

## **Program and Budget Committee**

**Twentieth Session**  
**Geneva, July 8 to 12, 2013**

### **FINANCING OF LONG-TERM EMPLOYEE BENEFITS AT WIPO**

*Document prepared by the Secretariat*

#### **EXECUTIVE SUMMARY**

1. The adoption of International Public Sector Accounting Standards (IPSAS) by WIPO has resulted in the requirement that the Organization recognize in its financial statements its total liability for long-term employee benefits payable to active and former staff members.
2. The most significant long-term employee benefits recognized by WIPO include After-Service Health Insurance (ASHI), Accrued Annual Leave (AAL) and Repatriation Grant and Travel (RGT). These liabilities have been increasing over the last three years since the introduction of IPSAS, and reached 154.9 million Swiss francs at the end of 2012. Actuarial projections show that this total liability will continue to grow over the next fifteen years.
3. The Secretariat has been considering possible solutions for financing these long-term liabilities. Document WO/PBC/19/23 (Long-Term Financing of ASHI in WIPO) was presented to the Program and Budget Committee in September 2012, evaluating four options for financing the ASHI liability. Currently WIPO has not separately allocated any of its existing funds for the future financing of long-term employee benefit liabilities.
4. The issue of financing long-term employee benefit liabilities, in particular ASHI, is common to many United Nations (UN) System organizations. The UN System Chief Executives Board for Coordination (CEB) High-Level Committee on Management (HLCM) has identified the need for a common approach to the funding of growing ASHI liabilities within its Priority Issues for 2013-2016. It is also noted that the UN Secretariat will present a report to the General Assembly in September 2013 covering a range of ASHI funding options.

5. In light of the developing situation within the UN System, WIPO has opted at this time to take only an initial step in addressing the issue of financing its long-term employee benefit liabilities. The Organization will open a separate bank account to hold funds allocated for future financing of long-term employee benefits. The bank account will have the same status as existing accounts held by the Organization, and the funds held in this account will remain as funds of the Organization.

6. It is expected that an initial transfer to this account would be made for an amount equivalent to 50 per cent of the total liability for long-term employee benefits as at December 31, 2013. Subsequent monthly transfers would be made to the account of the balance available from the budgeted 6 per cent charge against payroll costs, after deduction for the payment of long-term employee benefits during the period.

7. WIPO will continue to review its options for establishing a clearly separate structure for holding funds designated for the future financing of long-term employee benefit liabilities. As part of this process, WIPO will carefully monitor developments in this area within the UN System.

#### LONG-TERM EMPLOYEE BENEFITS AT WIPO

8. Staff members at WIPO are entitled to certain long-term employee benefits, which are payable by the Organization following separation from service or retirement of the staff member. There are three principal long-term employee benefits at WIPO:

- **ASHI:** during their period of employment, staff members and optionally their dependent spouses and children participate in the WIPO medical insurance scheme, which is provided through an external service provider (currently Van Breda & Co Int.). Staff members who retire from the Organization and receive a pension and who have been participating in the scheme for five years prior to retirement, are entitled to continue to participate in the scheme along with their dependents after retirement. WIPO is responsible for covering 65 per cent of their premiums, which are currently 552 Swiss francs per adult and 245 Swiss francs per child;
- **AAL:** staff members may accrue unused annual leave during their period of employment. If on separation from service staff members hold a balance of accrued annual leave, they are entitled to payment of an amount equal to their salary for the period of accrued annual leave up to a maximum of 60 working days;
- **RGT:** internationally recruited staff members may be entitled to payment of a repatriation grant and travel costs to facilitate repatriation following separation from service. The amount of the repatriation grant is proportional to years of full-time continuous service with WIPO.

#### LONG-TERM EMPLOYEE BENEFIT LIABILITIES IN THE WIPO FINANCIAL STATEMENTS

9. WIPO began preparing its financial statements in accordance with IPSAS from 2010. IPSAS requires the application of full accrual basis accounting. As a result WIPO now records the true and complete cost of employing staff on a year by year basis. The financial statements include significant liabilities which represent employee benefits earned by employees but which will be payable by the Organization at a given point in the future. Within these liabilities are the long-term employee benefits ASHI, AAL and RGT, with the amounts for ASHI and RGT being determined by external actuaries. The total liability for these three benefits per the previous IPSAS financial statements is detailed below:

*Figure 1: Total Long-Term Employee Benefit Liabilities per Financial Statements*

	<b>2012</b>	<b>2011</b>	<b>2010</b>
	(in millions of Swiss francs)		
After-Service Health Insurance (1)	131.3	113.4	106.6
Accrued annual leave	11.4	11.2	10.2
Repatriation grant and travel	12.2	8.9	8.8
	<u><b>154.9</b></u>	<u><b>133.5</b></u>	<u><b>125.6</b></u>
<i>Increase from prior year</i>	21.4	7.9	
<i>% increase from prior year</i>	16.0%	6.3%	

(1) the balances presented for ASHI represent the total defined benefit obligation including actuarial losses.

#### PROJECTED INCREASES IN LONG-TERM EMPLOYEE BENEFIT LIABILITIES AT WIPO

10. Long-term employee benefit liabilities are projected to increase significantly over the next fifteen years. The table below summarizes this increase based on actuarial projections. The liabilities are impacted by the increase in age of current staff, retired staff and their dependents, plus historical staff turnover rates. As active staff move closer to reaching the age of eligibility for the employee benefit, the liability also increases. The actuary also takes into consideration other factors in their calculation such as projected health care costs and changes in mortality rates. The projections are based on the staff and retirees as at December 31, 2012 and do not include impacts from new joiners in future years. This 'closed group' methodology is applied on the understanding that periodic calculations of the total liabilities would be performed in the future which would take account of changes in the staff population.

*Figure 2: Projected Future Long-Term Employee Benefit Liabilities*

	<b>+15 Years 2028</b>	<b>+10 Years 2023</b>	<b>+5 Years 2018</b>	<b>2013</b>
	(in millions of Swiss francs)			
After-Service Health Insurance	203.5	194.5	173.2	139.5
Accrued annual leave	10.4	13.3	13.6	11.8
Repatriation grant and travel	12.7	13.2	13.5	12.4
	<u><b>226.6</b></u>	<u><b>221.0</b></u>	<u><b>200.3</b></u>	<u><b>163.7</b></u>
<i>5 year increase amount</i>	5.6	20.7	36.6	
<i>5 year increase %</i>	2.5%	10.3%	22.4%	

#### CURRENT FINANCING OF LONG-TERM EMPLOYEE BENEFIT LIABILITIES AT WIPO

11. In 2010/11 and the previous biennia, the budget included a charge of 6 per cent of payroll costs which was utilized to fund the cash payments for ASHI, AAL and RGT entitlements for staff separating from the Organization. Any remaining balance was accumulated as a provision on WIPO's balance sheet to finance future costs for ASHI, AAL and RGT. For the 2012/13 biennium, the charge was reduced to 2 per cent due to financial constraints. For the 2014/15 biennium, the charge will return to 6 per cent.

12. Although the Organization has been accumulating this provision, there has been no clear ring-fencing of the corresponding accumulated cash funds. As such, in the WIPO financial statements the long-term employee benefit liabilities are shown at their full amount and are not netted off by any accumulated funds. In order to show the long-term liabilities net of any accumulated funds, WIPO would be required to show that the funds have been clearly ring-fenced and protected for the purpose of financing the future payments required for the long-term employee benefits. IPSAS 25 has strict requirements in this regard, and refers to the creation of an entity or fund that is legally separate and from which the employee benefits are paid.

#### FINANCING OF LONG-TERM EMPLOYEE BENEFIT LIABILITIES WITHIN THE UN SYSTEM

13. The issue of long-term employee benefits and how they should be financed is common to many UN System organizations. Focus on this area has increased in recent years through the implementation of IPSAS, which requires the recognition of these liabilities in the financial statements. The most significant long-term employee benefit liability for most organizations is ASHI.

14. It is important to note that organizations have structured their ASHI schemes in different ways. Some organizations, including WIPO, provide the benefit *via* an external insurance company, which means their financial liability is in the form of premiums. Other organizations have self-insured and self-administered schemes, which means greater administration costs and a liability which includes future medical claims.

15. The HLCM has identified a common approach to ASHI within its Priority Issues for the period 2013-2016. This refers to both the management of funds and the financing of these growing liabilities. It is felt that a harmonized solution could achieve efficiencies and economies of scale which would benefit the entire UN System.

16. It is also noted that the UN Secretariat will present a report to the General Assembly in September 2013, in which it will present a range of financing options for its ASHI liabilities.

#### ESTABLISHMENT OF A SEPARATE BANK ACCOUNT AT WIPO

17. In the coming years there are expected to be a number of developments in the UN System concerning the financing of long-term employee benefits liabilities, particularly ASHI. Given this changing situation, WIPO has decided that at this time it would be premature to move towards establishing a legally separate entity or fund as a solution to financing these liabilities. Instead, the Organization will take an initial step of establishing a separate bank account to hold funds allocated for the future financing of these liabilities.

18. A separate bank account would have the same status as existing accounts held by the Organization. It would also be subject to the same Investment Policy as is applicable to the rest of the Organization. Any investment returns on the account would remain in the account.

19. The account would not be established through a separate entity or fund, and the funds held in it would remain as funds of the Organization. As such, it would not meet the IPSAS 25 requirements which would allow the total liabilities to be presented net of accumulated funding in the financial statements. However, it would represent a first step in clearly allocating some funding to the future financing of these liabilities.

20. It is expected that the initial transfer to the bank account would be equivalent to 50 per cent of the total long-term employee benefits liability as at December 31, 2013. Based on actuarial projections, the total liability for ASHI, AAL and RGT at this date would be 163.7 million Swiss francs and therefore the initial transfer to the bank account would be approximately 82 million Swiss francs.

21. As noted, for the 2014/15 biennium the budget includes a charge of 6 per cent of payroll costs to cover cash payments for ASHI, AAL and RGT. A monthly transfer would be made to the bank account, equivalent to the available balance from the 6 per cent charge after deduction of these payments. It is estimated that the total annual transfer to the bank account after deduction of the cash payments would be approximately 8 million Swiss francs.

22. WIPO will continue to review its options for establishing a clearly separate structure for holding funds designated for the future financing of long-term employee benefit liabilities. An important element of such a structure would be that it fulfill IPSAS 25 requirements in order that the total liabilities for long-term employee benefits can be shown net of accumulated funding in the WIPO financial statements. Structures which may need to be considered in this context include irrevocable trusts and legally separate entities. An important part of this review process will be the continued monitoring of developments on this issue within the UN System.

*23. The Program and Budget Committee is invited to recommend to the Assemblies of the WIPO Member States to take note of the contents of this document.*

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