



## General Conference

39th Session, Paris, 2017

# 39 C

United Nations  
Educational, Scientific and  
Cultural Organization

Organisation  
des Nations Unies  
pour l'éducation,  
la science et la culture

Organización  
de las Naciones Unidas  
para la Educación,  
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Организация  
Объединенных Наций по  
вопросам образования,  
науки и культуры

منظمة الأمم المتحدة  
للتربية والعلم والثقافة

联合国教育、  
科学及文化组织

39 C/36 Part II Add.2

31 October 2017

Original: French

Item 10.1 of the agenda

### REPORT BY THE DIRECTOR-GENERAL ON THE STATE OF THE MEDICAL BENEFITS FUND (MBF)

#### PART II – ADDENDUM 2

#### FINANCIAL SITUATION

#### COMMENTS OF THE INTERNATIONAL STAFF ASSOCIATION OF UNESCO (ISAU)

##### OUTLINE

In accordance with item 9.2.7 of the UNESCO Human Resources Manual, the International Staff Association of UNESCO (ISAU) submits its comments on the report by the Director-General on the state of the Medical Benefits Fund (MBF) – financial situation, as set out in document 39 C/36 Part II.

1. ISAU has carefully read the report by the Director-General on the state of the Medical Benefits Fund (MBF) (document 39C/36 Part II).

2. In reading the report, we have noted that the financial performance remains stable but gives rise to a number of concerns. The report states that the level of reserves as at 31 December 2016 stood at 16 months of average claim reimbursements, which is two months fewer than 2015, and that the annual surplus decreased from \$3.4 million in 2015 to \$1.2 million in 2016.



3. The Administration attributes that decrease mainly to a 16% increase in claims expenditure (\$20.7million). However, it is also attributable to the decreasing number of persons enrolled in the Fund, including the dependents of participants, as a direct result of the no-recruitment policy and the abolition of posts. It also stems from the fact that there are fewer active staff members than retirees (45% versus 55%). As the report suggests, the imbalance in that ratio constitutes a key long-term challenge for the MBF. The financial situation of the Organization is neither stable nor reassuring, which is why we are concerned for the future of the staff and, hence, the Fund.

4. Based on the assumption that social security is an established right and an obligation for any employer, UNESCO has to guarantee good social security cover for active staff members and retirees. To that end, UNESCO needs to have an overarching vision on the matter and to be effective in choosing healthcare providers and administrators. That has not been the case with the selection of MSH International.

5. The fact is that staff members and retirees continue to encounter many difficulties, especially in the field offices. Many problems have been reported by colleagues dissatisfied with the services provided by MSH, which, contrary to the previous provider, do not entirely meet their expectations. Such a lack of efficiency raises questions as to the merits of the change of provider or, at any rate, the selection of the current provider. The selection of the provider should, in future, therefore be subject to wider consultation.

6. The level of reserves allotted to claim reimbursements varies from year to year, fluctuating between seven and 18 months, which has led the Administration to make what we regard as the inappropriate proposal to adjust the scales, and which further adds to our concerns. The Administration needs to work closely with the staff associations to come up with suitable solutions to maintain the financial balance of the MBF.

7. ISAU is satisfied with Administration's decision to recommend to the General Conference that it revise paragraph 1 of 37 C/Resolution 85, by which it decided:

- “to amend the Rules of the Medical Benefits Fund as set out in Part 3 of document 37 C/38 Add.”, and that
- “the applicable MBF Rules should be those in force before the issuance of Administrative Circular AC/HR/43 of 21 October 2014, including the governance structure laid out therein;”.

This policy reversal stems from two commended judgements by the International Labour Organization Administrative Tribunal (ILOAT). We attach importance to compliance with the rules and procedures and the strict application of the law.



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1 November 2017  
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### REPORT BY THE DIRECTOR-GENERAL ON THE STATE OF THE MEDICAL BENEFITS FUND (MBF)

#### PART II – ADDENDUM 2

#### FINANCIAL SITUATION

#### CORRIGENDUM

#### COMMENTS OF THE INTERNATIONAL STAFF ASSOCIATION OF UNESCO (ISAU)

##### Paragraph 7 should read as follows:

7. With regard to the governance of the Medical Benefits Fund (MBF) (document 39 C/36 Part I), ISAU welcomes the Administration's decision:

- to recommend to the General Conference to revise paragraph 1 of 37 C/Resolution 85 by which it decided “to amend the Rules of the Medical Benefits Fund as set out in Part 3 of document 37 C/38 Add.”;
- to include in the draft resolution (document 39 C/36 Part I, paragraph 3 of the draft resolution) the following proposal: “*Further decides* that the applicable MBF Rules should be those in force before the issuance of Administrative Circular AC/HR/43 of 21 October 2014, including the governance structure laid out therein”.





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### REPORT BY THE DIRECTOR-GENERAL ON THE STATE OF THE MEDICAL BENEFITS FUND

#### PART II: FINANCIAL SITUATION

##### OUTLINE

**Source:** [38 C/Resolution 90](#).

**Background:** In accordance with the above resolution, the Director-General reports on the financial situation of the Medical Benefits Fund (MBF).

**Purpose:** The General Conference, in addition to being provided financial information of the MBF and the After-Service Health Insurance (ASHI) liability, is being requested to approve measures for the sustainability of the MBF and the ASHI funding.

**Decision required:** Paragraph 19.



Job: 201701481

## INTRODUCTION

1. Section A of this document gives an overview of the financial performance of the Medical Benefits Fund (MBF) together with an analysis of the reserves of the Fund. It recommends to the General Conference the adoption of a reserve policy for the sustainability of the Fund in the medium to the long term.
2. Section B addresses the After-Service Health Insurance (ASHI) liability covering the status of the liability, ASHI funding and the related investment strategy. It requests the General Conference to approve possible available resources to the ASHI Special Account.

## SECTION A: FINANCIAL SITUATION OF THE MEDICAL BENEFITS FUND (MBF)

### Financial Performance

3. The total accumulated reserves have increased over the last four years by 24.7% from \$22.7 million in 2013 to \$28.3 million as at 31 December 2016. As the table below shows, revenue has exceeded expenditure in each of the years from 2013. As the result of the positive results generated, the Director-General has not increased the contributions scale during this period.
4. The level of reserves as at 31 December 2016 stood at 16 months of average claim reimbursements, a decrease of 2 months over the 2015 level. The annual surplus decreased from \$3.4 million in 2015 to \$1.2 million in 2016. This is mainly attributable to the increase of claims expenditure by 16% to \$20.7 million.
5. The number of active and voluntary participants (mainly retirees) enrolled in the Fund remain relatively stable compared to 2015. The total population, including the dependents of participants, of 7,119 decreased by 4.3% since 2013.

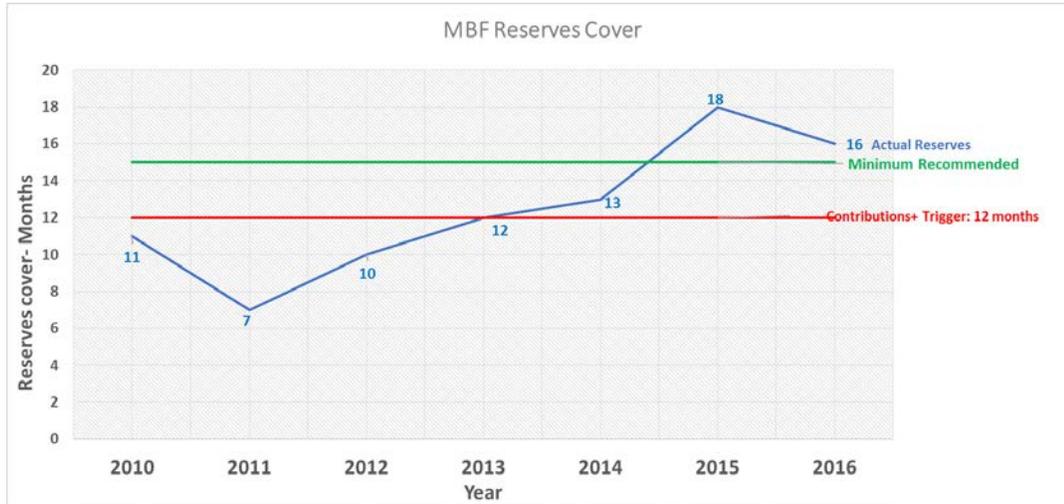
	2016	2015	2014	2013
Total income	\$21.9 million	\$21.2 million	\$23.4 million	\$27.2 million
Total expenditure	\$20.7 million	\$17.8 million	\$22.5 million	\$23.5 million
<b>Net surplus</b>	<b>\$1.2 million</b>	<b>\$3.4 million</b>	<b>\$0.9 million</b>	<b>\$3.7 million</b>
<b>Total reserves</b>	<b>\$28.3 million</b>	<b>\$27.1 million</b>	<b>\$23.7 million</b>	<b>\$22.7 million</b>
Reserves x months of expenditure	16	18	12.7	12
Average number of compulsory Part.	2,009	2,022	1,945	2,122
Average number of associate Part.	2,467	2,485	2,502	2,478
Average number of Dependents	2,643	2,692	2,676	2,837
<b>Total population</b>	<b>7,119</b>	<b>7,199</b>	<b>7,123</b>	<b>7,437</b>

6. The number of active staff members, on average, represents 45% of the total participants with the rest mainly being retirees. This support ratio (number of active staff vs retirees) of less than one is a key long-term challenge of the MBF.

### Reserves policy for the MBF

7. The MBF has been generating annual positive results during the last few years leading to an increase in the reserves. However, the level of reserves as cover for claims reimbursement has varied from one year to another as shown in the graph below ranging from 7 to 18 months.
8. The Director-General recommends, in line with previous audit recommendations, that the Fund adopts a formal policy of ensuring an ideal minimum reserves level of 15 months cover of claim reimbursements. This will ensure medium-term certainty to the Fund's financial situation.

9. The General Conference ([36 C/Resolution 99](#)) authorized the Director-General to adjust the contribution scale every two years to ensure that expenditure is in line with income. The Director-General having considered the variations of the reserves and its potential impact, proposes to the General Conference that the adjustment of the contribution should take into account the level of reserves. Whenever the level of reserves fall below 12 months of claim reimbursements, the contribution scale should also be adjusted accordingly.



**SECTION B: AFTER-SERVICE HEALTH INSURANCE (ASHI)**

**The ASHI liability**

10. The UNESCO ASHI scheme is a post-employment plan, which, like other United Nations agencies, provides health insurance coverage to retired staff and their dependents. This right is acquired and accumulated during a retiree’s active service. To be eligible for the ASHI scheme, a former staff member must have completed 10 continuous years of participation in the MBF and reached the minimum age of 55 at the time of leaving the Organization.

11. The amount of the ASHI liability reflects the estimated total future costs associated with providing health insurance benefits to existing retirees and current staff upon retirement. The liability as at 31 December 2016 stood at \$767 million. The current scheme is on a “pay as you go” basis, meaning that the Organization has not been setting aside funds to meet the liability when it falls due.

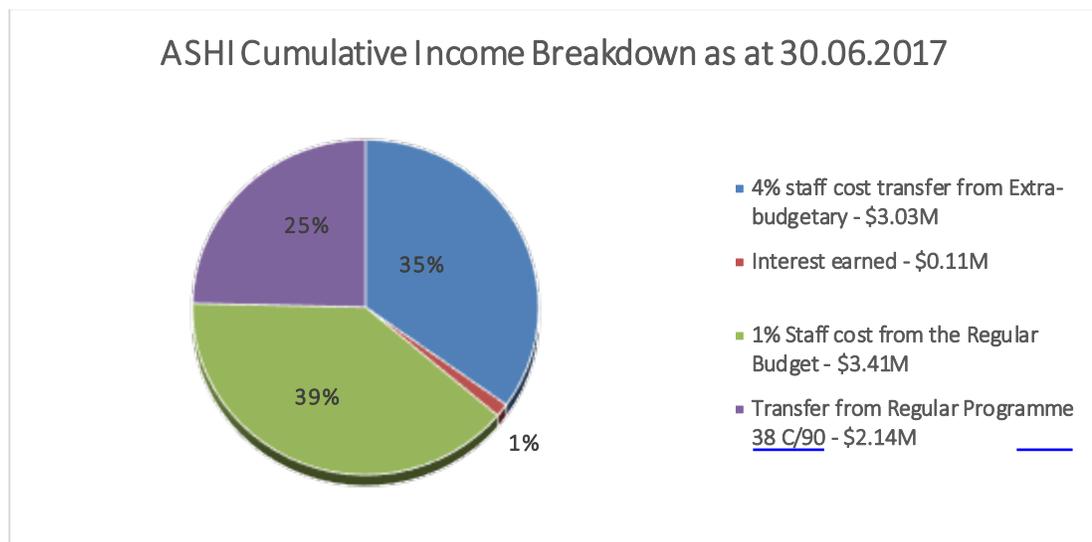


### Long-term funding for the liability

12. The “pay as you go” scheme is not sustainable in the long term especially as the number of retired staff members increase without a corresponding increase in the active staff population. Consequently, the Organization introduced the following measures, since 2015, to address the long-term funding challenges associated with the ASHI liability:

- (a) A 4% payroll charge on extrabudgetary projects/funds paying the salary of a staff participating in the MBF;
- (b) A financial allocation of 1% of the staff costs of the Regular budget;
- (c) Transfer from available reserves: a transfer to the Special Account for ASHI of the remaining balance from the contributions to the MBF for associate participants following the final closing of the accounts of the [37 C/5](#).

13. The total accumulated available funds as at 30 June 2017 amounted to \$8.69 million, representing 1.1% of the ASHI liability. At such a rate, the Organization has many years to go before accumulating enough funds just to cover the current cost of the liability.



14. A budget provision of \$12 million was made in the [38 C/5](#) for the Organization’s share of contributions to the MBF for Associate Participants (retired staff members). The execution rate stood at 64% as at 31 July 2017. The remaining balance of \$4.3 million may not be fully utilized in the remaining five months of the biennium.

15. The General Conference, in its [38 C/Resolution 90](#), authorized the transfer of any balance remaining from the contributions to the MBF for associate participants following the closing of the accounts of the Programme and Budget for 2014-2017 ([37 C/5](#)) to the Special Account for ASHI. Based on this Resolution an amount of \$2.14 million was transferred to the ASHI Special Account. In line with the same procedure, the Director-General recommends to the General Conference to authorize the transfer of any balance, which may become available after the closure of the accounts, from the contributions to the MBF for associate participants under the [38 C/5](#) to the Special Account for ASHI.

## Investment of ASHI Funding

16. Contrary to UNESCO's liquidity portfolio, the investment horizon of the ASHI Special Account is long term by nature, as its purpose is to build necessary reserves to cover the future costs associated with UNESCO's ASHI scheme. As a result, UNESCO requested an external consultancy firm to perform an Asset and Liability Management (ALM) study to define the most optimal Strategic Asset Allocation (SAA) for the investment of the ASHI reserves.

17. The ALM study highlighted that SAA should be made of government bonds, corporate bonds and global equities to cope with the near term goal of the ASHI reserves which is, according to the study, to compound value through investment returns. The SAA of the ASHI investments, for implementation by the end of this year, is as follows: 25% in government bonds, 25% in corporate bonds and 50% in global equities.

18. While in the short run the underlying risk of the SAA is higher than that of UNESCO's liquidity portfolio, in the long term, the SAA is expected to generate higher returns. It should be noted that the investments of ASHI funds might, periodically, be subject to capital losses even if, in the long term, the return is expected to be higher than with a risk-free asset allocation.

## DRAFT RESOLUTION

19. In light of the foregoing considerations, the General Conference may wish to adopt the following resolution:

*The General Conference,*

*Having examined* document 39 C/36 Part II,

*Recalling* [36 C/Resolution 99](#) which authorizes the Director-General to adjust the contribution scale every two years as needed to maintain the balance between the Fund's income and expenditures,

*Also recalling* [38 C/Resolution 90](#), which authorizes the Director-General to transfer any balance remaining from the contributions to the MBF for associate participants under the [37 C/5](#) to the ASHI Special Account,

1. *Takes note* of the improved financial situation of the Medical Benefits Fund (MBF);
2. *Authorizes* the Director-General, in revising the contribution scale of the MBF in line with [36 C/Resolution 99](#), to take into account the level of reserves of the Fund with the objective of ensuring that the reserves do not fall below 12 months of average claim reimbursements;
3. *Also authorizes* the Director-General to transfer any balance remaining from the contributions to the MBF for associate participants, following the final closing of the accounts of the Programme and Budget for 2016-2017 ([38 C/5](#)), to the Special Account for ASHI;
4. *Invites* the Director-General to report to it, at its 40th session, on the state of the MBF, the ASHI liability and the ASHI Special Account.