



## General Conference

41st Session, Paris, 2021

# 41 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,  
la Ciencia y la Cultura

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

Item 11.4 of the provisional agenda

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8 November 2021  
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### REPORT OF THE DIRECTOR-GENERAL ON THE STATE OF THE MEDICAL BENEFITS FUND AND APPOINTMENT OF MEMBER STATES' REPRESENTATION TO THE BOARD OF MANAGEMENT FOR 2022-2023

#### ADDENDUM

#### 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 of the Director-General on the state of the Medical Benefits Fund (MBF) and the appointment of Member States' representatives to the MBF Board of Management for 2022-2023 (document 40 C/46).

1. ISAU welcomes the positive conclusions of the audit of the Medical Benefits Fund and MSH International. We also note the results of the actuarial valuation.
2. Nevertheless, we wish to stress that there is a need for more information on the MBF's future financial circumstances. On the one hand, the Secretariat lacks resources. On the other hand, the actuarial valuation just carried out highlights the need to consider the MBF's solvency beyond the next 10 years. That the MBF's demographic structure may change in the near future as a result of large-scale departures due to retirement should also be taken into account. All these facts show that it is important to have more information on the MBF's financial situation, which is becoming increasingly worrying.



Job: 202104224

3. In addition, we wonder whether the increased use of service and consultant contracts might not constitute a loss of revenue for the MBF. It would be interesting to study how regularizing those of our colleagues concerned would affect the financial situation of the Medical Benefits Fund.

4. With regard to the various options being considered by the Secretariat, which are aimed at, *inter alia*, providing the same or better coverage to all participants in the Medical Benefits Fund, we consider it essential that said options be the subject of an inclusive consultation with the members of the MBF.

5. ISAU welcomes the rebalancing which has taken place with regard to the participants in the Fund. Indeed, at the 39th session of the General Conference, we had highlighted the negative consequences of the fact that the number of active participants in the Fund was lower than that of retirees (45% versus 55%). We are seeing an improvement in this area, since in 2020, the percentage of active participants had increased to 50.8%, a majority. We also welcome the significant increase in the total amount of accumulated reserves.

6. ISAU will continue to monitor these issues, which are closely related to the future of the Medical Benefits Fund and directly concern UNESCO staff.



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Item 11.4 of the provisional agenda

41 C/46  
17 September 2021  
Original: English

### REPORT OF THE DIRECTOR-GENERAL ON THE STATE OF THE MEDICAL BENEFITS FUND AND APPOINTMENT OF MEMBER STATES' REPRESENTATION TO THE BOARD OF MANAGEMENT FOR 2022-2023

#### OUTLINE

**Source:** 40 C/Resolution 77.

**Background:** In accordance with 40 C/Resolution 77, the Director-General reports to the General Conference on the state of the Medical Benefits Fund.

**Purpose:** The Director-General submits at each session of the General Conference a report on the state of the Medical Benefits Fund, including information concerning the evolution of its financial situation. Since the mandate of the two Member States which served as observers on the Board of Management of the Fund is due to end on 31 December 2021, two Member States will be elected by the General Conference for the period 1 January 2022 to 31 December 2023.

**Decision required:** paragraph 18.



Job: 202102934

## INTRODUCTION

1. At each session of the General Conference the Director-General submits a report on the state of the Medical Benefits Fund. On that occasion, the General Conference elects two representatives from the Member States to serve on the Board of Management of the Medical Benefits Fund as observers.
2. The UNESCO Medical Benefits Fund (MBF), established by the General Conference at its 3rd session in 1948, is part of the system of social security that the Director-General must operate for the staff in accordance with Staff Regulation 6.2. The essential role of the Fund is to provide health insurance benefits to its participants and retirees, widows, orphans and their dependents. Unlike other conditions of employment for international civil servants (staff salaries, allowances, indemnities, and pensions), there is no common health insurance scheme within the United Nations system. The Medical Benefits Fund is therefore an independent and self-financing scheme, the assets of which are based entirely on contributions paid in equal parts by the participants and the employing Organization. The administrative costs of the Fund are covered completely from the regular budget of the Organization.
3. The MBF is administered by a Third-Party Administrator (TPA) and after a successful bidding exercise, MSH International was awarded a five-year contract commencing 1 January 2021.
4. The MBF and the TPA were audited during 2020 with overall positive results. <https://unesdoc.unesco.org/ark:/48223/pf0000374392?posInSet=3&queryId=N-493a53dc-ef6f-41a9-9010-639d8ad47d61> . An [Actuarial Valuation](#) was also undertaken, which concluded that for the next ten years the contribution income would be sufficient to meet the needs of the MBF. The audit reports did however suggest that the Secretariat was under-resourced, and the Actuarial Valuation highlighted the point that some consideration should be given to the solvency of the Fund beyond the next ten years.
5. In line with this the Secretariat is investigating different options to provide the same or better cover to all participants in the Fund as well as financing the resources needed to administer the Fund.

## FINANCIAL SITUATION OF THE MEDICAL BENEFITS FUND (MBF) AND AFTER-SERVICE HEALTH INSURANCE (ASHI)

### Financial performance

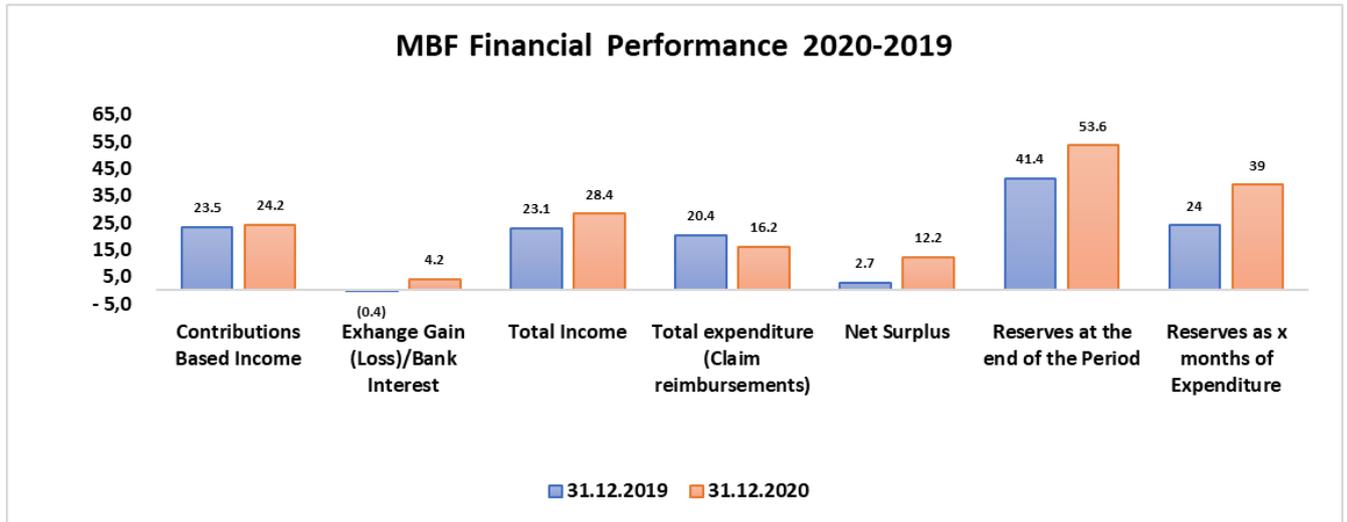
6. The number of active participants enrolled in the Fund as at 31 December 2020 (2,416), showed an increase of 5.5% compared to 31 December 2019 (2,290), while the number of voluntary participants (mainly retirees) decreased by 1% from 2,365 as at 31 December 2019 to 2,342 as at 31 December 2020. The total population of 7,649 participants and dependents as at 31 December 2020, has remained relatively stable since 2017, increasing by 2.4% since 31 December 2019. From 2017 to 2020, the ratio of active participants to total participants (excluding dependents) has increased from 46.7% to 50.8%.

As at 31 December	2017	2018	2019	2020
Number of active Participants, (staff)*	2 187	2 394	2 290	2 416
Number of voluntary Participants (mainly retirees)*	2 498	2 438	2 365	2 342
<b>Total participants</b>	<b>4 685</b>	<b>4 832</b>	<b>4 655</b>	<b>4 758</b>
Number of Dependents	2 788	3 046	2 771	2 891
<b>Total population</b>	<b>7 473</b>	<b>7 878</b>	<b>7 426</b>	<b>7 649</b>

\* Full time equivalent participants as calculated by MSH

Source: MSH report

7. Total income for the year ended 31 December 2020 amounted to US \$28.4 million – 23% higher than for 2019, due mainly to significant exchange gains (\$4.2 million) as a result of the stronger euro against US dollars. A significant portion of the fund's expenditure is incurred in euros, thus necessitating the maintenance of similar levels of the fund's assets in the same currency. The total expenditure (claim reimbursements), on the other hand, reduced by almost 21% (\$4.2 million), and can be attributed to lower claims in 2020 due to sanitary restrictions imposed by the COVID-19 pandemic (cancellations of most routine operations or hospital restrictions). The increased income and reduced expenditure resulted in a surplus of \$12.2 million.



8. The total accumulated reserves increased over the last four years from \$35.5 million in 2017, to \$53.6 million as at 31 December 2020. As the table below shows, income has exceeded expenditure in each of the years from 2017. The level of reserves as at 31 December 2020 stood at 39 months of expenditure, an increase of 15 months over the 2019 level.

<i>(USD millions)</i>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Total income	26.5	23.2	23.1	28.4
Total expenditure	19.3	19.9	20.4	16.2
<b>Net surplus</b>	<b>7.2</b>	<b>3.3</b>	<b>2.7</b>	<b>12.2</b>
<b>Total reserves</b>	<b>35.5</b>	<b>38.8</b>	<b>41.4</b>	<b>53.6</b>
<i>Reserves x months of expenditure</i>	22	23	24	39

## **AFTER-SERVICE HEALTH INSURANCE (ASHI)**

### **The ASHI liability**

9. UNESCO provides health insurance coverage to retired staff and their dependents. The right to benefit from such coverage is acquired and accumulated during the retirees' active service in the Organization. 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.

10. The ASHI liability, reported in UNESCO consolidated financial statements, represents the present value of the future benefits for which active staff and retirees have already rendered service.

The amount of this liability is estimated by an independent actuary firm taking into consideration demographic and financial information. The liability as at 31 December 2020 stood at \$779 million, which is relatively stable since 2017.

### **Long-term funding for the liability**

11. The long-term funding for the ASHI liability is a significant concern. Most organizations of the United Nations system have adopted measures to ensure long-term financing. Since 2015, UNESCO has taken some measures to finance its liability by:

- (a) Introducing a 4% payroll charge on extrabudgetary projects/funds paying the salary of a staff participating in the MBF;
- (b) Establishing a financial allocation of 1% of the staff costs of the Regular Programme budget, transferred to the Special Account for ASHI; and
- (c) Transferring to the Special Account for ASHI the remaining balance from the contributions to the MBF for voluntary participants following the final closing of the accounts.

12. The total funding for the ASHI liability at 30 June 2021 amounted to \$30.1 million, representing 3.9% of the total 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. In line with the Executive Board decision adopted at its 210th session (210 EX/Decision 32), a document including updated analysis and options for a defined long-term funding plan for ASHI will be presented at the 214th session of the Executive Board.

13. The General Conference resolutions [39 C/Resolution 74](#) and [40C/Resolution 77](#) authorized the Director-General to transfer any balance remaining from the contributions to the MBF for voluntary participants after the final closure of accounts to the ASHI Special Account. Along these lines, the Director-General recommends to the General Conference to authorize the transfer of any balance from the contributions to the MBF for voluntary participants, which may become available after the closure of the accounts of the Programme and Budget for 2020-2021, to the Special Account for ASHI.

### **Investment of ASHI Funds**

14. The investment horizon of the ASHI funding is long-term by nature, as its purpose is to build necessary reserves to cover the long-term future costs associated with UNESCO's ASHI scheme. In accordance with the Asset and Liability Management (ALM) study made in 2017, the investment of ASHI funds should consist of government bonds, corporate bonds and global equities in order to provide long-term higher investment returns, while accepting a somewhat higher risk of short-term volatility.

15. The current Strategic Asset Allocation (SAA) of the ASHI investments consists of 25% government bonds, 25% corporate bonds, and 50% global equities. In 2021, UNESCO commissioned a review of the previous ALM study in order to maintain the most optimal allocation for the investment of the ASHI reserves. The updated study recommended consideration for various other investment options in order to optimize returns over the longer term. These were reviewed and discussed with the Investment Committee, and the decision was taken to move to an option with increased allocation to global equities (60%) and a decreased exposure to bonds (20% in government bonds and 20% in corporate bonds). The revised Strategic Asset Allocation will be implemented by year-end 2021. As of 30 June 2021, the ASHI investments amounted to \$30.1 million.

## **ELECTION OF TWO MEMBER STATES AS OBSERVERS TO THE MBF BOARD OF MANAGEMENT**

16. The Fund is administered by a Board of Management consisting of a Chairman appointed by the Director-General, three representatives and three alternates, elected for three years by the participants, the Director of the Bureau of Human Resources Management or his/her representative, the Chief Financial Officer or his/her representative and the Director of PAX or his/her representative.

17. Pursuant to [27 C/Resolution 34](#) of 1994, Member States are represented in the Board of Management meetings by two observers. Since the mandate of the outgoing observers, Egypt and Saint Lucia, which may be reelected, expires on 31 December 2021, the General Conference may wish to designate two Member States as observers on the Board of Management.

### **Proposed draft resolution**

18. In light of the above, the General Conference may wish to adopt a resolution along the following lines:

*The General Conference,*

*Having examined* document 41 C/46,

*Having taken note* of the current financial situation of the Medical Benefits Fund (MBF),

1. *Approves* the investigation of different options to provide the same or better cover to all participants in the Medical Benefits Fund (MBF), and the financing of the resources needed to administer the Fund;
2. *Authorizes* the Director-General to transfer any balance remaining from the contributions to the Medical Benefits Fund (MBF) for voluntary participants, following the final closing of the accounts of the Programme and Budget for 2020-2021 ([40 C/5](#)), to the Special Account for After-Service Health Insurance (ASHI);
3. *Invites* the Director-General to report to it at its 42nd session on the state of the Medical Benefits Fund (MBF), the After-Service Health Insurance (ASHI) liability and the Special Account for ASHI;
4. *Designates* the following two Member States to act as observers on the Board of Management of the Medical Benefits Fund (MBF) for the period 2022-2023: