EIGHTH SESSION OF THE SUBCOMMITTEE
ON PROGRAM, BUDGET, AND ADMINISTRATION
OF THE EXECUTIVE COMMITTEE

Washington, D.C., USA, 19-21 March 2014

Provisional Agenda Item 4.2

SPBA8/6
7 February 2014
Original: English

FUNDING OF PAHO AFTER-SERVICE HEALTH INSURANCE

Introduction

1. Under the Staff Rules of the Pan American Health Organization (PAHO), PAHO provides certain post-retirement employee benefits and entitlements, which the Organization is responsible for funding. One of these employee benefits is participation by eligible retirees and their eligible family members in the WHO/PAHO Staff Health Insurance (SHI) Plan.

2. The SHI Plan is a defined benefit plan under which its sponsor, PAHO, promises to provide specific health insurance benefits and assumes responsibility for providing the necessary financial resources to fund these accrued benefits over time. The Organization is responsible for determining the funding mechanisms for this liability, as well as for managing all plan assets set aside to fund these benefits.

3. This document is being provided to the Member States as an informational update on the status of funding the PAHO After-Service Health Insurance defined benefit obligation and the Organization's options for funding this liability.

Background

4. The After-Service Health Insurance (ASHI) Trust Fund was established by PAHO in 2010 as an irrevocable trust to set aside and manage any resources made available to fund retiree long-term liabilities under the SHI Plan. The assets in the ASHI Fund do not include any part of the assets held in the aggregate by the World Health Organization (WHO) Staff Health Insurance Fund managed by WHO.

5. In 2008, PAHO contracted with Aon Hewitt, a global actuarial firm, to provide actuarial valuations for ASHI in anticipation of the adoption of International Public Sector Accounting Standards in 2010. Aon Hewitt has also been contracted by WHO to provide similar valuations for the entire WHO SHI Plan.

Analysis

6. According to the Aon Hewitt actuarial valuation, the PAHO ASHI defined benefit obligation totaled US$ 275.4 million[1] as of 31 December 2013. PAHO has financial assets of $38.5 million to fund this actuarial liability. PAHO recorded unrecognized gains and unrecognized service costs for ASHI totaling $35.9 million; therefore, the net ASHI liability recognized in the Financial Statements of the Pan American Health Organization for 2013 is $201.0 million. This amount represents an estimate of the funding required by the Organization in order to meet the future cost of providing SHI benefits to current retirees and current staff eligible to retire from the Organization with SHI benefits over time.

7. Currently, PAHO is assessing a 4% surcharge on staff payroll to provide funding towards this liability, which reached $1.8 million in income during 2013 towards the ASHI liability. In addition, investment income earned on the irrevocable trust contributed $650,000 in 2013 under the current investment guidelines, bearing in mind the existing economic environment.

8. PAHO requested that Aon Hewitt provide projections of the financial resource requirements to fund this liability over 30 and 40 years. Aon Hewitt took into consideration a consistent projection of liabilities, assets, and contributions over time, and noted that the reliability of such projections may diminish over long time periods. Aon Hewitt concluded that, under a 30-year funding scenario, $15.6 million in additional funding for 2013 (with scaled increases through 2043) would be needed in order to achieve full funding of the ASHI liability by 2043 (i.e., projected assets equal to the projected defined benefit obligation). It also concluded that under a 40-year funding scenario, $14.1 million in additional funding for 2013 (with scaled increases through 2053) would be needed in order to achieve full funding of the ASHI liability by 2053.

9. Therefore, PAHO is considering options for funding the liability, which could include:

a) an increase in the assessment on current staff payroll, which would result in an increase in payroll costs and a reduction in non-post funds available for technical cooperation;

b) increases in the rate of contribution paid by participants;

c) reallocation of any surpluses PAHO may have from other sources, such as Regular Budget or Program Support Costs Funds;

d) application of excess Miscellaneous Income over the budgetary figure to the ASHI.

10. Considering the challenge involved in implementing one or more of these options, Aon Hewitt presented a number of scenarios under which the Organization could achieve

[1] Unless otherwise indicated, all figures are reported in United States dollars.

a reduction in the funding requirement through variations in the Organization's investment strategies. These scenarios focus on increasing the investment rate of return on the assets of the ASHI Fund using a more aggressive approach to investing that involves diversifying and extending the maturity of the portfolio to better match the long-term nature of the liability. Naturally, such an approach introduces a higher level of risk to the portfolio, but the results that could be achieved are significant. Aon Hewitt stated that that the requirement for new funding might be reduced significantly from the current $15.6 million to as low as $7.3 million through the implementation of new investment strategies.

11. As an interim measure, the PAHO Investment Committee revised the Investment Policy to allow for a longer investment duration (10 years) for funds in the ASHI trust portfolio. The Committee is considering the possibility of transitioning to professional management of the ASHI trust as a long-term pension-style portfolio.

Action by the Subcommittee on Program, Budget, and Administration

12. The Subcommittee is invited to take note of this report and make any recommendations it might consider important to the Executive Committee.

- - -