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FOURTH ITEM ON THE AGENDA

After-service health insurance: Update

Purpose of the document

This paper provides an update on the United Nations inter-agency Working Group on After-Service Health Insurance (ASHI) and the outcome of the work of the ILO Staff Health Insurance Fund Management Committee on cost containment.

Relevant strategic objective: Not applicable.

Main relevant outcome/cross-cutting policy driver: Not applicable.

Policy implications: None.

Legal implications: None.

Financial implications: No immediate financial implications.

Follow-up action required: Report to subsequent session of the Governing Body.

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Related documents: GB.322/PFA/2; GB.326/PFA/4; United Nations General Assembly documents A/RES/68/244; A/70/590; A/RES/69/251; A/RES/70/248 B; A/70/7/Add.42; and A/71/698.

Introduction and background

1. At its 322nd Session (November 2014), the Governing Body considered a document providing an overview of the status of after-service health insurance (ASHI) at the ILO, and presented options for its funding.¹ At its 326th Session (March 2016), the Governing Body considered a further document that provided an update on matters relating to United Nations-wide ASHI and an alternative to full funding of the liability.²
2. During both sessions, members of the Governing Body expressed concern about the focus on funding rather than means of reducing the liability through, inter alia, cost-containment measures. Similar considerations have taken place in the UN General Assembly.
3. In its resolution adopted on 1 April 2016, the UN General Assembly endorsed the conclusions and recommendations contained in the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ).³ The ACABQ reiterated its recommendation to continue funding ASHI through the pay-as-you-go approach and recommended that the UNs inter-agency Working Group on ASHI be maintained in order to study further options for increasing efficiency and cost containment, and to put forward specific proposals regarding those matters to the General Assembly at its seventy-first session.
4. This paper presents an overview of the follow-up report by the Secretary-General, which was largely informed by the work of the UN inter-agency Working Group on ASHI. At the time of preparing the current document for the ILO Governing Body, neither the ACABQ nor the UN General Assembly had yet considered the report. This paper also presents the outcome of the recent work by the ILO Staff Health Insurance Fund (SHIF) Management Committee on cost containment and finally, as requested by the Governing Body, provides further commentary on the establishment of an ASHI reserve.

Follow-up report by the Secretary-General on managing after-service health insurance

Review of the recommendations

5. The report of the UN inter-agency Working Group provides a status update in relation to each of the recommendations, as follows:
 - Recommendation 1: Collective negotiations with third-party administrators;
 - Recommendation 2: Collective negotiations with health-care providers;
 - Recommendation 3: Underwriting reviews and negotiations with insurers;
 - Recommendation 4: National health insurance schemes;

¹ [GB.322/PFA/2](#).

² [GB.326/PFA/4](#).

³ See [A/RES/70/248 B](#) and [A/70/7/Add.42](#).

- Recommendation 5: Broadening the mandate of the United Nations Joint Staff Pension Fund (UNJSPF);
 - Recommendation 6: Standardizing the general valuation methodology and the establishment and application of key ASHI liability valuation factors;
 - Recommendation 7: Adequate funding of the ASHI liability;
 - recommendation 8: Investment of reserves.
- 6.** Recommendations 1 and 3 do not concern the ILO as they address self-insured third-party administered (recommendation 1) and insured third-party administered plans (recommendation 3) whereas the ILO has a self-insured self-administered plan.
- 7.** Regarding recommendation 2 on collective negotiations with health-care providers, it was noted that “the Geneva-based ⁴ plans have continued to expand their preferred provider network in Geneva through collective negotiation. In 2015, the resulting discounts on charges associated with in-patient treatment averaged 25 to 27 per cent. Given the location in which the costs were incurred, the savings are substantial: for the three plans, the 2015 savings totalled an estimated US\$18 million. Savings of this order have the effect of reducing the agencies’ pay-as-you-go obligations and ASHI liabilities” and it was recommended that the “Working Group pursue opportunities for the cooperation of organizations based in all locations in developing their health insurance plans’ access to health-care provider networks in all regions, to ensure that best pricing for quality health care is achieved and pricing volatility is minimized”. For the ILO, annual savings from these negotiated rates are estimated at some US\$3.0 million.
- 8.** Regarding recommendation 4 on national health insurance schemes, it is recalled that following the UN experience in the United States where eligible covered persons are required to enrol in Medicare Part B in addition to their UN plan, which resulted in a decrease in the UN ASHI liability by nearly 5 per cent, the General Assembly “in its resolution A/RES/70/248 B endorsed the conclusion of the Advisory Committee that the necessary information should be obtained regarding the appropriateness, practicability and financial effects of incorporating into the rules and regulations of UNs system organizations’ health insurance plans the requirement for insured persons to be enrolled for primary coverage under the national health insurance scheme of the country in which they ordinarily reside”.
- 9.** It is also recalled that under such a scenario, contributions to the national scheme would be borne by the Organization health insurance plan, that the insured persons would still be covered by the UN plan, and that the UN plan would act as a secondary insurance in the country of residence and as a primary insurance elsewhere.
- 10.** The UN Working Group, recognizing the fact that terms and conditions of national health insurance vary greatly from country to country, engaged member States regarding the conditions of eligibility for primary coverage under their national health insurance schemes. A survey was developed and distributed to all Permanent Representatives and Permanent Observers to the UN to enable the Working Group to determine:
- (i) whether coverage under the national health insurance scheme is available or could be made available to officials and former officials, and their family members, residing in

⁴ ILO, World Health Organization (WHO) and United Nations Office at Geneva (UNOG).

the member State, assuming that they have never paid into the national health insurance scheme but would pay into the scheme from the date of their enrolment;

- (ii) what the monthly premium per person would be for coverage under the national health insurance scheme;
 - (iii) what the base rate of reimbursement of medical costs would be under the national health insurance scheme;
 - (iv) whether the national health insurance scheme would provide for coverage of medical treatment in a publicly funded hospital in a bordering member State;
 - (v) whether the same pricing schedule as that applied to a patient covered under the national health insurance scheme would be applied to a patient covered under the national health insurance scheme of another member State, were medical treatment to be obtained in a publicly funded hospital.
- 11.** At the time it completed its report, the UN Working Group had not received a sufficient number of answers for any conclusions to be drawn.
- 12.** A second survey will be sent to those member States whose national health insurance schemes are or could be made available to officials and/or former officials of United Nations system organizations, aimed at gathering more detailed information regarding the terms and conditions of the national health insurance schemes that will enable the Working Group to establish a full country-by-country cost and benefit analysis and to assess the viability of such an approach and its effect on ASHI liabilities.
- 13.** Regarding recommendation 5, it was recommended that consideration of expanding the mandate of the United Nations Joint Staff Pension Fund (UNJSPF) cease, as there continues to be a lack of evidence that financial, operational or administrative efficiencies could be achieved.
- 14.** Regarding recommendation 6 on standardizing of the general valuation methodology and the establishment and application of key ASHI liability valuation factors, the UN Task Force on Accounting Standards made recommendations aimed at harmonizing the valuation methodology and the application of key valuation factors. Those recommendations do not materially impact the ILO's ASHI valuation as the ILO methodology and factors are already consistent with the recommendations. As of 31 December 2017, it is proposed that UN organizations will further expand their common use of additional actuarial assumptions to improve comparability of ASHI liabilities. The UN Working Group further recommended that the Task Force remains actively engaged in harmonizing the principles guiding liability valuation.
- 15.** Regarding recommendation 7 on adequate funding of the ASHI liability, the Secretary-General remains concerned about the level of unfunded ASHI liability, and a proposal for partial funding of the ASHI liability is included in his report. The proposal is similar to the one that was presented to the ILO Governing Body in March 2016, which is that the ASHI liability constituted in relation to newly recruited officials be funded on an annual service cost-plus-interest cost basis in order to cover fully the United Nations' projected obligation to those officials as from the date of their retirement. Obligations in respect of current staff and retirees would be met on a pay-as-you-go basis.
- 16.** Regarding recommendation 8 on investment of reserves, it is recommended that the Working Group on Common Treasury Services of the High-Level Committee on Management Finance and Budget Network continue to promote inter-agency collaboration in relation to

the investment of funds earmarked for the coverage of ASHI liabilities with the objective of achieving economies of scale.

Outcome of the UN General Assembly

17. An oral update will be provided to the Governing Body should the General Assembly have completed its consideration of this item by the time of the 329th Session of the Governing Body.

ILO developments

18. The SHIF Management Committee remains very conscious of the need to mitigate increases in health-care costs and, early in 2016, in line with the March 2016 Governing Body decision, it established its own working group on cost-containment, with the goal of containing medical expenses while maintaining the core features of SHIF coverage. In addition, the ILO engaged the services of external experts to review the SHIF operating model to ensure that the Office is providing staff and retirees with health insurance in the most effective, efficient and secure manner.

SHIF Management Committee Working Group on Cost-Containment

19. The Working Group analysed statistics on expenditure through different criteria such as invoice amount, geographical distribution, type of expenditure, etc.
20. The SHIF covers more than 11,000 members, including some 3,000 staff members and their families and about 2,500 former staff members or their survivors and their families. Every year, the insured members submit around 45,000 claims for reimbursement representing over 160,000 invoices and the SHIF reimburses to its members some US\$45 million annually.
21. The Working Group also reviewed a number of specialized articles on medical inflation as well as practices from national health-care systems and other private medical insurance schemes.
22. To no surprise, the Working Group identified the fact that hospital accommodation, dental care, doctor's fees, medical care, medicines, public hospital costs and surgical operations account for 80 per cent of total SHIF expenditure. Furthermore, two thirds of expenditure is paid for health-care treatment occurring in Switzerland where a large majority of active and retired staff reside.
23. The Working Group made recommendations to the Management Committee focusing on four key areas:
 - (1) encouraging responsible choices by insured members;
 - (2) increasing SHIF promotion of preventive measures;
 - (3) strengthening cost control;
 - (4) continuing inter-organization cooperation.

24. Encouraging responsible choices by insured members may generate substantial cost savings and the Working Group recommended that whenever possible: at least two, or preferably three, estimates for any obviously non-urgent hospital surgery should be requested; the possibilities of using out-patient medical nursing services rather than extended periods in hospital should be explored; preference should be given to medical doctors who are regulated under the national social security system (*conventionnés par la sécurité sociale*) in France or who apply the LAMAL rates in Switzerland and similarly in other countries as relevant; generic medicines should be used instead of brand-named drugs (to the extent possible); prescribed medicines should be bought from the most competitive pharmacies in the vicinity of a person's residence or from those offering discounts on medicines, etc.
25. Reimbursement of preventive measures was implemented in 2015. The first year of experience of those measures has shown that their cost is negligible when compared to the potential positive impact the measures may have on future health status. The Working Group made a number of recommendations on the promotion of preventive measures, to expand their scope as well as to explore the possibility for the SHIF to contract an agreement with a specialized telemedicine company. The Working Group further recommended the strengthening of information campaigns to increase awareness among insured members of these issues.
26. The Working Group also recommended strengthening cost controls by exploring the use in Switzerland of a cost control company, the use of "case management" and by analysing in detail development of costs. In that regard, a new position was created in the SHIF Secretariat dedicated to risk and compliance. Information provided to the SHIF indicates that the cost of such a service is rapidly recovered through reductions in medical reimbursements.
27. The Working Group recommended to continue collaboration with other international organizations that have self-insured and self-administered medical schemes such as the WHO and UNOG and to negotiate preferential rates with the other major Geneva-based institutions. Currently, the WHO, UNOG, UNIQA (the third party administrator of the European Organization for Nuclear Research (CERN)) and the ILO have agreements with ten service providers in the Geneva area, which include all the major hospitals and clinics. The four organizations combined represent the single largest insured group in the Geneva area, which explains why the preferential rates in those agreements are so competitive. The Working Group also recommended to explore group negotiation of preferential rates with new medical institutions in other duty stations where large groups of officials and retirees reside. This recommendation is similar to recommendation 2 of the UN Working Group and work on this issue has already started.
28. The SHIF Management Committee recently endorsed all the Working Group's recommendations, and it is expected that the implementation of the recommendations will bring further cost savings.

Establishment of an after-service health insurance reserve

29. The establishment of an ASHI reserve depends on decisions made for the funding of the ASHI liability. Consideration of the two Governing Body documents referred to in paragraph 1 above, together with the conclusions of the UN General Assembly, indicate that the preference of Member States is to continue to finance ASHI through a pay-as-you-go approach. Whilst the Director-General agrees with the UN Secretary-General that the unfunded liability will place financial pressure on future budgets, he recognizes that the

current financial environment may not enable member States to support the immediate budgetary impact of establishing a reserve.

- 30.** In the absence of a decision from the UN General Assembly on funding or an indication from the Governing Body that funding the liability is an immediate priority, no further proposals are presented on the establishment of an ASHI reserve.