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Note by the Secretary-General

CONTRIBUTION FROM AUSTRALIA, JAPAN, NETHERLANDS, SPAIN, SWEDEN AND THE UNITED STATES OF AMERICA

THE AFTER SERVICE MEDICAL INSURANCE LIABILITY

I have the honour to transmit to the Member States of the Council a contribution received from **Australia, Japan, Netherlands ,Spain, Sweden and the United States of the America.**

Dr. Hamadoun I. TOURE
Secretary-General

Contribution from Australia, Japan, Netherlands ,Spain, Sweden and the United States of the America

THE AFTER SERVICE MEDICAL INSURANCE LIABILITY

Summary

This document proposes that ITU prepare an annual report on the after-service health insurance liability (ASHI) and to present cost proposals to partially fund this liability, consistent with Recommendation 6 of the External Auditor's reports on the accounts for 2012. Further delays in addressing the issue will result in the funding gap growing, the problem being more difficult to resolve in the future, and potentially a qualified opinion of the external auditor on future financial statements.

Action required

The Council is invited to **consider** the issue and **instruct** the Secretary General to prepare an annual report for consideration of Council.

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References

1. Decision 5 (Rev. Guadalajara,2010)
2. Financial Regulations and Financial Rules
3. Financial Operating Report for the financial year 2012 (Document C13/7)
4. External audit (Document C13/8)
5. Resolution 1359 Biennial Budget of ITU for 2014-2015

1 Background

1.1 In the Statement of financial position of the financial operating result for 2012 (Document C13/7), the Total Net Assets resulted in a negative value of -227.7 MCHF. Although the external auditor noted in Document C13/8 "*while this situation in regard to the ITU balance sheet is naturally a matter of concern, the Union's immediate, short-term financial health is not directly affected*", the membership has expressed concern about this issue.

1.2 The main driver of the negative asset value of ITU is the employee benefits liability of 356.2 MCHF, which account for 80.4% of the total non-current assets and 60.6% of the total liabilities. The main component of the employee liabilities is the actuarial liabilities for post–employment benefits under the after-service health insurance (ASHI) plan of 335.2 MCHF. ASHI is the medical insurance plan for retired staff and their families meeting certain eligibility criteria, as specified under the United Nations ASHI program. The premium of this insurance is nominally shared between the staff member and ITU.

1.3 ASHI obligations are measured by an actuarial calculation pursuant to IPSAS 25 in order to quantify the value of ITU's future liability in relation to the corresponding benefits. The actuarial valuation requires certain assumptions be made in order to best estimate the cost of providing these benefits to its staff members. Such assumptions include demographic (e.g. mortality rates/estimates, rates of staff member turnover, claim rates under medical plans, etc.) and financial (e.g. discount rate, future salaries and benefits, future medical costs, etc.) differences. Owing to changes in factors, an annual review of the assumptions is performed. Like most actuarial calculations, annual valuations are subject to significant uncertainty and unpredictability. In particular, the value of the liabilities for the plan is highly sensitive to changes in the discount rate, currency exchange rates, and anticipated medical inflation. Nevertheless, regardless their fluctuation, we must remember that they remain real liabilities.

1.4 This liability has built up over the years through the past service of retirees and staff members. Unfortunately, there is a significant gap between the size of the liability and the funding which has been set aside to pay for it. Recommendation 6 from the report of the external auditor noted that "*it is not possible to evaluate in this period when the UN financial health might be compromised, therefore we recommend Management to be assisted by a full actuarial review study in the coming years that it might produce answers, and possible solutions, to this question.*" Further delays in addressing the issue will result in the funding gap growing and the problem being more difficult to resolve in the future. Additionally, without a credible, long-term solution, the external auditor could place a qualified opinion on the financial statements.

2 Comparison with other UN Organizations

2.1 ITU is not the only international organization with a negative net asset value. The issue of significant unfunded long-term liabilities is prevalent in the United Nations system. United Nations Secretary General has been working on a report on managing the UN's ASMC liabilities since the 67th session of the General Assembly. A harmonized solution to the problem has not been determined, so many in the UN system have taken their own steps to begin partially funding this liability. The impact of the unfunded liabilities was also emphasized in the report of the Joint Inspection Unit (JIU/REP/2007/2) where it was recommended that the "*legislative bodies of each organization should provide adequate financing to meet the liabilities*". The following table shows the ASHI liability and the funding set aside as of 31 December 2011[1].

Organization	ASHI Liability USD million	Funding Available USD million	Unfunded Liability USD million
UN	3,654.4	0	3654.4
FAO	979.0	228.0	751.0
ILO	738.0	48.5	689.5
WIPO	113.4	0	113.4
ICAO	62.7	1.4	61.3
UPU	40.3	0	40.3

2.2 Several organizations have requested that the actuaries provide projections of the financial resource requirements to fund this liability over 30 and 40 years. Although increasing contributions from member states is the solution with the biggest impact, this might not be feasible considering the financial situation of most member states. ITU should adopt some of the other best practices already identified.

2.3 It should be noted that ITU has already taken the first steps towards addressing the unfunded long-term liabilities. Council 2013 instructed the Secretary-General to withdraw CHF

[1] 2012 Actuarial Valuation of Staff-Related Liabilities, Food and Agriculture Organization Document FC148/5

4,000,000 from the Reserve Account on 1 January 2014 to set-up the ASHI fund. Additionally, any surpluses from the biennia either from the regular budget or from the Reserve Account withdrawal will be transferred to the ASHI fund. Nevertheless, further steps need to be taken.

3 Proposal

3.1 Some of the options to consider for funding the liability include, but are not limited to:

a) adding the following sentence to Decision 5 "decides that any surpluses from the biennia either from the regular budget or from the Reserve Account withdrawal shall be transferred to the ASHI fund";

b) adding the following sentence to Decision 5 "instructs the Secretary-General to undertake calculations on the amount needed on a yearly basis in order to fully fund the ASHI liability in 30 or 40 years, and to report annually to Council";

c) reviewing the possibility to increase the level of Member States' Contributions and voluntary contributions earmarked to the ASHI fund;

d) increasing the assessment on current staff payroll, the increased amount of which would be deposited into a dedicated fund for ASHI ;

e) increasing the rate of contribution paid by participants;

f) reviewing of the benefits provided under the plan for opportunities for cost containment;

g) reallocating any additional surpluses not already covered by Resolution 1359;

h) increasing the level of internal savings, through a reduction of specific expenses;

i) measuring the impact of the new retirement age of 65;

j) increasing the investment rate of return on the assets of the ASHI Fund using a more aggressive approach to investing to better match the long-term nature of the liability.

3.2 This document proposes that the ITU Council instruct the Secretary-General to follow best practices and continue to propose solutions on how to fund this liability. An annual report should be prepared to include the current value of the liability and the level of funding available. The report should include concrete proposals, along with their potential financial impact.

ANNEX

DECISION 5 (Rev. Guadalajara, 2010)

Income and expenditure for the Union for the period 2012-2015

The Plenipotentiary Conference of the International Telecommunication Union (Guadalajara, 2010),

considering

the strategic plans and goals established for the Union and its Sectors for the period 2012-2015, and the priorities identified therein,

considering further

a) Resolution 91 (Rev. Guadalajara, 2010) of this conference, on general principles for cost recovery;

b) that, in the consideration of the draft financial plan of the Union for 2012-2015, the challenge to increase revenues in support of increasing programme demands is substantial,

noting

that this conference has adopted Resolution 151 (Rev. Guadalajara, 2010) on the implementation of results-based management in ITU, an important component of which relates to planning, programming, budgeting, monitoring and evaluation, and which should lead, *inter alia*, to further strengthening of the financial management system of the Union,

noting further

that Resolution 48 (Rev. Guadalajara, 2010) of this conference stresses the importance of the human resources of the Union for the fulfilment of its goals and objectives,

decides

1 that the Council is authorized to draw up the two biennial budgets of the Union in such a way that the total expenditure of the General Secretariat and the three Sectors of the Union is balanced by the anticipated income, on the basis of Annex 1 to this decision, taking into account the following:

1.1 that the amount of the contributory unit of Member States for the years 2012-2015 shall be CHF 318 000;

1.2 that expenditure on interpretation, translation and text processing in respect of the official languages of the Union shall not exceed CHF 85 million for the years 2012-2015;

1.3 that, when adopting the biennial budgets of the Union, the Council may decide to give the Secretary-General the possibility, in order to meet unanticipated demand, to increase the budget for products or services which are subject to cost recovery, within the limit of the income from cost recovery for that activity;

1.4 that the Council shall each year review the expenditure and income in the budget as well as the different activities and the related expenditure;

2 that, if no plenipotentiary conference is held in 2014, the Council shall establish the biennial budgets of the Union for 2016-2017 and 2018-2019 and thereafter, having first obtained approval

for the budgeted annual values of the contributory unit from a majority of the Member States of the Union;

3 that the Council may authorize expenditure in excess of the limits for conferences, meetings and seminars if such excess can be compensated by sums within the expenditure limits accrued from previous years or charged to the following year;

4 that the Council shall, during each budgetary period, assess the changes that have taken place and the changes likely to take place in the current and coming budgetary periods under the following items:

4.1 salary scales, pension contributions and allowances, including post adjustments, established by the United Nations common system and applicable to the staff employed by the Union;

4.2 the exchange rate between the Swiss franc and the United States dollar in so far as this affects the staff costs for those staff members on United Nations scales;

4.3 the purchasing power of the Swiss franc in respect of non-staff items of expenditure;

5 that the Council shall have the task of effecting every possible economy, in particular taking into account the options for reducing expenditure contained in Annex 2 to this decision, and considering the application of the concept of unfunded mandatory activities (UMACs)[1], and, to this end, that it shall establish the lowest possible authorized level of expenditure commensurate with the needs of the Union, within the limits established by *decides* 1 above, if necessary taking into account the provisions of *decides* 7 below; a set of options for reducing expenditure is given in Annex 2 to this decision;

6 that the following minimum guidelines should be applied in relation to any expenditure reductions:

a) the internal audit function of the Union should be maintained at a strong and effective level;

b) there should be no expenditure reductions which would affect cost-recovery income;

c) fixed costs such as those related to the reimbursement of loans or after-service health insurance should not be subject to expenditure reductions;

d) there should be no expenditure reductions in regular maintenance costs for ITU buildings which would affect the security or the health of staff;

e) the information services function in the Union should be maintained at an effective level;

7 that the Council, in determining the amount of withdrawals from or allocations to the Reserve Account, should aim under normal circumstances at keeping the Reserve Account at a level above six per cent of total annual expenditure,

8 that any surpluses from the biennia either from the regular budget or from the Reserve Account withdrawal shall be transferred to the ASHI fund;

instructs the Secretary-General, with the assistance of the Coordination Committee

[1] The concept of UMACs may be applied, where necessary, as a means of highlighting a number of activities within the overall programme of work mandated by the governing bodies of the Union, as well as those support activities which are deemed essential to implement the mandated activities, which could not be accommodated within the financial limits set by the Plenipotentiary Conference. The Secretary-General would be authorized to incur expenditure on these activities provided that savings are achieved or additional income is generated.

1 to prepare the draft biennial budgets for the years 2012-2013, as well as 2014-2015, on the basis of the associated guidelines in *decides* above, the annexes to this decision and all relevant documents submitted to the Plenipotentiary Conference;

2 to ensure that, in each biennial budget, income and expenditure are balanced;

3 to draw up and implement a programme of appropriate revenue increases, cost efficiencies and reductions across all ITU operations so as to ensure a balanced budget;

4 to implement the aforementioned programme as soon as possible,

instructs the Secretary-General

1 to provide to the Council, no less than seven weeks before its 2011 and 2013 ordinary sessions, complete and accurate data as needed for the development, consideration and establishment of the biennial budget;

2 to undertake studies on the current status of and forecasts regarding financial stability and related reserve accounts of the Union under the changing circumstances after the introduction of the International Public Sector Accounting Standards (IPSAS), with a view to developing strategies for long-term financial stability, and to report annually to the Council,

3 to undertake calculations on the amount needed on a yearly basis in order to fully fund the ASHI liability in 30 or 40 years, and to report annually to Council;

instructs the Secretary-General and the Directors of the Bureaux

to provide to the Council, on an annual basis, a report outlining expenditure relating to each item in Annex 2 to this decision, and to propose appropriate measures to be undertaken to reduce expenditure in each area,

instructs the Council

1 to review and approve the biennial budgets for 2012-2013 and 2014-2015, giving due consideration to the associated guidelines in *decides* above, the annexes to this decision and all documents submitted to the Plenipotentiary Conference;

2 to ensure that, in each biennial budget, income and expenditure are balanced;

3 to consider further appropriations in the event that additional sources of revenue are identified or savings achieved;

4 to examine the cost-efficiency and cost-reduction programme drawn up by the Secretary-General;

5 to take account of the impact of any cost-reduction programme on the staff of the Union, including the implementation of a voluntary separation and early retirement scheme, where this can be funded from budgetary savings or through a withdrawal from the Reserve Account;

6 in addition to *instructs the Council* 5 above, in view of an unanticipated reduction of revenue due to the drop in classes of contribution from Member States and Sector Members, to authorize a one-time withdrawal from the Reserve Account, within the limits established in *decides* 7 above, in order to minimize the impact on staffing levels in the ITU biennial budgets for 2012-2013 and 2014-2015; any unused funds are to be returned to the Reserve Account at the end of each budgetary period;

7 to consider the report of the Secretary-General relating to the matter referred to in *instructs the Secretary-General* 2 and 3 above, and report to the next plenipotentiary conference, as appropriate.

(Minneapolis, 1998) – (Rev. Marrakesh, 2002) – (Rev. Antalya, 2006) – (Rev. Guadalajara, 2010)

ANNEX 1 TO DECISION 5 (Rev. Guadalajara, 2010)

FINANCIAL PLAN FOR 2012 - 2015: REVENUES AND EXPENSES

	Budget 2008-09	Budget 2010-11	Budget 2008-11	Forecast 2012- 2015	Variance	%
REVENUE						
A. Assessed contributions						
A.1 Members State contributions	217 194	221 328	438 522	431 367	-7 155	-1.6%
A.2 Sector Member contributions	36 833	35 162	71 995	62 932	-9 063	-12.6%
A.3 Associates	2 867	3 358	6 225	6 428	203	3.3%
Total assessed contributions	**256 894**	**259 848**	**516 742**	**500 727**	**-16 015**	-3.1%
B. Cost recovery						
B.1 Project support costs	2 000	2 700	4 700	7 000	2 300	48.9%
B.2 Sales of publications	24 000	30 000	54 000	69 000	15 000	27.8%
B.3 ITU TELECOM	7 452	6 285	13 737	10 000	-3 737	-27.2%
B.4 Satellite network filings	14 000	16 000	30 000	28 000	-2 000	-6.7%
B.5 Others (registrars…)	1 149	698	1 847	2 000	153	8.3%
Total cost recovery	**48 601**	**55 683**	**104 284**	**116 000**	**11 716**	11.2%
C. Revenue from interest	5 000	5 000	10 000	12 000	2 000	20.0%
D. Other revenue	2 000	2 000	4 000	3 280	-720	-18.0%
E. Reserve Account	10 108	10 108	20 216	0	-20 216	n/a
TOTAL REVENUE	**322 603**	**332 639**	**655 242**	**632 007**	**-23 235**	**-3.5%**
EXPENSES *						
1 Staff costs	206 351	206 093	412 444	389 032	-23 412	-5.7%
2 Other staff costs	58 330	67 310	125 640	126 519	879	0.7%
3 Travel on duty	10 060	10 674	20 734	20 734	0	0.0%
4 Contractual services	11 634	14 142	25 776	27 770	1 994	7.7%
5 Rental & maintenance	13 051	11 065	24 116	22 013	-2 103	-8.7%
6 Materials & supplies	4 045	3 454	7 499	6 779	-720	-9.6%
7 Acquisitions	7 121	6 799	13 920	13 430	-490	-3.5%
8 Public utilities	6 564	5 979	12 543	11 728	-815	-6.5%
9 Audit & miscellaneous	5 447	7 123	12 570	14 002	1 432	11.4%
TOTAL EXPENSES	**322 603**	**332 639**	**655 242**	**632 007**	**-23 235**	**-3.5%**

** Expense projection to 2012-2015 includes inflation of 1.5 per cent per annum*

ANNEX 2 TO DECISION 5 (Rev. Guadalajara, 2010)

Measures for reducing expenditure

1) Identification and elimination of possible duplications (functions, activities, workshops, seminars), and centralization of finance and administrative tasks.

2) Coordination and harmonization of seminars and workshops organized by the General Secretariat or the three Sectors in order to avoid duplication of the subjects covered and to optimize secretariat attendance.

3) Coordination with regional organizations with a view to sharing the available resources of the regional organizations and minimizing the costs of participation (workshops, seminars, preparatory meetings for world conferences).

4) Possible savings from attrition, the redeployment of staff and the review and possible reduction of grades of vacant posts.

5) New or additional activities are to be implemented through staff redeployment.

6) Reduction in the cost of documentation of conferences and meetings by:

   a) requesting at the time of registration whether paper copies are required;

   b) setting of a maximum number of copies by the Plenipotentiary Conference or by the Council for all Union conferences, assemblies and meetings;

   c) setting of a maximum of two sets per delegation;

   d) reducing the number of paper copies sent to administrations from the current five to a maximum of two.

7) Consideration of savings in languages (translation, interpretation) for study group meetings and publications, without prejudice to the goals of Resolution 154 (Rev. Guadalajara, 2010).

8) Implementation of WSIS activities through the redeployment of staff responsible for such activities within the existing resources and, as appropriate, through cost recovery and voluntary contributions.

9) Review of the costs of study groups and other relevant groups.

10) Limitation of the number of study group meetings and their duration.

11) Limitation of the number of days of meetings for the advisory groups to three days per year maximum with interpretation.

12) Reduction of the number and duration of physical meetings of working groups of the Council, where possible.

13) Incorporation of the first preparatory meeting for the [2015] [2016] world radiocommunication conference within the conference period.

14) Identification of the level of achievement of the different programmes with a view to utilizing resources for other new activities.

15) For new programmes or those having additional financial resource implications, a "value-added impact statement" should justify how the proposed programmes differ from current and/or similar programmes in order to avoid overlap and duplication.

16) Sound consideration of the resources allocated to regional initiatives, programmes and assistance to members, to the regional presence both in the regions and at headquarters, as well as those resulting from the outcome of WTDC and the Hyderabad Action Plan, and financed directly as activities from the Sector budget.

17) Reduction of the cost of travel on duty, by limiting time on mission as well as through joint representation in meetings, and benefiting from reductions in air fares.

18) Taking into account No. 145 of the Convention, a full range of electronic working methods needs to be explored to possibly reduce the costs, number and duration of the Radio Regulations Board meetings in the future, e.g. reduction of the number of meetings in one calendar year from four to three.

19) Introduce incentive programmes, such as efficiency taxes, innovation funds and other methods in order to address innovative cross-cutting means of improving the Union's productivity.

20) Move, to the extent practicable, from present communications by fax between the Union and Member States to modern electronic communication methods.

21) Any additional measures adopted by the Council.