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FINANCING PLAN TO RESTORE THE COVERAGE OF LONG-TERM EMPLOYEE BENEFITS AT WIPO

prepared by the Secretariat

Background

1. Following the discussions on agenda item 14, After-Service Health Insurance (ASHI) (document WO/PBC/28/11) during the September 2018 session of the Program and Budget Committee (PBC), the PBC recommended and the Assemblies of WIPO, each as far as it is concerned, approved that the Secretariat[1]

> *"(…) continue to participate in the Finance and Budget Network's ASHI Working Group and to monitor any specific proposals to be made by the Secretary-General to the United Nations General Assembly at its 73rd session."*

2. Furthermore, during the 28th Session of the PBC, some delegations raised concerns on the funding risk of WIPO's ASHI liability stating that this needs to be addressed, taking into account the Organization's good financial performance[2].

[1] Document A/58/6 List of Decisions Adopted by the Program and Budget Committee and A/58/11 General Report, paragraph 78.
[2] Discussions regarding the need to explore proposals to mitigate risk related to ASHI are reflected in document WO/PBC/28/15 – paragraphs 224 & 258.

Current financing and the coverage of long-term employee benefit liabilities at WIPO

3. Staff members at WIPO are entitled to certain long-term employee benefits, which are payable by WIPO following the separation from service or retirement of the staff member. The principal long-term benefits include ASHI, accrued annual leave (AAL) and repatriation grant and travel (RGT). Since the introduction of the International Public Sector Accounting Standards (IPSAS) in 2010, these liabilities have increased in total on a yearly basis, with the exception of 2017, and reached 328.2 million Swiss francs at the end of 2018 [3]. Actuarial projections show that this liability will continue to grow over the next 15 years.

4. Since the 2004/05 Biennium, WIPO's budget has included a charge on payroll costs which has been used to fund cash payments for ASHI, AAL and RGT entitlements for staff separating from the Organization. A six per cent charge has been applied in every biennium since 2004/05, with the exception of the 2012/13 biennium when the charge was two per cent. Any cash balance remaining from the charge has been accumulated and held on WIPO's balance sheet as funds allocated to finance the future costs of long-term employee benefit liabilities[4]. Additionally, the Organization has also applied a one-off charge in the last month of the two preceding biennia for after-service employee benefits in order to enhance the coverage of the ASHI liability. The one-off charge, equivalent to two per cent of payroll costs, amounted to 7.1 million Swiss francs in the 2014/15 biennium and 7.3 million Swiss francs in the subsequent biennium[5].

5. In view of the increasing long-term employee benefit liabilities and also recognizing the potential budgetary issues which could arise as a consequence of underfunding these liabilities, a decision to provide an initial lump-sum financing of 88.9 million Swiss francs was approved during the Fifty-First Series of Meetings of the Assemblies of the Member States of WIPO. This financing was completed in 2014 and represented a coverage of approximately 50% of the long-term employee benefit liabilities as at the end of 2014.[6]

6. In July 2016 a new accounting standard, IPSAS 39, was issued which replaced the "corridor approach" in respect of employee benefits. Under this new standard, previously unrecognized actuarial losses must be recognized in the statement of financial position. This change in accounting policy has had the effect of increasing WIPO's ASHI liability within the financial accounts. Consequently, WIPO's 2016 ASHI liability was restated under IPSAS 39 to 320.9 million Swiss francs, compared to 154.3 million Swiss francs previously recognized under the "corridor approach" in the 2016 financial statements.

7. The coverage provided by the initial lump-sum financing reduced significantly following the adoption of IPSAS 39 in 2017. When combined with the growth of the liability since 2014, the impact of adopting IPSAS 39 was to reduce the coverage from 49.7% in 2014 to 38.3% by the end of 2018. The following chart shows the evolution of WIPO's coverage of long-term employee benefit liabilities from 2014 (pre-IPSAS 39), through to the end of 2018 with 2016 marking the adoption of the new accounting standard.

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[3] The liability fell at the end of 2017 which was largely due to the impact of moving to the use of UN pension mortality tables as part of the alignment of actuarial assumptions across the UN.
[4] These funds are classified as strategic cash under WIPO's Policy on Investments.
[5] The one-off charge for 2015 is referenced in the analysis of Personnel Resources within the Expenditure Section of the Financial Management Report 2014/15 (WO/PBC/25/11), page 13, whilst the one-off charge made in 2017 was disclosed in WIPO Performance Report (WPR) 2016/17, page 22.
[6] The intention to transfer an amount equivalent to 50% of the long-term employee benefit liabilities was first presented in document WO/PBC/20/6 and was subsequently approved by the Assemblies (A/51/20, paragraphs 236 to 238).

	2013	2014	2015	2016	2017	2018
ASHI	137.7	154.4	216.1	320.9	304.4	303.1
Repatriation Grant & Travel	12.3	13.9	15.4	15.4	16.4	17.1
Accumulated Annual Leave	10.2	10.5	10.5	7.5	8.4	8.0
Total Long-term employee benefit*	160.2	178.8	242.0	343.8	329.3	328.2
Funding balance		88.9	102.1	108.6	124.4	125.8
Funding coverage		49.7%	42.2%	31.6%	37.8%	38.3%

Amounts are in millions of Swiss francs
* *includes unrecognized actuarial losses pre IPSAS 39.*

8. The adoption of IPSAS 39 introduced a break in the relationship between WIPO's employee benefit liability and the initial funding objectives. In order to realign to the decision adopted by the Fifty-First Series of Meetings of the Assemblies of the Member States of WIPO, an amount of approximately 38.3 million Swiss francs will be required to restore the coverage to its initial level of 50%. Furthermore, leaving employee benefits insufficiently funded risks exposing the Organization to an exponential increase in cash requirements which could place a strain on future budgets.

<u>Proposed financing plan to restore the coverage of long-term employee benefit liabilities at WIPO</u>

9. WIPO has accumulated Reserves, as at December 31, 2018, of 328.7 million Swiss francs and its short-term liquidity position is healthy. WIPO's principal cash inflows are generated from PCT system fees and these averaged 27.9 million Swiss francs on a monthly basis in 2018, representing an increase of 5.7% when compared with those of 2017. The growth of PCT system fees is expected to continue based on current economic projections. Moreover, WIPO's daily operating cash has remained steadily above target levels for WIPO Reserves and Working Capital Funds (RWCF). The use of the budgetary surplus in order to restore the coverage of long-term employee benefit liabilities would not result in the RWCF falling below its target level.

10. The Organization's long-term liquidity position after including the requirements from its Capital Master Plan remains favorable. This is evidenced by the additional investments made for WIPO's core cash pool in 2018, and the absence of any redemption request to replenish liquidity from the same pool since its inception in 2015[7]. The core cash balance amounted to 261.1 million Swiss francs at the end of 2018 and this cash represents liquidity available to the Organization. Based on current cash projections, the use of the budgetary surplus in order to restore the coverage of long-term employee benefit liabilities would not increase the liquidity risk arising from long-term commitments of the Organization.

11. In accordance with WIPO's Policy on Investments, the Organization's external borrowings with the *Fondation des immeubles pour les organisations internationals* (FIPOI) amounting to a total of 16.9 million Swiss francs were repaid in January 2018. The decision to make full repayment which did not require the liquidation of any investments also underscores the fact that sufficient cash resources were readily available to WIPO from its operations. The Organization did not have any outstanding external borrowing as at December 31, 2018.

[7] Core cash is the cash balance remaining once the RWCF target (operating cash) and strategic cash are deducted. An additional 94.2 million Swiss francs was invested as part of core cash in 2018.

Way forward

12. It is recognized by the Organization that restoring the relationship between employee benefit liabilities and funding at the initial coverage level of 50% approved by the Fifty-First Series of Meetings of the Assemblies of the Member States of WIPO is essential. Furthermore, this level of coverage targeted for WIPO is consistent with that of other UN system organizations that have actively built up reserves in order to manage the risk associated with their ASHI liability. The following chart shows the coverage of these UN organizations at the end of 2017.

UN Agency	Coverage	Target Coverage
UNOPS	100%	
IFAD	96%	
WFP	68%	
UNICEF	54%	
UNDP	50%	
WIPO	**38%**	**50%**

Source: 10th The United Nations Working Group on Common Treasury Services (WGCTS) Treasury Common Services Meeting – Nov 5, 2018

13. By restoring the coverage to the initial level of 50%, the financing plan also addresses the concerns related to the funding risks associated with ASHI liabilities which were raised by delegates, as previously mentioned in paragraph 2, during the 28th Session of the Program and Budget Committee (PBC).

14. The following decision paragraph is proposed.

15. The Program and Budget Committee (PBC) recommended to the Assemblies of WIPO, each as far as it is concerned, to approve financing to restore the coverage level of 50% of the long-term employee benefit liabilities at WIPO, amounting to a total of 38.3 million Swiss francs.

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