

**FOR INFORMATION**

NINETEENTH ITEM ON THE AGENDA

Other personnel questions**Update on staff health insurance**

1. This document is submitted for information pursuant to GB.292/PFA/8 (March 2005), Information annex 2, paragraph 44.
2. At its 292nd (March 2005) Session, the Governing Body approved a proposed general provision of US\$5 million to cover an expected increase in the Office's contribution to the Staff Health Insurance Fund as a measure to restore the Fund's financial equilibrium. In June 2005, the International Labour Conference adopted the proposal as part of the Programme and Budget for 2006-07.
3. As explained in a paper submitted to the Governing Body in March 2005 (GB.292/PFA/8, paragraphs 32-44, Information annex 2), health insurance for ILO staff and former officials, their dependants and survivors is provided under the joint ILO/ITU Staff Health Insurance Fund (SHIF). The Fund is a self-administered scheme whose income is derived from contributions assessed upon the salaries or pensions of insured members and from contributions paid by the two organizations.
4. As at 31 December 2004, the SHIF insured a total of 13,182 people, of which 29 per cent were in the Pensioner and Survivor category. Total contributions received by the Fund in 2004 were US\$30.1 million and the ILO's contribution, as an employing Organization amounted to US\$11.8 million. Total benefits paid in 2004 amounted to US\$35.9 million.
5. The SHIF's Regulations prescribe that short-term solvency be maintained through a Guarantee Fund, which shall be no lower than one-sixth of the aggregate claims-related expenditure of the previous three years. The Fund was able to maintain its financial equilibrium from 1990 to 2002, the regulatory solvency requirement was fulfilled, and contribution rates over this 12-year period remained unchanged. Operating deficits, which have been recorded since 2003, are mainly attributable to sharp increases in health-care costs, particularly in Switzerland where 67 per cent of benefits are paid. Health-care costs are further impacted by demographic trends in the SHIF's insured population and these are not expected to be balanced by parallel growth in salaries and pensions upon which contributions are assessed.

6. The financial position of the Fund was examined in depth by its Management Committee and, according to 2004 actuarial projections, an increase of some 50 per cent in contribution income would be necessary to restore the SHIF's financial equilibrium in the long term. However, the Management Committee recognized that current budgetary constraints preclude implementation of full remedial measures over a single biennium and is thus taking a phased approach.
7. The US\$5 million increase in Office contributions over the 2006-07 biennium translates into an 18 per cent increase over estimated current biennium contributions. The Management Committee decided to propose to SHIF members an increase of the base rate, from 2.8 per cent of remunerations and pensions to 3.3 per cent, effective 1 January 2006. After being approved by the members, the proposal has been submitted to the organizations' executive heads, as prescribed by the SHIF Regulations. The increase in the ITU's contribution will be proportional to the ILO increase, bringing the total increase in the organizations' biennial contributions to US\$6.8 million. The total estimated increase in biennial contributions from insured members and organizations is US\$12.8 million.
8. The US\$12.8 million increase is significantly lower than the 50 per cent actuarial projection cited in paragraph 43 of the Director-General's Programme and Budget proposals for 2006-07, submitted to the Governing Body in March 2005, and will be insufficient to balance contributions versus claims over the coming biennium. The 2006-07 loss ratio (claims versus income) is currently estimated at 111 per cent, compared with an estimated 121 per cent for the current biennium. However, the increase in contributions, combined with Guarantee Fund investment gains, should enable the SHIF to keep this Guarantee Fund slightly above the prescribed minimum in 2007, currently estimated at US\$19.9 million versus an actual figure of US\$15.2 million in 2004.
9. As part of its ongoing review of benefits, the Management Committee has also decided to increase supplementary benefit thresholds by 25 per cent as from 1 January 2006. Based on 2004 claims, this will result in a reduction in supplementary benefit expenditure of US\$307,000.
10. The Management Committee is also examining more extensive measures for introduction by the 2008-09 biennium, aimed at re-establishing the Fund's financial equilibrium over the long term and at reconstituting the Guarantee Fund reserves. Measures under consideration for implementation as from the 2008-09 biennium include a further base-rate adjustment and introduction of dependant contributions. The Management Committee is also reviewing rules relative to eligibility of salaried spouses (eligible for coverage under other insurance arrangements) and those relative to eligibility for automatic dependant coverage. Implementation of deductibles is also under debate.
11. The Management Committee is not considering major changes in the current Schedule of Benefits. However, adjustments will be proposed to wording governing certain benefits, aimed, in particular, at strengthening prior approval rules (e.g. planned surgery, dental treatment, functional rehabilitation, cures). Other cost-containment measures include the 2006 implementation of a campaign to promote the use of generic drugs (at US\$4.5 million in 2004, reimbursements for medicines was 12.4 per cent of total benefits paid and the Fund's third largest claims expenditure item). The Committee continues to recognize the need to consult with the ILO and ITU Staff Unions before proposing changes to contributions or the Fund's Regulations and Administrative Rules, including the Fund's Schedule of Benefits.

- 12.** The SHIF secretariat continues to work with its counterparts at UNOG, WHO and CERN to secure the support of *Santésuisse* for the application of regulated (TarMed) tariffs to SHIF-insured persons in Switzerland. These tariffs for in-patient care are not currently applicable to persons insured by health insurance funds of international organizations. The SHIF secretariat also continues to negotiate agreements with hospitals, clinics, laboratories and pharmacies, in conjunction with its counterparts at UNOG, WHO, WIPO and CERN.

Geneva, 27 October 2005.

Submitted for information.