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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
منظمة الأغذية والزراعة للأمم المتحدة

FINANCE COMMITTEE

Hundred and Ninety-fifth Session
Rome, 13-17 March 2023
2022 Actuarial Valuation of Staff Related Liabilities

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EXECUTIVE SUMMARY

- This document updates the Finance Committee (the "Committee") on the preliminary results of the actuarial valuation of the Organization's liability for staff-related plans (the "Plans") as at 31 December 2022. It contains three sections as follows:

- *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 Valuations* summarizes the total liability of the Plans as at 31 December 2022, 2021 and 2020 and provides the key assumptions used in those valuations. During 2022, the total liabilities of the Plans decreased by an amount totalling USD 547.1 million from USD 1 539.8 million at 31 December 2021 to USD 992.7 million at 31 December 2022. The various reasons for the decrease 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 2022, 2021 and 2020, respectively. The total unfunded liability of the Plans as at 31 December 2022 was USD 458.6 million compared with USD 868.3 million at 31 December 2021. Following the request of the Committee at its 194th Session, this section also provides three theoretical funding amortization proposals for the ASMC liability for which implementation strategies will be presented at a future session of the Finance Committee.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the results of the 2022 actuarial valuation and the current financial situation, accounting and funding of the Organization's liability for staff-related plans at 31 December 2022.

- The Committee is invited to acknowledge the ongoing efforts to review alternative strategies and options for funding staff related liabilities.

Draft Advice

The Committee:

- **noted that total staff related liabilities as at 31 December 2022 amounted to USD 992.7 million, representing a net decrease of USD 547.1 million from the valuation at 31 December 2021;**
- **further noted that the net decrease in the valuation at 31 December 2022 was driven mainly by the significant increase in discount rates as well as changes in expected medical claims and trend rates;**
- **noted that despite the decrease in total liabilities, the After Service Medical Coverage (ASMC) liability remained seriously underfunded; and**
- **noted the results of the study of amortization proposals for funding the After Service Medical Coverage (ASMC) liability and that further analysis of the proposals would be presented by the Secretariat at a future session of the Committee.**

I. Introduction

1. FAO (the "Organization") 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): a medical insurance plan for retired staff and their families meeting certain eligibility criteria[1]. The in-service equivalent of ASMC is the Basic Medical Insurance Plan (BMIP) for active staff members. Both ASMC and BMIP provide partial reimbursement for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The premium of the ASMC 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 and Non-Staff Human Resources (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-mentioned Plans are treated by the Organization as defined benefit plans. To meet the financial reporting requirements the Organization obtains annually a valuation of all plans from an external actuarial firm. This allows the Organization 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.
d) Obtain information necessary to meet financial reporting requirements.

The actuarial valuations for 2022, 2021 and 2020 were all performed by Aon Hewitt (www.aon.com). This document refers to the results of the actuarial valuation as at 31 December 2022 and the current financial situation, and accounting and funding of the Organization's liability with information as at 31 December 2021 and 2020 provided as comparisons.

[1] In 2023 the Organization introduced the After-Service Medical Insurance (ASMI) for former locally-recruited staff members at designated duty stations (and for their eligible family members) who, at the time of separation from service, were covered by Medical Insurance Coverage Scheme (MICS). FAO locally recruited staff members in the National Professional Officer and General Service category who are based in duty stations other than those classified as hardship category H, hired on or after 1 October 2016, on a Fixed Term contract, are enrolled in MICS. There are currently no retirees eligible for ASMI. A separate valuation of this plan will be prepared as of 31 December 2023. As at 31 December 2022, this group was included in the 31 December 2022 ASMC valuation, as a proxy for reflecting ASMI-specific information; the liability for ASMI accounted for 0.5 percent of the ASMC obligations.

II. Results of Actuarial Valuations

3. A comparison of the total actuarial liability by plan as at 31 December 2022, 2021 and 2020 is detailed in Table 1.

Table 1

(in USD Millions)		Increase/ (Decrease)			Increase/ (Decrease)		
Plan	**2022**	***USD m***	***%***	**2021**	***USD m***	***%***	**2020**
CPRF	18.1	*(5.0)*	*-21.7%*	23.1	*0.1*	*0.4%*	23.0
TPF	63.8	*(12.0)*	*-15.9%*	75.8	*5.1*	*7.2%*	70.7
SPS	36.5	*(11.0)*	*-23.2%*	47.5	*(4.9)*	*-9.4%*	52.4
ASMC	874.4	*(519.0)*	*-37.2%*	1,393.4	*40.0*	*3.0%*	1,353.4
Total actuarial liability	**992.7**	***(547.1)***	***-35.5%***	**1,539.8**	***40.3***	***2.7%***	**1,499.5**

The net decrease in the actuarial liability between 2022 and 2021 amounted to USD 547.2 million. Table 1a below provides a breakdown of the reasons for this decrease, with the most significant impact coming from the increase in the discount rate across all four plans:

Table 1a

Sources of Changes of the Plans from 2021 to 2022	**Variations USD millions**
Exected change, without new entrants *	43.7
Increases in Discount Rates	(480.7)
Updates to Expected Medical Claims and Trend Rates	(104.3)
Increases in Assumed General Inflation**	(0.6)
Updates to Annuitant Mortality Assumptions	1.6
All Other Experience and Assumption Changes***	(6.9)
Total net decrease	**(547.1)**

** Expected change due to interest cost and service cost, offset by expected decrease due to actual benefit payments made*
*** Excludes the impact of general inflation on ASMC cost increases*
**** Includes the liability for new hires and the impact of differences between actual and expected benefit payments, salary increases, separations, and other demographic items.*

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. These include demographic assumptions (e.g. mortality rates/estimates, rates of staff member turnover, claim rates under medical plans, etc.) and financial assumptions (e.g. discount rate, future salaries and benefits, future medical costs, etc.). Owing to changes in both internal and external factors, 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, medical claim rates and anticipated medical inflation.

5. The key assumptions used in the valuations of the Plans for 2022, 2021 and 2020 are presented in Table 2.

Table 2

Key Assumptions	2022	2021	2020
Economic			
Discount rate			
ASMC	4.5%	2.2%	1.8%
SPS	3.8%	0.7%	0.2%
TPF	4.6%	2.0%	1.4%
CPRF	5.2%	3.0%	2.7%
Medical cost inflation rate	4.5% during 2023, decreasing 0.05% annually to 4.0% in 2033 and later years	4.4% during 2022, decreasing 0.05% annually to 3.85% in 2033 and later years	4.05% during 2021, decreasing 0.05% annually to 3.45% in 2033 and later years
General inflation rate	Varies by plan (2.2% - 2.5%)	Varies by plan (2.1% - 2.5%)	Varies by plan (1.1% - 1.7%)
Year end spot rate €/USD	1.06	1.14	1.23

III. Current Financial Situation

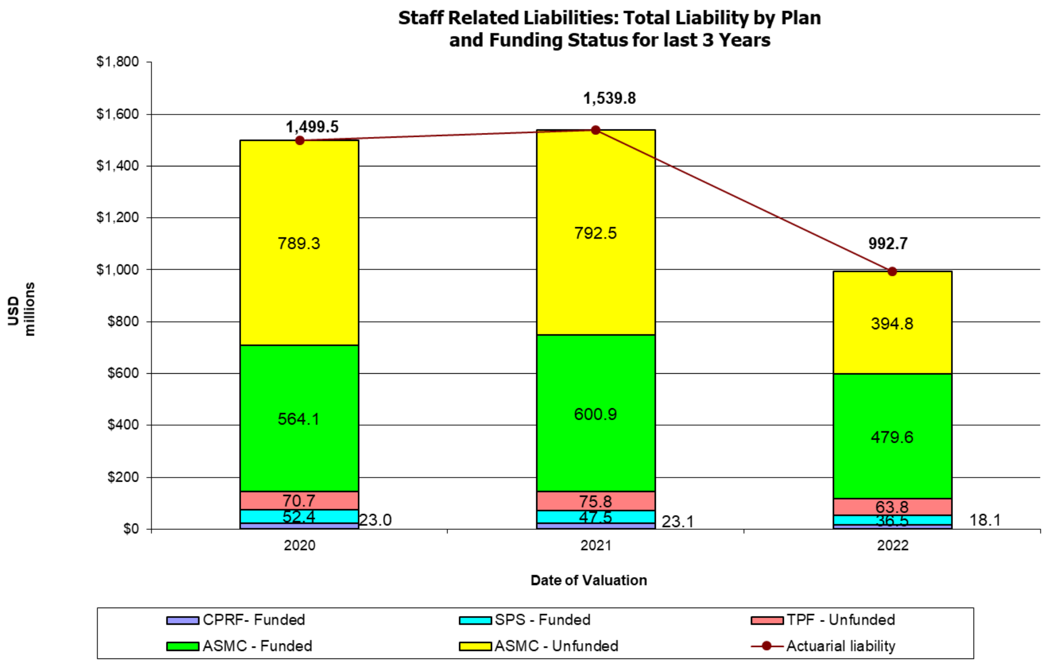
6. Table 3 below shows the total recorded liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for all Plans as compared with the fair market value of earmarked long-term assets at 31 December 2022, 2021 and 2020 respectively.

Table 3

USD millions	2022	2021	2020
Plan			
Fully Funded			
CPRF	18.1	23.1	23.0
SPS	36.5	47.5	52.4
Partly Funded			
ASMC	479.5	600.9	564.1
Total Funded	534.1	671.5	639.5
Funded by:			
Earmarked long-term investments (at Fair Market Value)	**(534.1)**	**(671.5)**	**(639.5)**
Unfunded			
ASMC	394.8	792.5	789.3
TPF	63.8	75.8	70.7
Total unfunded liabilities	**458.6**	**868.3**	**860.0**
Total actuarial laibility	**992.7**	**1,539.8**	**1,499.5**

7. 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 at 31 December 2022, both the ASMC and TPF continue to be underfunded as shown in Graph 1.

Graph 1

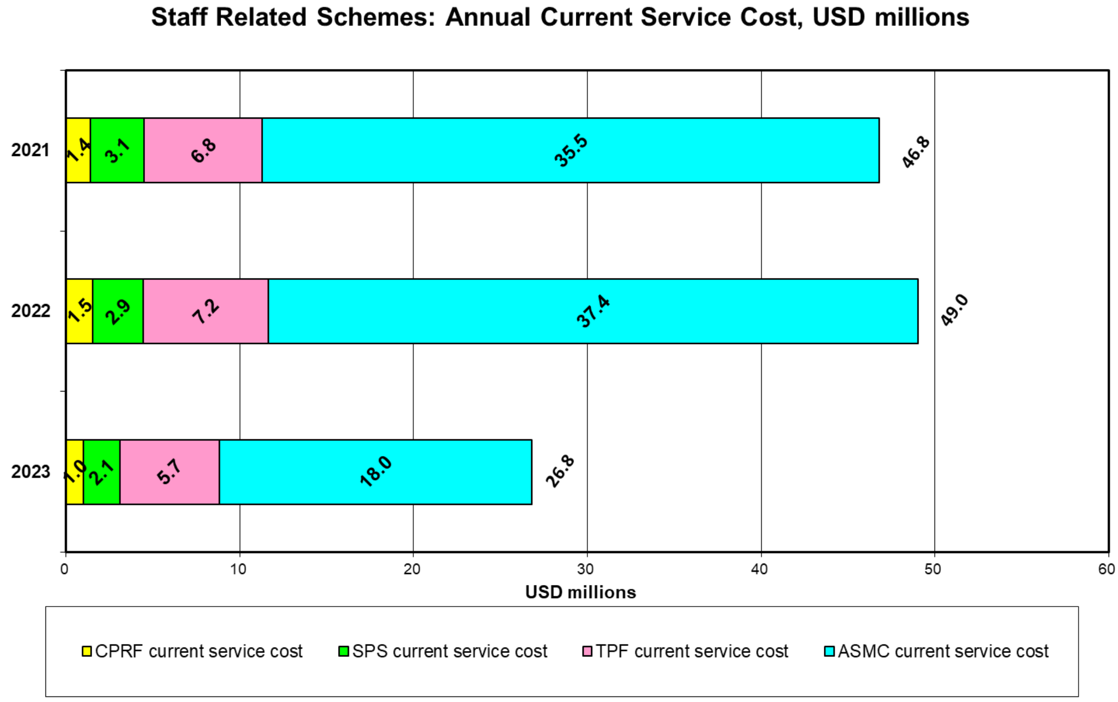


8. During 2022, the carrying value of long-term investments earmarked by the Organization for the Plans decreased by USD 137.4 million from USD 671.5 million at 31 December 2021 to USD 534.1 million at 31 December 2022. Further details on these investments are presented in the Report on Investments 2022 (document FC 195/3).

9. In addition to the unfunded past liabilities, all schemes contain a current service cost. 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. Only the Regular Programme portion of the current service cost is met from the budgetary appropriations of the Programme of Work (PWB). The PWB is prepared on the basis of the last available estimate of current service cost as prepared by the external actuaries. The Trust Fund portion is charged to Trust Fund projects.

10. Graph 2 shows the annual Current Service Costs for all schemes for the three years ending 31 December 2023. These costs are based on the actuarial valuations for the preceding years at 31 December 2022, 2021 and 2020, respectively.

Graph 2



11. During the 191st Session of the Finance Committee, Management presented Members with information on the underfunding of the After Service Medical Coverage (ASMC) liabilities, along with strategies taken to-date by the Organization to address this issue and details of further analysis required.

12. Efforts have been made to address the plans' structure and benefits provided with a view to containing costs and ensuring maximum value for money. There has been a drive to encourage the use of cost saving initiatives, including the incentive for staff and retirees to avail themselves of national health insurance schemes, where possible.

13. Table 3 on page 5 above details the magnitude of underfunded liabilities and the analysis below presents three alternative funding amortization scenarios that indicate the financial commitment that would be required by the Organization and its Members to address this escalating situation.

14. The Organization has established the funding threshold for ASMC at 90 percent, based on a review of the funding ratios of other UN Common-System agencies, and with the aim of benchmarking FAO with other agencies of the United Nations system and joining the UN system-wide common approach to address ASMC funding issues proactively. The three scenarios examined are as follows:

a. Scenario 1: Annually contribute 100 percent of the Service Cost, plus an amortization payment, to achieve 90 percent projected funding after 25 years, by 31 December 2047.

b. Scenario 2: Annually contribute 100 percent of the Service Cost, plus an amortization payment, to achieve 90 percent projected funding after 30 years, by 31 December 2052.

c. Scenario 3: Annually contribute 100 percent of the Service Cost, plus a fixed amortization payment of USD 14.1 million per biennium, consistent with the separate additional assessments on Members to fund ASMC past service liabilities that were approved by the Conference beginning with the 2004-05 biennium and through the 2016-17 biennium.

15. Based on the amount of ASMC unfunded as at 31 December 2022, the hypothetical annual amortization payment to be funded is as follow:

Table 4

	Annual Amortization Payment outstanding, USD 000's		
Date 90% funding is achieved	**Scenario 1**	**Scenario 2**	**Scenario 3**
31 December 2047 (25 years)	(19 660)		
31 December 2052 (30 years)		(17 710)	
Does not reach 90% funding			(7 050)

16. The analysis performed predicts that benefit payments will increase over time due to anticipated growth in per capita medical costs, whereas the current Service Cost, funded through appropriations and charged to Trust Fund projects, is heavily impacted by the discount rate. Due to the sharp rise in the discount rate during 2022, there is a significant disconnect between these two sources of change in the value of the ASMC liability. The results of the analysis quantify that an additional USD 19.7 million of annual funding is required to achieve 90 percent funding of the ASMC by 31 December 2047 (Scenario 1), or an additional USD 17.7 million to achieve 90 percent funding by 31 December 2052 (Scenario 2). Under scenario 3 (contribute Service Cost plus USD 7.05 million per year), the 90 percent funding target would not be achieved at any date in the future. This amount is equivalent of 35 to 40 percent of the annual funding foreseen under scenarios 1 and 2.

17. Despite the magnitude of the annual past-service ASMC funding required to achieve a 90 percent funded liability, no funding was approved by the Conference for the current biennium.

18. The Organization is currently undertaking a review of the following options in order to evaluate their individual and collective contribution to funding the ASMC amortization payments under the scenarios presented above. The results of this review will be reported at a future session of the Finance Committee, including on:

a) Implementation of a payroll charge to supplement and progressively fund a reserve dedicated to ASMC Liabilities.
b) A comprehensive and more financially beneficial medical insurance plan for retirees who have access to high quality national health insurance schemes to encourage the retirees to use the medical insurance plan of the Organization as a supplementary plan.
c) A policy to fully or partially subsidize the contribution to the national health systems in high-cost medical care locations, such as Italy or the United States of America, followed by a feasibility study in strategic countries in which a large number of retirees reside;
d) Settlement of liabilities with an Insurer.
e) Review of other best practices within UN system organizations, including comparative reviews of investment funding policies, in conjunction with an Asset-Liability Management study.

19. The Organization remains committed to containing those costs of its health plans that are within its control and to work with the Members to provide long-term solutions to addressing the unfunded ASMC liability.