REPORT BY THE DIRECTOR GENERAL ON THE STATE OF THE MEDICAL BENEFITS FUND AND APPOINTMENT OF MEMBER STATES’ REPRESENTATION TO THE BOARD OF MANAGEMENT FOR 2010-2011

OUTLINE

Source: 34 C/Resolution 84.

**Background:** In accordance with 34 C/Resolution 84, the Director-General reports to the General Conference on the state of the Medical Benefits Fund.

**Purpose:** The Director-General submits at each session of the General Conference a report on the state of the Medical Benefits Fund, including information concerning the evolution of its financial situation. Since the mandate of the two Member States which served as observers on the Board of Management of the Fund is due to end on 31 December 2009, the draft resolution proposed in this document will be completed, in due course, with the names of the two Member States which will be elected by the General Conference at its 35th session for the period 1 January 2010 to 31 December 2011.

**Decision required:** paragraph 18.
I. INTRODUCTION

1. At each session of the General Conference the Director-General submits a report on the state of the Medical Benefits Fund. On that occasion, the General Conference elects two representatives from the Member States to serve on the Board of Management of the Medical Benefits Fund as observers.

2. The UNESCO Medical Benefits Fund (MBF), established by the General Conference at its 3rd session in 1948, is part of the system of social security that the Director-General must operate for the staff in accordance with Staff Regulation 6.2. The essential role of the Fund is to provide health insurance benefits to its participants, thus giving them the means of preserving or regaining their health. Unlike other conditions of employment for international civil servants (staff salaries, allowances, indemnities and pensions), a common health insurance scheme does not exist within the United Nations system. The Medical Benefits Fund, established early in the Organization’s history to meet the needs of UNESCO staff members, is therefore an independent and self-financing scheme, the assets of which are based entirely on contributions paid in equal parts by the participants and the employing Organization. The administrative costs of the Fund are covered entirely from the regular budget of the Organization.

3. The organs of the Benefits Fund are composed of a Board of Management and the General Assembly of participants. The Secretariat of the Fund is provided by the Staff Pensions and Insurance Section of the Bureau of Human Resources Management, which also provides the Secretariat of the UNESCO Staff Pension Committee and of the Advisory Board on Compensation Claims.

Beneficiaries and benefits

4. At present, all staff members participate obligatorily in the fund provided they hold contracts of at least six months’ duration. Coverage is extended on a voluntary basis to the staff member’s family (i.e. spouse and children, or in their absence, mother, father, brother or sister) provided they have dependency status under the Staff Regulations and Staff Rules of the Organization and are not subject to a compulsory public medical benefits scheme. Such dependants are covered under the Fund as “protected persons”. Retired or disabled staff members, including their families as well as dependants of deceased staff members, are also covered under the Fund as voluntary participants.

5. As of 31 December 2008, there were 2,073 active participants and 2,373 retiree participants covered by the Medical Benefits Fund, i.e. 4,446 individuals with an additional 2,723 protected persons or a total population of 7,169 persons (these figures include other United Nations agencies staff and retirees who reside in the Paris area).

6. In terms of benefits, the Medical Benefits Fund reimburses its participants and associate participants for the medical and hospital expenses listed in the Table of Reimbursements annexed to its Rules, which stipulates the modalities and the rate of reimbursement according to the category of medical expenses. The Rules also provide for benefits in the case of long-term illness and/or temporary incapacity for work.

Financial situation of the Fund

7. The major factors tending to weaken most health care schemes, including the MBF, are the ageing of those insured due to longer life expectancy and the rapid rise in the cost of health care as a result of the constant progress of modern medicine.

8. In accordance with the unaudited financial report of the fund, as of 31 December 2008, it showed a shortfall of income over expenditure of $1,311,609 compared to net surplus of $2,216,657 and $2,089,347 realized in 2006 and 2007 respectively. This shortfall was due to the
reduction in the value of the United States dollar against the euro and other currencies in the period under review. In addition, total expenditure has increased by $1.9 million. The Fund’s reserve, as at 31 December 2008, amounted to $28.3 million, which represents the equivalent of about 15.2 months of reimbursements and is within the objective fixed by the Board of Management to define an appropriate level of financial reserves (between 15 and 21 months).

9. With regard to the employer/employee contribution, the General Conference invited the Director-General to report to the Executive Board at its 180th session on the Medical Benefits Fund, including the possibility of reviewing the employer/employee contributions to the Fund in the context of the preparation of the Draft Programme and Budget for 2010-2011 (35 C/5). At its 180th session, the Executive Board took note of the Director-General’s report on the situation of the MBF and the decision – owing to budgetary constraints – to maintain the current employer’s contribution in draft document 35 C/5.

10. In view of the current financial situation of the Fund, the Administration in collaboration with the Board of Management of the Fund, will carry out a comprehensive review of the Fund’s financial situation by examining:

- the current self-funded financial arrangements in order to determine its financial stability through an actuarial projection exercise for the coming 10 years;
- the MBF plan design and contribution formula with a view to submitting recommendations with financial implications on ways to enhance its efficiency to maintain long-term financial sustainability.

11. The Fund is administered by a Board of Management consisting of a Chairman appointed by the Director-General, two representatives elected for three years by the participants, the Director of the Bureau of Human Resources Management or his/her representative, the Comptroller or his/her representative and the Director of the Bureau of Field Coordination or his/her representative. The Secretariat of the Fund is part of the Staff Pensions and Insurance Section of the Bureau of Human Resources Management.

12. Since January 2006, all MBF claims are processed by an internationally experienced company located in Paris (with field offices in Singapore and Brazil) which provides similar services to other international organizations such as UNDP, the World Bank and the African Development Bank. With the use of modern, updated and more effective software, participants covered by the Fund are receiving faster and more efficient services with better control of reimbursements. The cost of these services is entirely covered by the Organization. In addition, new MBF rules have been introduced effective 1 January 2008. These new rules clearly outline the mandate, roles and responsibilities of the MBF Board and of the General Assembly, and the reimbursement level based on best practices.

13. A communication strategy has been put in place that allows participants to be informed about their medical benefits and developments in the Fund in general. In addition, participants can now receive an explanation of benefits electronically and also follow their claim status online.

Election of two Member States as Observers to the MBF Board of Management

14. Since 1994, pursuant to 27 C/Resolution 34, Member States are represented in the Board of Management meetings as observers. Since then, the following Member States have been elected by the General Conference to attend the Board of Management meetings:

(i) 1994-1995 Denmark and Thailand;
(ii) 1996-1997 Cameroon and Sweden;
(iii) 1998-1999 Germany and Lao People’s Democratic Republic;
(iv) 2000-2001 Austria and Jamaica;
15. This arrangement has been positive and fostered better comprehension among the Member States about the management and administration of the Fund. Since the mandate of Finland and Lao People’s Democratic Republic expires on 31 December 2009, the General Conference may wish to designate two Member States as observers on the Board of Management for 2010-2011 (see draft resolution in paragraph 18 below).

II. CONCLUSION

16. The General Conference and the Executive Board have always recognized that the health care provided by the UNESCO Medical Benefits Fund is an indispensable element for the social security package offered to staff members (active and retired) by the Organization. This is essential for international civil servants as many would not have any social security coverage when they return or retire to their home countries. Therefore, keeping a medical insurance plan of this kind is a vital but also difficult task due to the need to deal with many factors outside the control of the Organization such as the rapidly rising costs of health care and the ageing population.

17. The Director-General intends to continue monitoring the financial situation of the Fund closely and find ways to secure its long term financial viability.

III. DRAFT RESOLUTION

18. The General Conference may wish to adopt a resolution along the following lines:

The General Conference,

 Having examined document 35 C/37,

   I

  1. Recognizes that the Medical Benefits Fund is an effective and indispensable element of social protection for serving and retired staff members of the Organization;

  2. Takes note of the information provided by the Director-General on the present state of the Medical Benefits Fund and its financial situation as at 31 December 2008;

  3. Encourages the Director-General to pursue the review of the Medical Benefits Fund bearing in mind the ultimate objective is to secure its long-term financial stability and viability;

  4. Invites the Director-General to report to the Executive Board at its 187th session on the Medical Benefits Fund;

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  5. Designates the following Member States to act as observers on the Board of Management of the Fund for 2010-2011:

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ADDENDUM

COMMENTS OF THE UNESCO STAFF UNION (STU)

In conformity with item 2805.7 of the UNESCO Administrative Manual, the UNESCO Staff Union (STU) submits its observations on this report by the Director-General.

1. The report by the Director-General reviews the state of the Medical Benefits Fund (MBF) in a rather reassuring light which, alas, is far removed from reality.

2. In fact, the financial situation of the Fund gives cause for great concern. The excess of expenditure over income is not due only to the rising cost of health care and an ageing population. It is also a consequence of the sharp drop in interest earned on investments owing to the world crisis, stagnation in pensions and therefore of premiums, and the Organization’s contract policy, which excludes the many consultants and holders of contracts for fewer than six months from the Fund, not to mention the contractual exclusions for which Article 2.1(b) of the Rules of the UNESCO Medical Benefits Fund provides. While it is hoped that the number of retirees will not rise significantly in the next decade, as the age pyramid at UNESCO is not harmonious as in national administrations, the only other factor of imbalance that can be controlled to a significant extent is the contract policy.

3. In 2005, the External Auditor estimated that the Fund should have 18 months of benefit payments in reserve with a margin of roughly three months, that is, between 15 and 21 months.
However, the reserves which amounted to 20 months as at 31 December 2004 fell to 17.5 months as at 31 December 2006 and 15.2 as at 31 December 2008. This means that the reserves have dropped to the danger level and are now at the mercy of the first pandemic to strike.

4. Also in 2005, the External Auditor had recommended urgent action on, among other things, contribution rates and their distribution (172 EX/36). UNESCO was the only United Nations agency that applied a 50-50 employee/employer contribution formula; in most other agencies, the share between the employee and employer contributions to the United Nations Joint Staff Pension Fund was 40-60 and even 33-67. The Director-General had accordingly proposed to the General Conference, which took note at its 33rd session, a global plan of action together with a timetable for the implementation of the recommendations of the External Auditor (33 C/36), the most urgent of which was conceivably the increase in three stages, beginning on 1 January 2008, of employee/employer contributions, entailing a gradual rise to 60% in the employer’s share of contributions, including administrative costs.

5. The first stage of the increase was due to begin on 1 January 2008, bringing the share of the employer contribution to 56%, including administrative costs. This was postponed for budgetary reasons and, should the General Conference approve the Director-General’s proposals this year, the same would occur in 2010, when the contribution in question was scheduled to rise to 58%. UNESCO would thus lag behind all other United Nations agencies for another two years.

6. Another issue giving cause for concern is the communication policy. For two years, we have been told that a communication plan would be or had been adopted, but both participants and the Board of Management have yet to see that plan, and communication is non-existent. The Board finds it extremely difficult to obtain information requested from the Secretariat of the Fund or representatives of the Director-General. Elected members must relentlessly insist on regular meetings being convened inasmuch as the small number of such meetings hinders the effective management by the Board.

7. Lastly, it must be noted that the number of elected members representing participants is no longer two as indicated in the document, but three.