 5 below.

Table 5

Long term investments earmarked against the Plans

Plan	**2019**	**2018**	**2017**
	USD millions	**USD millions**	**USD millions**
Fully funded			
CPRF	22.7	18.6	21.0
SPS	48.2	46.9	52.5
Partially funded			
ASMC	482.2	423.1	460.8
Unfunded			
TPF	0.0	0.0	0.0
Total funded liabilities	**553.1**	**488.6**	**534.3**
Funded by:			
Earmarked long-term investments	**553.1**	**488.6**	**534.3**