



Pan American
Health
Organization



World Health
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REGIONAL OFFICE FOR THE Americas

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AFTER-SERVICE HEALTH INSURANCE

Introduction

1. Under the PASB Staff Regulations and Rules, the Pan American Health Organization provides and is responsible for funding certain post-retirement employee benefits and entitlements, including the WHO Staff Health Insurance Plan (SHI), in which PAHO participates.
2. The SHI Plan is a defined benefit plan under which its sponsors, WHO and PAHO, promise to provide specific health insurance benefits and assume responsibility for providing the necessary financial resources to fund these accrued benefits over time. PAHO is responsible for determining the funding mechanisms of its portion of the liability, as well as for managing all plan assets set aside for these benefits which include the After-Service Health Insurance (ASHI).
3. This document is being provided to the Member States as an informational update on the status of funding the ASHI defined benefit obligation and PAHO's options for funding this liability.

Background

4. The PAHO ASHI Trust was established in 2010 to manage any resources made available to fund retiree long-term liabilities under the WHO SHI Plan. The assets do not include any part of assets held by WHO.
 5. Every year since 2008, PAHO has contracted with Aon Hewitt, a global actuarial firm, to provide actuarial valuations for ASHI in order to comply with the International Public Sector Accounting Standards (IPSAS), which PAHO adopted in 2010. Aon Hewitt has also been contracted by WHO to provide similar valuations for the entire WHO SHI Plan.
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Analysis

6. The most recent actuarial study determined that the PAHO ASHI defined benefit obligation (DBO) totaled \$300.2 million¹ as of 31 December 2015. As of 31 December 2015, the ASHI Trust assets totaled \$48.8 million. After other adjustments, the net unfunded liability totals \$220.6 million. This amount represents an estimate of the additional funding required by PAHO in order to meet the future cost of providing health benefits to current retirees and active staff eligible to retire from PAHO with these benefits over time.

7. PAHO assesses a 4% surcharge on payroll (increased to 8% during 2015 only) to provide funding towards this liability, which totals approximately \$3.2 million per year. A one-time transfer of \$8.0 million was made to the PAHO ASHI Trust in January 2016 with funds from the accumulated surplus of health insurance contributions of active staff, which increased the ASHI Trust assets to \$56.8 million and reduced the net unfunded liability to \$212.6 million. Net investment revenue in 2015 was \$1.0 million on the PAHO ASHI Trust.

8. PAHO must consider a plan 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 WHO and PAHO's ASHI Trust to achieve efficiencies in meeting funding objectives. It is expected that the funding strategy under study will enable PAHO to achieve full funding of its DBO liability jointly with WHO. PAHO and WHO annually review progress toward this goal, taking into account actuarial 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 and WHO are developing a plan, to be reviewed by the SHI governing body, the Global Oversight Committee, to combine the liabilities and assets of the WHO SHI and the PAHO ASHI Trust to achieve efficiencies both in funding and in the annual actuarial valuations.
- b) PAHO is advancing the administrative arrangements required to implement this plan. Measures to achieve implementation include: revising the inter-organization agreement with WHO concerning ASHI liabilities; and revising the Staff Health Insurance Rules to reflect the arrangements proposed above and other changes as may be needed in order to clarify the financing strategy for the PAHO DBO within the larger WHO Staff Health Insurance Fund.

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

- c) 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 Executive Committee

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

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