Pan American Health Organization
World Health Organization
REGIONAL OFFICE FOR THE Americas

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

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AFTER-SERVICE HEALTH INSURANCE

Introduction

1. Under the PASB Staff Rules and Regulations, the Organization provides post-retirement employee benefits and entitlements, which the Organization is responsible for funding; among these is the PAHO/WHO Staff Health Insurance (SHI) Plan.

2. The SHI Plan is a self-insured defined benefit plan, in which its sponsor—PAHO/WHO—has promised 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 (ASHI) defined benefit obligation and the Organization's options for funding this liability.

Background

4. The ASHI Trust was established in 2010 to manage any resources made available to fund retiree long-term liabilities under the SHI Plan. The assets do not include any part of assets held in aggregate by WHO.

5. Beginning 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. The most recent actuarial study determined that the PAHO ASHI defined benefit obligation (DBO) totaled $275.4 million[1] as of 31 December 2013. At that date, the ASHI Trust totaled $38.5 million. After other adjustments, the net unfunded liability totals $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 assesses a 4% surcharge on staff payroll to provide funding towards this liability (approximately $1.8 million per year). Investment income in 2013 totaled $650,000 under current investment guidelines.

8. PAHO must consider a plan in order to fund the liability within a determined period of time. The PAHO actuary has provided projections and recommendations to meet this objective based upon a strategy developed by PAHO and WHO that anticipates combining the liabilities and assets of the PAHO/WHO ASHI to achieve efficiencies in meeting funding objectives. It is expected that the funding strategy under consideration will enable PAHO to achieve full funding of the PAHO DBO liability within 5 to 10 years of WHO's current target of 2037, depending on assumptions about the future evolution of market rates of return and health care cost trends.

9. Therefore, the strategy to address the funding obligations for after-service health insurance includes the following proposals:

a) PAHO will transfer the existing ASHI Trust Fund balance to WHO which will be invested together with the rest of the ASHI assets;

b) PAHO will transfer its 4% annual levy on payroll to WHO to be included in the ASHI investments;

c) The current "second tier" contribution for PAHO active staff that supplements the first tier WHO SHI contribution rate (used to offset higher health care costs for AMRO) will be gradually transitioned to increase the PAHO contribution for the ASHI liability, as scheduled increases in first tier contributions (paid by both active and retired staff) reduce the need for supplemental contributions to fund the AMRO deficit for active staff;

d) WHO will provide separate accounting to PAHO of the updated balance of its share of the ASHI Fund, including investment earnings on the lump sum contribution and the annual increments generated by the 4% levy and the portion of the "second tier" allocated in the future to ASHI;

[1] Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

e) PAHO and WHO will merge their actuarial services contract and synchronize the timing of periodic actuarial valuations to achieve efficiencies and reduce administrative costs.

Action by the Subcommittee on Program, Budget, and Administration

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

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