United Nations

Corporate Guidance

for

International Public Sector Accounting Standards

Employee Benefits

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Corporate Guidance to Support the Adoption of International Public Sector Accounting Standards (IPSAS) by the United Nations

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Corporate Guidance # 8 – Employee Benefits

This corporate guidance will cover the following topics with respect to employee benefits:

- Guidelines on accounting for self-insurance funds and for the United Nations Staff Mutual Insurance Society (UNSMIS) (self insurance programme in Geneva) **(section 8);**
- Guidance for accounting for ASHI, annual leave (determination of the nature of the liability whether it is short-term or long-term), repatriation grant, Appendix D death benefits (treatment of contributions from other UN agencies, and principal / agent and trustee considerations, presentation in the financial statements (FS) as currently this benefit is excluded in UNSAS FS), home leave, security allowance, termination benefits **(section 4-7);**
- Guidelines on cut-off procedures for new staff (assignment grant, relocation grant, etc.) **(refer to Corporate Guidance #2 Delivery Principle)**
- Guidelines on the note disclosures for employee benefits **(section 9-10).**
- Guidelines on how to determine the appropriate discount rate for actuarial valuation of employee benefits **(section 8.5).**
- Guidelines for accounting treatment for staff that are de facto UN staff, however they are hired under UNDP contracts, and UN took them into their actuarial valuation considerations (section 1).

Content table

1 Introduction

Before reviewing and assessing how employee benefits should be reflected in the United Nations Secretariat's (United Nations) financial statements, the question of **what qualifies as an employee benefit** needs to be answered.

While the different categories of employee benefits are relatively straight forward and explained in section 3, they only qualify as employee benefits, if they are provided to employees.

One therefore needs to understand what individuals are considered to be employees. This aspect is considered to be especially important within the United Nations System as individuals often transfer between member organizations and are not always legally employed by the organization for which they work.

The most important thing to take note off is that the definition of an employee under IPSAS is much wider than the United Nations' definition of staff.

As per Staff Rules of United Nations, all individuals whose employment and contractual relationship are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, Paragraph 1 of the Charter of the United Nations are considered to be staff.

For purposes of IPSAS accounting, employees are considered to be individuals providing services to an entity on a full-time, part-time, permanent, casual or temporary basis.

Unlike the United Nations' framework, IPSAS therefore does not focus on the legal aspects of employment, but rather focuses on the **substance of the arrangement** between the individual and the employer when determining what falls under the term "employee".

Therefore, the United Nations should consider all such individuals as employees and consequently account for all their benefits in accordance with IPSAS 25 *Employee Benefits*, where the organization is **exposed to risks** consistent with a contract of employment irrelevant of whether there is an actual arrangement in place or not or whether the employment agreement is provided by another United Nations organization.

While this assessment is generally relatively straight forward regarding United Nations staff, the question becomes more complex regarding contractors, consultants and similar types of individuals and a thorough assessment of each of these individuals should therefore be made to assess whether payments made to these fall under the scope of IPSAS 25 *Employee Benefits*.

Example – Overview of United Nations' employees

An initial assessment of the different types of individuals working for the United Nations has been made to assess whether payments made to such individuals fall under the scope of IPSAS 25 *Employee Benefits* or not.

Type of individual	Additional information	Within scope of IPSAS 25?
Staff	As defined in the charter of the United Nations	Yes
Staff transferred in and out	On a regular basis, staff is transferred between different United Nations organizations. The question arises which organization should account for them as employees and consequently should account for short-term benefits, other-long term benefits, post-employment benefits and termination benefits such individuals are entitled to.	Yes While the expectation would be that such individuals qualify as employees, the question is which organization should account for their benefits. This decision generally depends on the arrangements between the receiving and releasing organizations. An example of this is provided in section 11.1.11.
Individual consultants	An indiviudal consultant is an individual who is a recognized authority or specialist in a specific field of study engaged by the United Nations under a temporary contract only for a specific period to deliver a specific output, as specified in the Terms of Reference, in and advisory or consultative capacity.	Based on the information provided, the expectation is that these individuals qualify as employees under IPSAS. The United Nations should however assess for each individual consultants, whether it is exposed to risks consistent with a contract of employment.Generally for individual consultants the offices have observed and commented that: • The contract with the individual contractor does not give an indication on their status • Individual consultants get monthly pay based on submission on bill with number of days worked in a month. • UN does not face similar

		risks for these individuals, however UN may provide appendix D benefit on account of moral obligation • Individual consultants are in substance not treated like UN employees. • Performance of Staff members of UN is reviewed through a robust performance appraisal system, however this is not applicable for individual consultants.
Institutional consultants	Institutional consultants are consulting companies generally hired by the Procurement Division. As the individual consultants supporting the United Nations are employed by the consulting company, they do not fall under the scope of IPSAS 25 for the purpose of the United Nations' financial statements.	No
Contractor	An individual contractor is an individual engaged by the organization from time to time under temporary contract for specified period of time to provide expertise, skills or knowledge, similar to those of staff members to meet additional workload or for a temporary vacancy, for the performance of a specific task or piece of work.	Based on the information provided, the expectation is that these individuals qualify as employees under IPSAS. The United Nations should however assess for each contractor, whether it is exposed to risks consistent with a contract of employment. Generally for contractors the offices have observed and commented that: • The contract with the contractors does not give an indication on their status • Contractors get monthly pay based on submission

		on bill with number of days worked in a month or completion of a deliverable. • UN does not face similar risks as for their staff members however UN may provide appendix D benefit on account of moral obligation. • Contractors are in substance not treated like UN employees. • UN do not perform the performance appraisal of individual's work processes. Normally remuneration is linked with deliverables of the contract •
Key management personnel	IPSAS 25.7 specifically states that key management personnel fall under the scope of employee benefits. A definition of key management personnel is included in IPSAS 20 Related Party Disclosures and is as follows[1]: <u>Key management personnel</u> are[2]: (a) All directors or members of the governing body of the entity; and (b) Other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include: (i) Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling	Yes

[1] Please also refer to Corporate Guidance #14 Related parties for further information.
[2] Corporate Guidance #14 Related parties provides a detailed overview of the individuals considered to be key management personnel.

	the activities of the reporting entity, that member; (ii) Any key advisors of that member; and (iii) Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.	
Volunteers (United Nations Volunteers (UNV) Programme)	On a regular basis, Peacekeeping incorporates volunteers in its operations and the question is therefore whether these individuals fall under the scope of IPSAS 25. The agreement between the UNV and the Department of Peacekeeping Operations includes the following information on the status of volunteers: UNVs are not staff members, but are accorded the normal privileges and immunities required for the independent exercise of their functions during their assignment, and are provided with identification materials reflecting such status. Other than their contractual differences, no distinction should be made between UNVs and other United Natioms staff with regard to their professional and international status and the services and support provided to them. In this section, it is specifically mentioned that the only difference between United Nations staff and UNVs is the contractual arrangement in place. As IPSAS goes beyond the legal arrangements, for purposes of IPSAS 25, any benefits paid to volunteers would therefore fall under the scope of this standard as long as the United Nations is exposed to risks consistent with a contract of employment.	Yes Based on the information provided, the expectation is that these individuals qualify as employees under IPSAS. The United Nations should however assess, whether it is exposed to risks consistent with a contract of employment. • Generally for UNV's the offices have observed and commented that: • After selection, UNV's are considered as National Volunteer candidate. • UNV gets some settling in (equal to one month VLA) moving and travel entitlements and resettlement allowance of half month at the time of separation. Annual leave of 2.5 days is accrued by UN volunteer every month during the period of service. But accumulated annual leave cannot be commuted to cash at the time of separation. • UNVs are entitled to medical insurance benefits during the period of service and can participate in life insurance plans

		• UNV's in substance may be treated like employees. • UNVs do not undergo through the regular performance appraisal review similar to UN staff.
Fellowship / Study participant	A Fellowship in the United Nations system is a specially tailored or selected training activity that provides a monetary grant to qualified individuals for the purpose of fulfilling special learning objectives. A Study Tour is an award for a development cooperation activity, commonly given to an individual or group of individuals to visit pre-arranged sites and institutions in one or more selected countries - normally no more than two weeks and never exceeding two months. The objective is to observe developments, gather information and exchange experiences with counterparts in fields pertaining to specific country agreements or project documents.	Maybe The decision whether an individual participating in the fellowship or study tour program qualifies as an employee under IPSAS 25, depends on the arrangement between the United Nations and the individuals. If the United Nations is exposed to risks consistent with an employment contract, because for instance the indiviuduals also fall under one of the other categories mentioned in this table, the individuals would be considered as employees. If the United Nations is not exposed to any such risks, the individuals would not qualify as an employee . United Nations is not exposed to any such risks regarding fellowship or study participant. In substance,They are not considered as an employee of UN.

Please note that with regards to the accounting for employee benefits under IPSAS, the source of the funds whether budgetary or extra-budgetary, is irrelevant.

Generally, the expectation would be that the accounting for all employee benefits is done in collaboration by Human Resources (HR) and the Accounts Division. One of the key requirements for the correct accounting for employee benefits is the availability of accurate and detailed data. Detailed records of the required input information for all benefits should therefore be kept.

2 Definitions

Below is a list of the definitions provided in IPSAS, which are relevant to this Corporate Guidance. Further information on each term is provided in the relevant section within the body of the paper.

General terms

Employee benefits are all forms of consideration given by the United Nations in exchange for service rendered by its employees.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. Please refer to section 4 for further information.

Post-employment benefit plans are formal or informal arrangements under which the United Nations provides post-employment benefits for one or more employees. Post-employment benefits are employee benefits (other than termination benefits), which are payable after the completion of employment. Please refer to section 5 for further information.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service. Please refer to section 6 for further information.

Termination benefits are employee benefits payable as a result of either:

- An entity's decision to terminate an employee's employment before the normal retirement date; or
- An employee's decision to accept voluntary redundancy in exchange for those benefits.

Please refer to section 7 for further information.

Post-employment benefits (section 5)

Defined contribution plans are post-employment benefit plans under which the United Nations pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Plan assets comprise:

- Assets held by a long-term employee benefit fund; and
- Qualifying insurance policies.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the United Nations reporting entity) that:

- Are held by an entity (a fund) that is legally separate from the United Nations reporting entity and exists solely to pay or fund employee benefits; and
- Are available to be used only to pay or fund employee benefits, are not available to United Nations reporting entity own creditors (even in bankruptcy), and cannot be returned to the United Nations reporting entity, unless either:
    - The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the United Nations reporting entity; or
    - The assets are returned to the United Nations reporting entity to reimburse it for employee benefits already paid.

A **qualifying insurance policy** is an insurance policy issued by an insurer that is not a related party (as defined in IPSAS 20 *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:

- Can be used only to pay or fund employee benefits under a defined benefit plan; and
- Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:
    - the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
    - the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

The **return on plan assets** is interest, dividends and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Projected Unit Credit Method (PUCM): The Projected Unit Credit Method is a method to determine the present value of defined benefit obligations and the related current service cost and, where applicable, past service cost.
The Projected Unit Credit Method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Actuarial gains and losses comprise:

- Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- The effects of changes in actuarial assumptions.

Vested employee benefits are employee benefits that are not conditional on future employment.

3 Classification of United Nations employee benefits

3.1 Employee benefit categories

Under IPSAS 25, all employee benefits are classified under one of the following **four** categories:

- Short-term employee benefits;
- Post-employment benefits;
- Other long-term employee benefits;
- Termination benefits.

Each of these categories has different characteristics and requirements and drives the accounting treatment for employee benefits.

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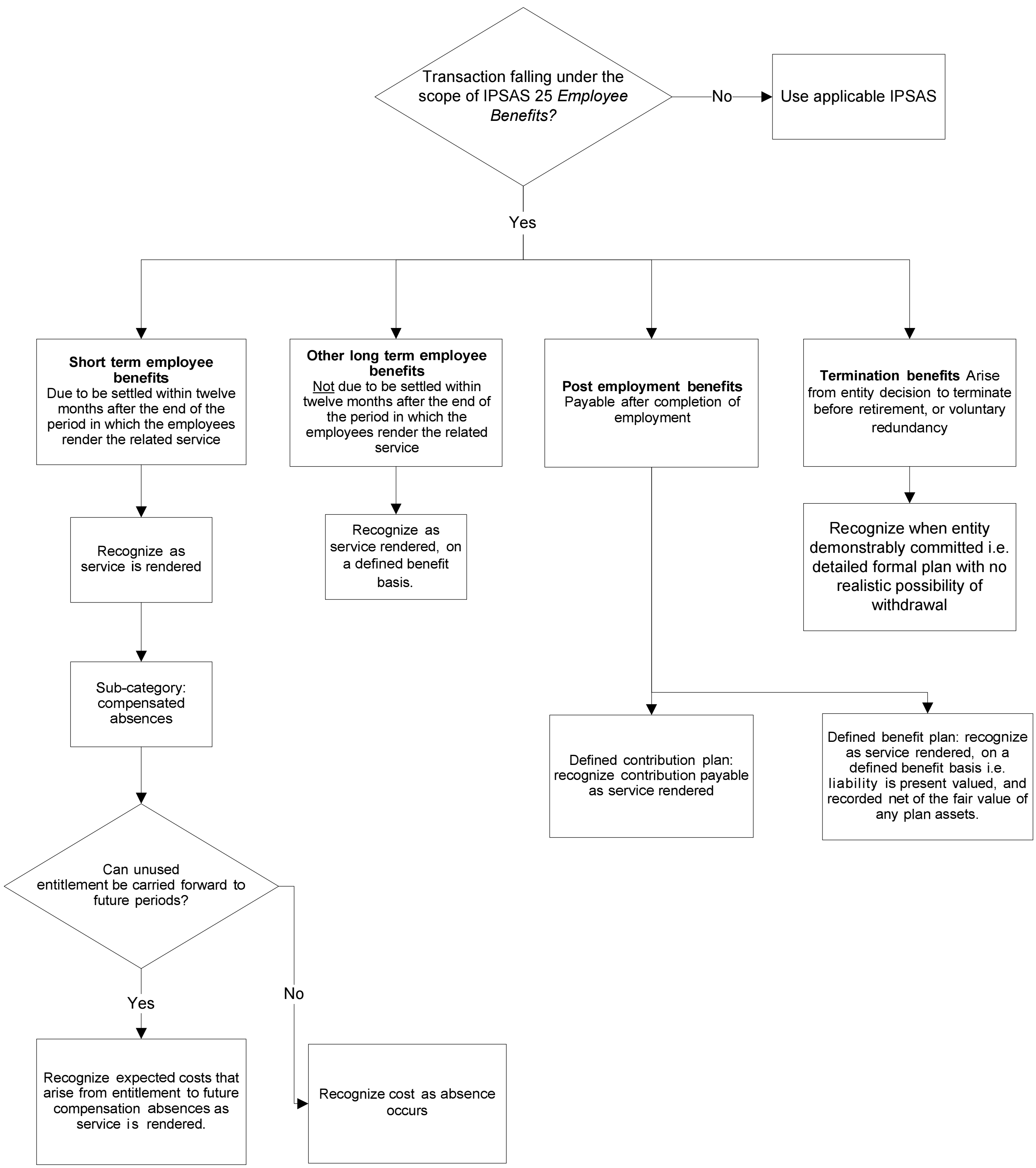
Flowchart – Classification of employee benefits



A brief overview of each category is as follows:

3.1.1 Short-term benefits

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the service that gives rise to the benefit.

Short-term employee benefits provided by the United Nations include[3]:

Short-term employee benefits paid by the United Nations

- Assignment grant
- Initial shipment (if other country)
- Travel to new post
- Rental agent / broker's fee
- Salary and post adjustment
- Organization contributions to medical insurance plans
- Mobility allowance
- Non-removal allowance
- Hardship allowance
- Daily subsistence allowance
- Certain travel costs for non-resident judges
- Special operations living allowance
- Special allowances for higher post[4]
- Special allowance for interpreters
- Rental subsidy
- Danger pay
- Language allowance
- Spouse dependency allowance
- Dependant children allowances
- Overtime
- Secondary dependant allowances
- Education grant (including travel)
- Safe driving bonus payments
- Family visit
- Rest and recuperation
- Reimbursement of taxes
- Maternity leave
- Adoption leave
- Night differential
- Residential security allowance
- Paternity leave
- Compensatory time off for overtime (non-accumulating compensated absences)
- Sick leave (accumulating compensated absences)
- Sabbatical leave
- Malicious Act Insurance Plan Premiums
- Low (or no) interest advances and loans
- Home leave (where eligible once every 12 months)[5]

3.1.2 Post-employment benefits

Post-employment benefit plans are arrangements under which the United Nations provides benefits for employees after the end of their employment.

IPSAS 25 *Employee Benefits* requires all post-employment benefits to be classified as either a defined contributions plan or a defined benefit plan, depending on the *economic substance* of the plan as derived from its principal terms and conditions.

Under a defined **contribution** plan:

[3] Please note that the list provided does not represent an exhaustive list and that benefits provided to employees, which are not included in this list might also qualify as short-term employee benefits.
[4] An example of such a benefit would be the allowance paid to the President and Vice-President of the Tribunal.
[5] As some United Nations employees are entitled to home leave every 12 months and others every 24 months, the benefit is classified as a short-term and long-term benefit under IPSAS. However, for practicality purposes, the United Nations has decided to treat the entire home leave benefit as if it were a short-term benefit. The calculation, presentation and disclosure of benefits and any liabilities will therefore follow the guidance for short-term employee benefits.

- The obligation of the United Nations to pay an employee post-employment benefits is limited to the amount it contributed to the plan for the individual employee. The amount of the post-employment benefits received by the employee is consequently determined by the amount of contributions paid by the United Nations (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and
- Considering the substance of this arrangement, any actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee (and the post-employment plan / insurance company). The employer (United Nations) has no further obligation to the employee.

Under a defined **benefit** plan:

- The United Nations is obliged to provide the agreed benefits to current and former employees; and
- Any actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the United Nations. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

Post-employment benefits provided by the United Nations include[6]:

• Pension (see 3.1.2.1)	• Repatriation benefits[6]	• Ex-gratia payment to Ad-litem judges
• After-service health insurance (ASHI)	• Death benefit	• Compensation for death attributable to performance of duties

3.1.2.1 Pension benefits provided by the United Nations

While most of the United Nations' employees participate in the United Nations Joint Staff Pension Fund (UNJSPF), additional schemes exist for very few individuals, such as judges of the International Court of Justice and former Secretary-Generals (SGs).

While all these schemes are generally considered to be defined-benefit schemes and should therefore be accounted for as such, some exceptions exist with regards to UNJSPF.

[6] Please note that the list provided does not represent an exhaustive list and that benefits provided to employees, which are not included in this list might also qualify as post employment benefits.
[6] Repatriation benefits include repatriation grant, travel costs and relocation expenses.

Under IPSAS, UNJSPF is considered to be a multi-employer benefit plan and while it is structured as a defined benefit plan, the specific circumstances require that each organization participating in the plan, including the United Nations, account for UNJSPF as if it was a defined contribution plan.

In summary: All of the United Nations' post-employment benefits reviewed in this paper are classified as defined benefit plans and accounted for as such, with the exception of UNJSPF, which is accounted for as if it were a defined contribution plan.

3.1.3 Other long-term employee benefits

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the service giving rise to the benefit.

Other long-term employee benefits paid by the United Nations include[7]:

- Annual leave
- Compensation for injury attributable to performance of duties[9]
- Home leave (where eligible once every 24 months)[8]

3.1.4 Termination benefits

Termination benefits are employee benefits payable as a result of either:

- An entity's decision to terminate an employee's employment before the normal retirement date; or

[7] Please note that the list provided does not represent an exhaustive list and that benefits provided to employees, which are not included in this list might also qualify as other long-term employee benefits.

[8] As some United Nations employees are entitled to home leave every 12 months and others every 24 months, the benefit is classified as a short-term and long-term benefit under IPSAS. However, for practicality purposes, the United Nations has decided to treat the entire home leave benefit as if it were a short-term benefit. The calculation, presentation and disclosure of benefits and any liabilities will therefore follow the guidance for short-term employee benefits.

[9] Under Appendix D, the United Nations provides employees with long-term illness and disability benefits. While one could presume that this benefit is an other long-term benefit, management decided that it would be accounted for as a post-employment benefit.

- An employee's decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits paid by the United Nations include[10]:

- Termination indemnity
- Payment in lieu of notice

4 Recognition and measurement of short-term benefits

Compared to post-employment benefits discussed below, the accounting treatment for short-term benefits is relatively **straight forward**. In very simple terms, the expense for these benefits is recognized in the statement of financial performance when incurred (i.e. the corresponding service is delivered by the employee) and the statement of financial position is only affected when there is a timing difference between when the expense is incurred and when payment for these benefits is made.

4.1 *Statement of financial performance*

Similarly to all other employee benefits, the United Nations recognizes the expense for short-term benefits when it is incurred, i. e. when the employee provides the service, which entitles him/her to the benefit. Consequently, the cost is recognized in the statement of financial performance as the employee works throughout the year, or more specifically: **every month.**

4.2 *Statement of financial position*

Even though the nature of short-term benefits is that payments are generally made shortly after an employee earns the right to the benefit, i.e. when he provides the service, it can happen that at the end of the year not all payments have been made and that consequently some benefits earned by United Nations employees during the year remain **unpaid**.

Such amounts need to be recognized as a **liability** in the United Nations' financial statements.

Example – Accounting for home leave

[10] Please note that the list provided does not represent an exhaustive list and that benefits provided to employees, which are not included in this list might also qualify as termination benefits.

As United Nations employees can carry forward any home leave benefit that has accumulated but remains unused at the end of the financial period, the United Nations should reflect a liability in its financial statements for this earned, but unpaid, employee benefit.

The basis for measuring the expense and the liability should be the amount the United Nations expects to pay out in the future for the leave entitlement that has accumulated at the end of the year.

Generally, there are two ways to calculate the liability to be included in the statement of financial position:

- On an employee by employee basis
- Using models to calculate the liability in aggregate

Employee by employee:

Background of the example:

John started working with a United Nations peacekeeping field mission on 1 April 2013. His home leave destination is Italy. He is eligible for home leave benefit once every twelve months of qualifying service to visit his home country at United Nations expense for the purpose of spending a reasonable period of annual leave in that country. His entitlement includes his spouse and his two children.
He exercises his first home leave entitlement in April 2014. In April 2014, his total home leave expense is $10,000. His next home leave entitlement is due in April 2015.

At the end of 2014, the question arises as part of the year-end closing process whether an accrual needs to be created for John's home leave benefit.
As mentioned in this paper, home leave is generally accounted for as a short-term benefit and accrual therefore only needs to be created in the annual financial statements, if the employee has earned a benefit that has not been paid yet.
Since his last home leave, John has been accruing for its home leave benefit on a monthly basis. This benefit has not been paid by the United Nations as his next home leave is only coming up in 2015. Consequently, an accrual needs to be included in the 2014 year-end financial statements. The starting point for setting such an accrual would generally be the prior year experience.

The specifics would be as follows:

- Employee last home leave entitlement in April 2014 amount: $10,000
- Reasons for significant change in expense incurred for last trip (e.g. significant increases in airline tickets, additional child, etc.): None
- Estimated amount of next home leave entitlement due in April 2015: $10,000

Based on these details, the home leave expense in the statement of financial performance recognized for the period ended 31 December 2014 and the home leave liability recorded in the statement of financial position as at 31 December 2014 will be calculated as follows: $10,000/12* 8 (May – December) = $ 6,667.

Using models:

As mentioned above, the United Nations can use models to calculate its employee benefit liabilities to be included in the statement of financial position. Examples of where it currently uses such models are its post-employment benefits, where actuarial valuations are received.
As part of each model, many assumptions are made and when deciding to use such models, the United Nations therefore needs to ensure that the assumptions it uses are reliable and auditable.

5 Recognition and measurement of post-employment benefits[11]

5.1 *Post-employment defined benefit schemes*

Most of the United Nations' post-employment benefits are classified as **defined benefit plans.** Defined benefit accounting is complex because actuarial assumption and valuation methods are required to measure the position in the statement of financial position. The United Nations promises to pay a fixed sum to their employees at a point in the future. At the time the United Nations makes that promise, management does not know how long any individual employee will work, whether they will reach retirement age, how long they will live beyond retirement age and what their final salary will be when they retire.

The accounting for post-employment defined benefit schemes attempts to estimate this uncertainty and spreads the expense over the years that the employee will work for the United Nations.

5.1.1 *Statement of financial position*

The **net position** in the statement of financial position is determined as follows:

[11] The post-employment benefits covered in this paper specifically, include ASHI, repatriation grant and death benefit (The United Nations pays 2 types of death benefits: A lump sum payment upon death and a continuous payment to dependants through its workers' compensation scheme (see section 8.4). While details on the workers' compensation are provided in section 8.4, the benefits provided under the scheme are also included in this section in order to link them to the required accounting treatment).

- The present value (i.e. adjusted for the time value of money) of the defined benefit obligation at the reporting date;
- *Minus* the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

5.1.1.1 Present value of defined benefit obligation

The United Nations' defined benefit liabilities for each defined benefit plan are determined by actuaries and take into consideration the following **three** aspects:

- Attribute benefits to periods of service (current vs. prior periods);
- Make actuarial assumptions ;
- Discount the benefit to present value using the Projected Unit Credit Method.

Attribute benefits to period of service

IPSAS 25 requires the United Nations to attribute benefits to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of the defined benefit obligation). An entity attributes benefits to periods in which the liability to provide post-employment benefits arise. That liability arises as employees render services in return for post-employment benefits which the United Nations expects to pay in future reporting periods.

Make actuarial assumptions

In order to calculate the overall benefit obligation, actuaries make a number of estimates or assumptions about key variables. Generally, actuarial assumptions can be split into two categories: demographic and financial assumptions.

Example – Demographic and financial assumptions

Demographic assumptions:

- Mortality, both during and after employment;
- Rates of employee turnover, disability and early retirement;
- Age, sex and marital status of membership;
- The proportion of plan members with dependants who will be eligible for benefits.

Financial assumptions:
- The discount rate;
- Future salary and benefit levels;
- Price inflation.

When making such assumptions, it is important to assure that all assumptions are unbiased and mutually compatible[12].

Discount the benefit to present value using the Projected Unit Credit Method (PUCM)

IPSAS 25 requires the defined benefit obligations to be discounted[13] to present value, in order to take into consideration the time value of money. Following discounting, the obligation consequently reflects today's value of expected future payments to retirees.

The present value calculation should be done using the PUCM, which follows the principle that for each year of service an additional credit unit should be taken into account in valuing the benefits granted and the liabilities resulting from it.

5.1.1.2 Fair value of plan assets

If a post-employment scheme is funded, i.e. has assets that meet the definition of plan assets under IPSAS, IPSAS 25 requires that such plan assets are recognized at **fair value** with any **expected return** on such assets recognized in the **statement of financial performance** as part of the benefit cost for the relevant scheme.

Fair value reflects the amount for which an asset could be exchanged in an arm's length transaction between knowledgeable and willing parties.

The expected return on plan assets is generally based on market forecasts at the beginning of the accounting period. The accounting treatment for the difference between expected and actual return on plan assets

[12] Please note that all assumptions relevant for the United Nations' schemes will be made by the Accounts Division.
[13] Additional guidance on the discount rate to be used can be found in section 8.6.

follows the accounting treatment for actuarial gains and losses. Consequently, for the United Nations, the **difference** would be recognized in the **statement of financial performance (see section 5.2)**.

However, as mentioned, the accounting guidance provided in this section only applies, if the assets meet the definition of plan assets:

Plan assets comprise:
a) Assets held by a long-term employee benefit fund; and
b) Qualifying insurance policies.

Assets held by a long-term employee benefit fund are assets (other than nontransferable financial instruments issued by the reporting entity) that:
a) Are held by an entity (a fund) that is legally separate from the United Nations and exists solely to pay or fund employee benefits; and
b) Are available to be used only to pay or fund employee benefits, are not available to United Nations' own creditors (even in bankruptcy), and cannot be returned to the United Nations, unless either:
   i. The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the United Nations; or
   ii. The assets are returned to the United Nations to reimburse it for employee benefits already paid.

In both cases above, the assets are held solely for the purpose of paying or funding employee benefits and cannot be used by the employer for any other purpose, including settlement of liabilities on the employer's liquidation. This point is important as some plans contain clauses that may give a liquidator access to plan assets. In such circumstances, the assets in question are not plan assets for the purposes of IPSAS 25.

Following initial analysis, all of the United Nations' post employment schemes (ASHI, repatriation grant and death benefit scheme) are <u>unfunded</u> plans (i.e. no plan assets as defined by IPSAS 25 exist) and consequently, the position in the statement of financial position reflects the present value of the defined benefit obligation.
Having said that, the money received for each scheme, whether in the form of contributions or budgetary allocations, needs to be accounted for. Please refer to Corporate Guidance #9 Financial instruments for guidance on how to account for financial instruments.

As mentioned, the United Nations' benefit obligation for ASHI, repatriation grant and its death benefits is established by consulting actuaries. The <u>valuation</u> provided by the consulting actuaries on an <u>annual</u> basis forms the basis of the United Nations' accounting entries to reflect its liabilities in the financial statements.

Example –Repatriation grant

The latest actuarial valuation obtained by the United Nations for its repatriation grant indicated that the present value of its defined benefit obligation was $327,133,000 as of 31 December 2011 (2010: $211,644,000).

This amount is included in full as a liability in the United Nations' financial statements.

5.1.1.3 Accounting for benefit payments

While the establishment for the defined benefit obligation and the consideration of any plan assets is key when assessing the reflection of any post-employment benefits in the statement of financial position, one also needs to bear in mind that the balance included in the statement of financial positions is also impacted by any benefit payments made.

As described in section 5.1.2, movements in the defined benefit obligation are generally due to the following:

1) Current service costs;
2) Interest costs;
3) Past service costs;
4) The effect of any curtailments and settlements;
5) Actuarial gains and losses.
6) Benefit payments

While 1-5 are explained in section 5.1.2, some information is provided here on benefit payments as such transactions only affect the statement of financial position.

As explained, the cost to provide post-employment benefits is recognized during the active service period of an employee and is therefore included in the financial statements during that time. The expense for providing such benefits has therefore already been recognized. Consequently, when the point in time comes that benefits are paid out, the payment should be recognized as an expense as that would result in double-recognition of the expense. Instead the payment should be made by reducing the defined benefit obligation.

The double-entries for such transactions would be as follows:

Accounting for benefit payments			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Post-employment liability	Benefit payment
Cr	Statement of financial position	Cash	Reimbursement

5.1.2 Statement of financial performance

As part of accounting for its defined benefit obligations, the United Nations needs to recognize the following **components** in its statement of financial performance:

1. Current service costs;
2. Interest costs;
3. Past service costs;
4. The effect of any curtailments and settlements;
5. Actuarial gains and losses.

All components of the defined benefit cost are aggregated and presented as a single net amount flowing into the employee benefits expense line on the face of the statement of financial performance.

Example – Costs incurred on repatriation grant

The latest actuarial valuation obtained by the United Nations for its repatriation grant indicated that in 2011, the following costs arose:

Service costs: $25,922,000
Interest costs: $11,969,000
Actuarial losses: $101,958,000

Together with any payments made, these amounts explain the move in the defined benefit obligation since the previous valuation.

The total of these costs is booked in the statement of financial performance as repatriation grant costs as follows:

Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial performance	Employee benefits – repatriation grant service costs	$25,922,000
Dr	Statement of financial	Employee benefits – repatriation	$11,969,000

	performance	grant interest costs	
Dr	Statement of financial performance	Employee benefits – repatriation grant actuarial losses	$101,958,000
Cr	Statement of financial position	Repatriation grant defined benefit obligation	$139,849,000

For illustrative purposes, an overview of the movement in the defined benefit obligation from 2010 to 2011 is as follows:

Obligation at the end of 2010	**$211,644,000**
Repatriation grant service costs	$25,922,000
Repatriation grant interest costs	$11,969,000
Repatriation grant actuarial losses	$101,958,000
Benefits paid (net of participant contributions)	($24,360,000)
Obligation at the end of 2011	**$327,133,000**

The report provided by the consulting actuaries includes details on the different components and is the basis of the journal entries posted by the United Nations with regards to its defined benefit obligations.

A brief overview of each of the different components recognized in the statement of financial performance is as follows:

5.1.2.1 Current service costs

Current service cost is the present value of the pension benefit earned by the active employees in the current period and is recognized in full in the statement of financial performance.

5.1.2.2 Interest costs

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement. In order to calculate interest cost, the present value of the pension obligation at the beginning of the period is multiplied by the discount rate.
Interest costs are recognized in the statement of financial performance in full in the year they arise.

5.1.2.3 Past service costs

Past service costs result from changes or amendments made in the *current* period to post-employment benefits affecting defined benefit obligations in relation to employee services rendered in *prior* periods. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

To the extent that the benefits are already vested immediately (almost always the case) following the introduction of, or changes to, a defined benefit plan, the United Nations recognizes past service cost immediately in the statement of financial performance.

5.1.2.4 The effect of any curtailments and settlements

Curtailment gains or losses occur when the United Nations reduces:

- The number of employees covered by the plan; or
- The future benefits they will earn.

A **settlement** occurs when the defined benefit obligation is eliminated in its entirety. For example, the United Nations makes a lump-sum cash payment to employees in return for giving up their defined benefit plans, or when assets and liabilities are transferred into a defined contribution plan.

Effects of curtailments or settlements are recognized in full in the statement of financial performance when incurred.

5.1.2.5 Actuarial gains and losses

Actuarial gains and losses arise due to:

- Differences between the actuarial assumptions in the previous valuation and what has actually occurred; and
- Changes in actuarial assumptions year on year.

Example – Events causing actuarial gains and losses

- Actual or estimated mortality rates or the proportion of employees taking early retirement will alter the period for which an entity will be required to make benefit payments. For example, accelerating technological change might cause the United Nations to reduce its workforce gradually by offering early retirement to a number of employees.
- Estimated salaries or benefits will alter the amount of each benefit payment. For example, a software developer might decide to increase its salaries by more than the rate of inflation to retain its skilled work force.

The United Nations has decided to recognize actuarial gains and losses in full in the statement of changes in net assets through reserves in the period in which they occur. This approach is followed consistently for all of the United Nations' defined benefit liabilities.

5.2 *Post-employment defined contribution schemes*

As mentioned in section 3.1.2.1, the UNJSPF is considered to be a multi-employer plan for accounting purposes and is accounted for on a defined contribution basis.
Compared to the accounting requirements for defined benefit schemes, the accounting for defined contribution schemes is relatively straight forward.

5.2.1 *Statement of financial performance*

The amount to be recognized as an expense each period, is the contribution to the plan, which the employee earned throughout the period.

Example – Contributions to UNJSPF

Every month, the United Nations contributes an amount UNJSPF.

This contribution should be recognized in the financial statements as follows:

Dr / Cr	Primary financial statement	Account
Dr	Statement of financial performance	Employee benefits – contributions to UNJSPF
Cr	Statement of financial position	Payable to UNJSPF (if unpaid) or cash (if paid)

5.2.2 Statement of financial position

The United Nations would only recognize a liability in its statement of financial position for the contributions to UNJSPF, if part of the contributions, due for the period, remain unpaid at the end of the financial period.

6 Recognition and measurement of other long-term benefits[14]

The accounting for other-long term benefits generally follows the defined benefit plan accounting requirements summarized in section 5.1.1, i.e. the present value of the entity's defined benefit obligation is calculated by actuaries and the report provided forms the basis of the United Nations' accounting entries related to other long-term benefits. IPSAS 25 does however incorporate some simplifications regarding the amounts recognized in the statement of financial performance which make the accounting less complex.

6.1 Statement of financial position

The **net position** in the statement of financial position for other-long term benefits is calculated as follows:

- The present value of the defined benefit obligation at the reporting date;
- *Minus* the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The **measurement** of the other long-term benefits follows the same principles as the measurement of the defined benefit obligation for post-employment benefits and consequently the information provided in section 5.1 also applies here.

Please note that while some of the other-long term benefit plans have dedicated sources of funding, none of these funds meet the definition of plan assets as per IPSAS 25 and consequently the fair value of plan assets is zero and the liability to be recognized is consequently the present value of the defined benefit obligation at the reporting date.

The United Nations requests an actuarial assessment for its annual leave benefit liability, which is used to include the United Nations' liability in the statement of financial position.

[14] The other long-term benefit considered in this paper refers to the annual leave benefit. While the entire annual leave benefit will be accounted for as an other long-term benefit, for presentation purposes, it will be shown as current. More on that can be found in section 9.3.

Example – Annual leave

The latest actuarial valuation obtained by the United Nations for its annual leave indicated that the present value of its defined benefit obligation was $151,248,000 as of 31 December 2011 (2010: $146,654,000).

This amount is included in full as a liability in the UN's financial statements.

6.2 Statement of financial performance

With regards to other long-term benefits, IPSAS 25 requires the recognition of the following **items** in the statement of financial performance:

- Current service costs;
- Interest costs;
- Actuarial gains and losses;
- Past service costs;
- The effect of any curtailments and settlements.

Where an actuarial valuation is obtained, all information required to reflect the different items in the statement of financial performance is provided by the consulting actuaries in their report.

We refer to section 5.2 above for a detailed discussion of the different statement of financial performance components.

One important **difference** (simplification) exists compared to how the United Nations accounts for it defined benefit post-employment benefits:

- Past service costs are always recognized in full in the statement of financial performance[15] when incurred.

Example – Annual leave

The latest actuarial valuation obtained by the United Nations for its annual leave indicated that in 2011, the following costs had arisen:
Service costs: $38,300,000
Interest costs: $7,948,000

[15] Post employment benefits: Past service costs regarding unvested benefits are recognized in the statement of financial performance over the vesting period.

Actuarial gains: $13,293,000

Together with any payments made, these amounts explain the move in the liability since the previous valuation.

The total of these three types of costs is booked in the statement of financial performance as annual leave expense, as follows.

Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial performance	Employee benefits – annual leave service costs	$38,300,000
Dr	Statement of financial performance	Employee benefits – annual leave interest costs	$7,948,000
Cr	Statement of financial performance	Employee benefits – annual leave actuarial gains	$13,293,000
Cr	Statement of financial position	Annual leave obligation	$32,955,000

For illustrative purposes, an overview of the movement in the obligation from 2010 to 2011 is as follows:

Obligation at the end of 2010	**$146,654,000**
Employee benefits – annual leave service costs	$38,300,000
Employee benefits – annual leave interest costs	$7,948,000
Employee benefits – annual leave actuarial gains	($13,293,000)
Benefits paid (net of participant contributions)	($28,361,000)
Obligation at the end of 2011	**$151,248,000**

7 Recognition and measurement of termination benefits

While the idea of termination benefits can be understood as similar to post-employment benefits, there is one key difference: The **event** that gives rise to the benefit.
For post-employment benefits, the event that gives rise to the benefit is the service provided by the employee. For termination benefits however, the event giving rise to the cost is not the service provided by the employee, but rather the termination of the employee.

With regards to the recognition of termination benefits, it is therefore key to identify the actual termination event.

7.1 Identification of termination event

Before the United Nations can recognize termination benefits, **two requirements** need to be met:

1. The United Nations is demonstrably committed to a detailed, formal plan to either
    - Terminate an employee or employees before the normal retirement date;
    - Provide termination benefits in return for voluntary redundancy; **AND**
2. There is no realistic possibility that the United Nations can withdraw from the plan.

Or, in simpler terms, the United Nations should recognize of termination benefits when it has communicated its plan of terminating employees to those affected.

Example – Events that could give rise to termination benefits

Examples of events that could lead to the recognition of termination ebnefits are:

- Downsizing strategy and termination of employees;
- Early liquidation of mission and termination of employees;
- Termination of individual employee.

7.2 Statement of financial position

Once the United Nations has established that it is committed to pay out termination benefits, it should recognize the amount payable as a **liability** in its statement of financial position.

Having said that, one of the requirements of recognizing a liability is that it can be reliably measured.

Consequently, the United Nations should only recognize a liability for termination benefits, if it is comfortable it can **reliably measure** the full extent of the obligation. If no reliable amount can be established (in rare cases), the circumstances and details should be disclosed (see section 10.4).

7.3 Statement of financial performance

The recognition of termination benefits in the statement of financial performance follows the same approach as detailed for the statement of financial position in section 7.2.

If the United Nations is committed to pay out termination benefits and can reliably measure the amount payable, the amount should be recognized as an **expense** in the statement of financial performance.

8 Specific topics

PLEASE NOTE THAT THE ACCOUNTING GUIDANCE PROVIDED IN SECTIONS 8.1 - 8.5 DEPENDS ON THE DETAILS OF EACH PLAN. THE ACCOUNTING IS CONSEQUENTLY SUBJECT TO CHANGE, IF SOME OF THE PLAN DETAILS NEED TO BE UPDATED FOLLOWING CONFIRMATION OF TERMS AND CONDITIONS.

Before diving into the details for each of the specific topics reviewed (self-insured health insurance, life insurance, commercial insurance / MAIP and workers' compensation), please find attached an overview of the various schemes and the accounting for them:

Scheme	Employee benefit?	IPSAS 25 classification
Self-insured health insurance - before retirement	Yes – with regards to employer contributions	Short-term benefit
Self-insured health insurance - after retirement	Yes – with regards to employer contributions	Post-employment benefit (defined benefit)
Life insurance	Yes – with regards to top-up premiums	Short-term benefit
Commercial insurance (MAIP)	Yes	Short-term benefit
Appendix D workers' compensation (death benefit and illness and long-term disability benefit)	Yes	Post-employment benefit (defined benefit)

8.1 *Self-insured health insurance*[16]

Instead of providing health insurance to its staff through an insurance company, the United Nations has decided to provide the health insurance to its staff by itself and only rely on the insurance companies for occasional administrative support. Such an arrangement results in multiple accounting consequences, which are all dealt with in this paper.

Specifically:

- Accounting for contributions made by the employer (section 8.1.3.1.1 for active staff and 8.1.3.1.2 for retired staff. Please note that employees also contribute to the United Nations' health insurance scheme, but as that contribution does not qualify as an employee benefit, it is not covered separately in this paper. Where relevant, reference to such payments is made;
- Assessing the existences of a organization wide liability for benefits to be paid (section 8.1.3.2);
- Assessing, how to account for the contributions made by other member organizations (section 8.1.3.3)

One complicating effect with regards to the self-insurance health insurance is that it is not only provided to active staff, but also to retired staff and as this aspect has significant impact on the accounting, it is also covered in this paper. Having said that, it only really impacts the accounting for the employer contributions and has no impact on the overall organization wide liability discussed in section 8.1.3.2.

8.1.1 *Background: Accounting for self-insurance funds*

If an entity takes out insurance to cover potential future losses, the cost is accounted for annually on the basis of the premium paid. However, if an entity does not take out insurance cover, but instead decides to self-insure, the question arises as to how this should be accounted for. Generally, the accounting for such schemes falls under the scope of accounting for provisions.

IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* only allows a provision to be recognized if there is an obligation at the reporting date and, therefore, no provision should be recorded until a relevant obligating event has occurred. However, in deciding the extent to which obligating events have occurred by the reporting date, the entity can take into account any additional evidence provided by events that take place after the reporting date. For example, where an entity self-insures some of its risks, at the reporting date a provision will be made for claims that are reported post year end but occurred before, and for an estimate of those that have been incurred but are still not yet reported.

[16] Please note that some United Nations organizations are not part of the self-insured health insurance. For example, the International Court of Justice does not participate in the self-insured health insurance scheme, but has its own insurance arrangement. This insurance arrangement is not a self-insured scheme, but covered by an external insurance company and consequently the guidance provided in this section on self-insured health insurance would not apply. The contributions made by the employer to the scheme would be classified as short-term employee benefits and accounted for as such.

Example – Self-insurance

The United Nations decides not to insure itself with a third party for the risk of minor accidents to employees. Instead it opts to self-insure. Its past experience suggests it will pay $200,000 a year in respect of such accidents.

An obligation to another party does not arise until such time as an accident occurs. This means that under IPSAS 19 rules a provision of a larger amount than the cost of the actual accidents is not permitted. Therefore, if no accidents have occurred as at the year end, there is no present obligation to another party and hence no provision should be made.

Clearly, where an accident has happened the United Nations might not know of its occurrence, but this in itself does not preclude it from making a provision. As long as the entity has a track record of claims experience from which it can estimate the level of accidents that have occurred but which have not yet been reported (Incurred but not reported claims (IBNR claims)) it may make a provision for its estimate of the obligation[17].

Therefore, the United Nations should make provision for the expected cost of all accidents that have occurred before the reporting date, including those for which the employee has yet to make a claim.
During the period between the United Nations' year end and the date on which its financial statements are finalized, a number of IBNR claims might have surfaced which means that a firmer estimate for these claims can be made. However, it will still be necessary to estimate those that have not yet been reported but that are likely to be, where these arise from events that occurred before the year-end date and hence qualify for provision.

Under IPSAS 19, a **provision** must be booked, if **all** of the following conditions are met[18]:

- An entity has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the provision.

With regards to the United Nations' self-insured health insurance, an assessment therefore needs to be made as to whether the above criteria are met and whether a provision should consequently be booked.
A brief assessment of the above criteria and the proposed accounting treatment for the United Nations' self insured health insurance scheme is included below (section 8.1.3.2).

[17] Please note that some organizations decide to assess their self-insurance provision actuarially.
[18] Please note that additional, detailed guidance on the accounting for provisions is available in Corporate Guidance #7 Provisions and (contingent) liabilities.

8.1.2 *United Nations self-insured health insurance plan details*

Instead of paying contributions to a 3rd party health insurance company, the United Nations has decided to self-insure its employees with regards to health insurance. The benefits are provided to active employees and retirees and administered through two schemes:

- A New York managed scheme; and
- A Geneva managed scheme called UNSMIS.

While the two schemes differ with regards to some administrative details, the main approach in terms of benefits provided is similar and the accounting for both therefore follows the same approach.

The specifics are as follows:

- Both schemes do not only cover employees from the United Nations Secretariat, but also employees from other organizations. The understanding is that once other organizations have paid their premiums to the United Nations Secretariat, the risk has transferred and full coverage is to be provided by the United Nations Secretariat. Consequently, expenses are reimbursed by the United Nations Secretariat to all members of the health insurance scheme, not just its own employees.

- Under both schemes, the premiums payable by the employees, the United Nations and other member organizations are set with the aim to maintain a certain reserve in the accounts. Consequently, if expense reimbursements made are significantly higher than premiums received, premiums for the following period are increased. If it happens that the surplus is getting higher, the United Nations Secretariat usually grants employees and member organizations a "payment holiday", i.e. grants a "premium-free" period of time[19].

- Payments to cover medical expenses are either made to insurance companies where insurance companies are involved for administrative purposes or made directly to employees to reimburse them for their expenses.

- Under both schemes, premiums for active employees are paid by employee and employer:

    - Employee premiums are withheld from individuals' salaries;
    - Employer premiums from the United Nations Secretariat are charged monthly as an expense.
    - Contributions from member organizations are received on a monthly basis and recognized as revenue under UNSAS.

- Under both schemes, premiums for retired employees are also paid by employee and employer:

[19] Please note that the granting of such premium-free periods of time can lead to certain accounting consequences to assure appropriate cut-off. Further information can be found in Corporate Guidance paper #2 Delivery principle.

- The employee contributions for retired employees are deducted from monthly pension payments made by UNJSPF to the individuals.
- The employer contributions for retired employees are due on a monthly basis. Under UNSAS, the portion due for United Nations Secretariat employees is charged on a monthly basis to the statement of financial performance and contributions due from other organizations are invoiced on a regular basis and recognized as revenue.

Within the context of the United Nations, the benefit provided to retirees (coverage of employer premiums) under **both schemes** is known as After-Service-Health-Insurance (ASHI) and assessed by actuaries.

The liability established by actuaries for the employees of a reporting entity is included in the financial statements of each reporting entity. Consequently, the liability shown in Volume 1 covers employees of the United Nations Secretariat only.

8.1.3 Accounting for United Nations self-insured health insurance

As mentioned above, when considering the accounting for self-insurance funds, it is important to differentiate between the contributions paid by the United Nations for its employees every month and the accounting for the overall liability of the organization as it provides insurance to employees itself instead of paying the premiums over to an insurance company. While the former falls under the scope of employee benefits, the latter is generally accounted for in line with IPSAS 19 *Provisions, Contingent Liabilities, and Contingent Assets.*

8.1.3.1 Accounting for monthly employer contributions to self-insured health insurance

As mentioned above, the payment of employer contributions for the self-insured health insurance falls under the scope of employee benefits. While contributions made to active staff can be considered as short-term benefits, contributions for retired staff qualify as post-retirement benefits. As the accounting requirements for both are different, they will be discussed separately.

8.1.3.1.1 Accounting for employer contributions to self-insured health insurance for active staff

The contributions paid by the United Nations for its active employees every month are considered to be employee benefits and are classified as a short-term benefit under IPSAS 25. The accounting for these premiums therefore generally follows the guidance provided in section 4.

One unique aspect exists with regards to these benefits, as the contributions are not paid over to an insurance company, but kept within the United Nations. The accounting for these premiums is summarized in the following example.

Example – Contributions for self-insured health insurance

Every month, the United Nations contributes an amount to its self-insured health insurance, which is visible on each individual's pay slip.
This premium should be recognized in the financial statements as follows:

Dr / Cr	Primary financial statement	Account
Dr	Statement of financial performance	Employee benefits – health insurance premiums
Cr	Statement of financial position	Self-insured health insurance liability

While the premiums contributed by the employee itself are not considered to be employee benefits as the employee pays such amounts, the accounting treatment is included for illustrative purposes:

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits	Gross salary
Cr	Statement of financial position	Self-insured health insurance liability	Employee premium amount
Cr	Statement of financial position	Salaries payable to employees	Net amount

8.1.3.1.2 Accounting for employer contributions to self-insured health insurance for retired staff

As mentioned above, the employer contributions to the self-insured health insurance for retired staff are considered to be a post-employment benefit. The accounting for such benefits should therefore be done on an aggregate basis as described in section 5.
Instead of recognizing the specific contributions for each employee on a monthly basis in the income statement, the United Nations receives an actuarial valuation for its defined benefit obligation and recognizes it on an aggregate basis. With regards to the United Nations, this defined benefit obligation is referred to as the ASHI liability, which is recognized in the financial statements of each reporting entity.

As explained in section 5, a defined benefit obligation for post-employment benefits is reduced when the benefits are paid. With regards to the self-insured health insurance, the benefit is the payment of the

contribution and consequently, with regards to the ASHI liability, the defined benefit liability would be reduced, when the contributions are due.
However, as mentioned for the short-term benefit, the contributions are not paid over to an insurance organization, but are collected by the United Nations to cover any benefit payments.
The double-entry for the recognition of monthly contributions is as follows:

Example – Reduction of ASHI liability

As mentioned, employer contributions for retired staff are due every month and the actuarial liability is therefore reduced by the corresponding amount every month.

Dr / Cr	Primary financial statement	Account
Dr	Statement of financial position	ASHI liability
Cr	Statement of financial position	Self-insured health insurance liability

The consequence of treating contributions as summarized in this section is that a liability is created in the accounts, which will be used to make any benefit payments. More detail on this is provided below as the contributions made by other organizations also need to be incorporated here.

8.1.3.2 Accounting for United Nations wide liability from self-insurance health insurance

As summarized above in the background for self-insurance schemes (section 8.1.1), the accounting for self-insurance schemes generally follows provision accounting.

As mentioned in section 8.1.1, in order to recognize a **provision** in the financial statements, three requirements need to be met:

- An entity has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the provision.

Existence of present obligation as a result of past event

Considering the nature of these insurance schemes, any accident by or illness of an employee covered by the health insurance plan is considered to be **a past event** giving rise to an obligation.

While a past event therefore exists, which gives rise to an obligation, the question is whether the obligation is the obligation of the United Nations or of the member organization of the employee that experiences the accident or illness.

As the arrangements between the United Nations and the member organizations with regards to the self-insured health insurance scheme are generally based on the approach taken over recent years instead of specific terms and conditions between the organizations, it is difficult to assess whether the United Nations is legally obliged to cover the entire liability or only the share for its own employees.

However, IPSAS 19 specifically also mentions **constructive obligations** as a basis for a provision and considering the circumstances of the self-insured health insurance and the current administration arrangements, the understanding is that the United Nations has a constructive obligation for the entire liability, not only the share for its own employees.

The obligation shown in the financial statements would therefore be the entire liability for all claims.

Economic outflow probable

As mentioned in section 8.1.1, one of the requirements to recognize a provision is that economic outflow is **probable.** In order for something to be probable, it needs to be more likely than not (more than 50% probability).

The obligation for the United Nations' self-insured health insurance schemes is considered to be probable, as the United Nations has information on claims submitted after the year end relating to the prior year and as detailed historic information is available on average claims per year.

Reliable measurement of provision

Generally, there is a time lag between the occurrence of an accident or illness and the submission of a health insurance claim. Consequently, when the financial year ends, the United Nations might not know about all the claims that will be submitted relating to events that occurred during the financial year.

One might therefore conclude that the liability cannot be measured reliably. This is not the position that IPSAS takes. Instead, as detailed in the background information provided in section 8.1.1, the general opinion is that the **provision can be measured** by using claims that are submitted after the reporting date and before the moment the financial statements are submitted that relate to the prior year that is being reported upon and by using historical data.

In order to measure the provision for the health insurance schemes, the United Nations should therefore[20]:

- Consider such claims submitted in the *new* financial year relating to accidents / illnesses that occurred in the *prior* year. While this might only be possible for a period of 1-2 months, it provides an indication of the number of claims and amounts relating to the prior financial year.

[20] Please note that the year-end liability for the self insurance schemes is established by the Accounts Division.

- Review historical data as to how many claims where received on average for one financial year and what the average total expenditure for accidents or illnesses per year was.

Once the necessary year-end provision has been calculated, the United Nations should make sure that the existing self-insured health insurance liability for employer and employee contributions (see 8.1.3.1 for United Nations employees and 8.1.3.3 for employees of participating organizations) is integrated in the year end reconciliation to ensure that total amount shown as liability reflects the total provision required for expected claims.

The recognition of any adjustments to the liability / provision should be accounted for as follows:

- **Shortfall in liability**: If the liability is not sufficient to cover the required provision, the difference should be made up by charging an expense for the share attributable to the United Nations Secretariat's employees and a receivable from other participating organizations for the share related to their staff.
- **Excess of liability**: If the liability exceeds the provision necessary, the difference should be recognized against the employee expense recognized for United Nations employees during the year and as a liability to other participating organizations for the share attributable to their employees.[21]

8.1.3.3 Accounting for contributions by participating organizations

When considering the accounting for the self-insured health insurance by member organizations, one needs to differentiate between the accounting done in each member organization and the accounting done by the United Nations Secretariat with regards to the contributions received. The accounting done by each member organization is in line with the guidance provided in 8.1.3.1, except that the liability created is not for the self-insured health insurance itself but a liability to the United Nations.

The accounting to be done by the United Nations is as follows:

As mentioned in section 8.1.2, participating organizations submit their contributions to the United Nations, which in return recognizes the entire obligation for medical benefits to be paid in its accounts.

Based on the guidance provided in section 8.1.3.1 on the recognition of the contribution expenses and the actuarial liability, it is clear that each member organization, including the United Nations Secretariat, only recognizes the expense for its own employees. Consequently, the contributions received from the member organizations cannot be seen as a reduction of the expense the United Nations Secretariat is recognizing and should consequently be recognized as a statement of financial position transaction only.

[21] Please refer to section 11 for a detailed example.

Example – Contributions received from member organizations			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Cash	Contributions received
Cr	Statement of financial position	Self-insured health insurance liability	Contributions received

As mentioned in section 8.1.3.2 the amount recognized as a liability with regards to the member organizations contributions will be incorporated in the year-end assessment of the required provision. The total amount shown as liability should reflect the total provision required for expected claims.

8.2 Life insurance

8.2.1 United Nations life insurance plan details

Under this scheme, only the employees make contributions. While being employed, employees from various member organizations pay premiums to the United Nations, which in return forwards the premiums to the external insurance company along with premiums for its own staff. Unlike for the self-insured health insurance plan, the insurance company then covers any pay-outs under the insurance. While this sounds similar to **a generic insurance arrangement**, it is further complicated by the fact that the insurance company and the United Nations have a kind of profit-sharing agreement and as a consequence, the insurance company pays back excess net income over a set limit to the United Nations. This money is kept by the United Nations with the understanding that the United Nations will use the money to cover either the employee's life insurance premiums once the individual is retired or to attenuate or postpone any rate increase requested by the insurer, especially following a year with a high loss ratio.

The extent of coverage under the scheme depends on the remuneration of the individual, with a maximum ceiling established in the policy.

8.2.2 Accounting for life insurance

When accounting for the life insurance scheme, one needs to differentiate between the accounting for the contributions made by the employee during their time of employment and the payment of the premiums made by the United Nations for its employees or retirees.

Finally, one also needs to consider how to account for the contributions received by member organizations with regards to this scheme.

8.2.2.1 *Accounting for employee contributions to scheme*

The first main thing to realize is that the contributions paid by the employees themselves are not employee benefits and are therefore not accounted for in line with IPSAS 25.

For ilustrative purposes, the double-entries required are included and are as follows:

Example – Employee contributions to life insurance			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial performance	Employee benefits – salary costs	Gross salary
Cr	Statement of financial position	Payable to insurance company	Employee premium amount
Cr	Statement of financial position	Salaries payable to employees	Net amount

8.2.2.2 *Accounting for benefits provided by United Nations and consideration of system-wide liability*

In order to summarize the accounting approach for the employee benefits provided by the United Nations under its life insurance scheme, the scheme has to be broken down into its different parts with varying characteristics:

- Payment of premiums of retirees (United Nations employees and employees of member organizations);
- Payment of certain premium increases of employees (United Nations employees and employees of member organizations).

Payment of certain premiums of employees

In certain situations, the United Nations will make payments to the life insurance scheme on behalf of current employees of the United Nations and of other member organization. The timing and extent of these payments is irregular and depends on different circumstances so that it generally has an ad-hoc or short-term nature.

Following this thought process, the payments made should be categorized as **short-term benefits** and accounted for in line with section 4.

As under 8.2.2.1, the United Nations is expected to make these payments and is consequently exposed to risks consistent with an employment contract.

Consequently, all such payments should be accounted for as short-term benefits.

8.2.2.3 Accounting for contributions by member organizations

As mentioned in section 8.2.1, member organizations submit their contributions to the United Nations, which in return recognizes the entire benefit obligation in its accounts.

By recognizing the total benefit obligation in its statement of financial position, the United Nations also recognizes the entire expense in its statement of financial performance. However as part of the expense is technically borne by the other member organizations, the contributions received by the United Nations can be considered as a reduction of the United Nations' expense and should consequently be credited to the expense account[22].

Example – Contributions received from member organizations

Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Cash	Contributions received
Cr	Statement of financial performance	Employee benefits – life insurance expense	Contributions received

8.3 Commercial insurance (Malicious Act Insurance Plan (MAIP))

8.3.1 United Nations MAIP plan details

The purpose of the MAIP is to cover eligible individuals in designated duty stations for death or disability caused by a malicious act.
Generally, this plan is set up as a **common** insurance scheme: Various member organizations pay premiums for the insurance to the United Nations, which together with its own premiums forwards the total amount to the insurance company. The insurance company then takes over the administration of the plan and makes pay-outs where needed.

[22] This accounting treatment is based on the assumption that the actuarial valuation is not adjusted for the receipt of contributions from other participating organizations.

However, the arrangement with the insurance company includes the existence of a **$2m deductible** for the United Nations and member organizations. In simple words, the first $2m of pay-outs every year are to be covered by the United Nations organizations.

As the scheme covers multiple member organizations, the $2m is not only the United Nations' deductible, but also the deductible of all other member organizations and consequently the United Nations invoices each member organization its proportionate share at the beginning of the year and is obliged to return any amount that remains unspent at the end of year to the various member organization on a proportionate basis. While payments at the beginning and end of the year are made on a proportionate basis, pay-outs made throughout the year are not allocated to a member organization based on the employee the payment is for, but is considered to be made out of the general pot.

8.3.2 *Accounting for commercial insurance*

When considering the accounting treatment for MAIP / commercial insurance, one needs to differentiate between the following transactions:

- Premiums paid for United Nations employees;
- Accounting for premiums received from other member organizations for their employees;
- Accounting for deductible.

8.3.2.1 *Accounting for premiums for own employees*

The premiums paid by the United Nations to the insurer for its own employees are considered to be a short-term benefit as they are paid regularly in line with when the individual provides services. They should consequently be recognized as an expense and any premiums unpaid at the end of the year should be recognized as a liability.

Example – United Nations employer contributions to commercial insurance

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits - contributions to commercial insurance	Employee premium amount
Cr	Statement of financial position	Payable to insurance company	Employee premium amount

8.3.2.2 *Accounting for premiums received from member organizations*

Those premiums received from other member organizations and forwarded to the insurer should be accounted for as statement of financial position transactions only.

Example – Amounts received from member organizations			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Cash	Total contributions received
Cr	Statement of financial position	Payable to insurance company	Total contributions received

8.3.2.3 *Accounting for deductible*

In terms of the **deductible**, the amounts received from member organizations should be recorded as **a liability** at the beginning of the year. To assure the full deductible is available on a proportionate basis, the United Nations should recognize its own share as an expense at the beginning of the year and increase the liability by the same amount.

Example – Creation of deductible at beginning of year			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Cash	Member organizations' share of deductible
Dr	Statement of financial performance	Employee benefits – commercial insurance deductible	UN's share of deductible
Cr	Statement of financial position	Commercial insurance deductible	Total ($2m)

Throughout the year this liability is reduced whenever a pay-out is made.

To reflect the fact that any remainder of the $2m is repayable to the various member organizations, the liability should be reconciled and turned into **payables** towards the various participating member organizations on a proportionate basis at the **end-of the financial year**. The United Nations' share of the remainder should be recorded as a reduction against the expense recorded at the beginning of the year.

Example – Release of deductible at year-end			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Commercial insurance deductible	Amount remaining at year-end
Cr	Statement of financial performance	Employee benefits – commercial insurance deductible	UN’s share of remaining deductible
Cr	Statement of financial position	Payable to member organizations	Member organizations’ share of remaining deductible

Similarly to the self-insured health insurance referenced above in section 8.1, the full extent of pay-outs due at the end of the year is often unknown until a few months, sometimes even years, following the end of the period. When reconciling the remainder of the deductible and splitting it into payables to the various participating member organizations, the UN Secretariat should therefore incorporate information available from prior periods as to how much of the deductible was paid out on average and how much is expected to be returned to participating member organizations on average.

8.4 Appendix D - workers compensation scheme

8.4.1 Appendix D – workers compensation plan details

The United Nations provides compensation for employees, which covers **death, illnesses or injury**, if service-incurred. Benefits paid can be in the form of a lump sum payment for a permanent loss of function, but are usually made in the form of recurring payments over future years for situations of death or disability.

In certain cases, part of the benefit payments are made by the UNJSPF and the United Nations only pays the remainder of the benefit.

The level of coverage generally depends on the employee’s remuneration at the time of death or accident.

While the benefits provided to individuals are the same, the plan can be split into **four** slightly different arrangements:

Pay as you go

Under this plan, a certain amount of the budget is allocated to workers’ compensation every year and the amount is used to pay out benefits on an ad hoc basis when money is due or when an event occurs.

The budget amount is determined by assessing any long-term payments that will be made during the financial period and making an estimate of additional new cases.

This ’pay as you go’ arrangement is only available for employees of the United Nations funded from the Regular Budget and not available to employees of other member organizations.

Reserve approach ‘own’ employees

Under this approach for employees funded from the Peacekeeping budget or from extra budgetary funds, the United Nations contributes to the scheme and in return the United Nations pays out benefits following an entitling event.

The premiums payable are set with the aim to have a certain reserve of funds in the accounts to cover both the pay-as-you-go costs and the established liability. If payments made are not sufficient to cover the needs, premiums for the following period are increased or vice versa.

Reserve approach employees of member organizations

The set-up of this plan is identical to the reserve approach mentioned for own employees, but here other member organizations pay premiums to the United Nations. The United Nations pools the money and pays out benefits to individuals where required.

The understanding is that once other organizations have paid their premiums to the United Nations, the risk has transferred and full coverage is to be provided by the United Nations.

The premiums payable by the other member organizations are set with the aim to have a certain reserve of funds in the accounts to cover both the pay-as-you-go costs and the established liability. If payments made are not sufficient to cover the needs, premiums for the following period are increased or vice versa.

Completely separate member organizations

Some member organizations are providing workers' compensation to their employees by themselves and therefore don't pay premiums to the United Nations. However they use the United Nations' established administrative structure in order to understand whether an individual is entitled to a payment and how much the payment should be. In return they pay a fee to the United Nations.

Please note that this arrangement is not considered to fall under employee benefits.

8.4.2 *Accounting for workers' compensation*[23]

When considering the accounting for the Appendix D – workers compensation scheme, one has to consider two aspects:

- Accounting for the benefits provided by the United Nations and consideration of system-wide liability;
- Accounting for benefit payments;
- Accounting for the contributions received from member organizations where the United Nations includes employees of other organizations in its scheme.

8.4.2.1 *Accounting for benefits provided and consideration of system-wide liability*

As mentioned in section 8.4.1, the scheme makes benefit payments in case of **death, illness** or **long-term disability**. While one might presume that the death benefit portion would be classified as a post-employment benefit and the illness or long-term disability benefit payments as other long-term benefits respectively, management believes that the long-term disability benefit is subject to similar uncertainty as the death benefit and has therefore decided to also classify it as a post-employment benefit.

The accounting treatment for these benefits would therefore follow the guidance provided in section 5 for post-employment benefits.

Having said that, the added complexity with regards to the workers compensation plans is that it does not only cover United Nations employees, but also employees from other member organizations. The question whether the liability relating to employees of other member organizations should be included in the United Nations' accounts in addition to the liability recognized for the United Nations' employees therefore needs to be assessed as follows:

[23] The benefits provided under the Appendix D workers compensation include a death benefit and long-term disability benefit. While these arrangements can be categorized as post-employment benefits and therefore follow the guidance provided in section 5, the arrangement is covered separately under the specific topics for a more detailed overview.

Provision relating to employees of other member organizations

Under accrual accounting, a **provision** should be recognized, if **all** of the **following conditions** are met:

- An entity has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the provision.

Existence of present obligation

The United Nations and other member organizations provide these benefits to their employees in return for the services provided by them throughout the year. In this circumstance, the provision of service is considered to be the past event giving rise to an obligation.

While a past event therefore exists which gives rise to an obligation, the question is whether the obligation is the obligation of the United Nations or of the various member organization,

As the arrangements between the United Nations and the member organizations with regards to these benefits are generally based on the approach taken over recent years instead of specific terms and conditions between organizations, it is not possible to assess whether the United Nations is legally obliged to cover the entire liability or only the share for its own employees.

However, IPSAS specifically also mentions **constructive obligations** as a basis for a liability and considering the circumstances of the benefit provision and the current administration arrangements, the understanding is that the United Nations has a constructive obligation for the entire liability, not only the share for its own employees.

The obligation shown in the financial statements would therefore be the entire liability for all employees (United Nations and participating member organizations). In addition, the proportionate liability should be recognized in the financial statements of participating organizations and UN will show the corresponding receivable from each participating entity in its financial statements.

Economic outflow probable

As mentioned above in this section, one of the requirements to recognize a provision is that economic outflow is **probable**. In order for something to be probable, it needs to be more likely than not (more than 50% probability).

As mentioned, the death benefit, illness benefit and the long-term disability benefit are categorized as a post-employment benefits and are assessed by actuarial valuation. As part of the actuarial valuation, the probability of payments for these benefits is assessed and incorporated and the assessed valuation will reflect the probable outflow.

Reliable measurement of provision

As the liabilities for both benefits are assessed by actuarial valuation and they are considered to be reliably measurable.

As mentioned in certain cases the benefit is paid by UNJSPF and the United Nations only pays the remainder. This is not considered an issue as this arrangement is considered as part of the actuarial valuation. The liability calculated by the actuarial valuation consequently represents the United Nations liability.

Based on this assessment, the requirements for a provision are met and the United Nations should therefore record the full benefit obligation in its accounts.

8.4.2.2 Accounting for benefit payments

As explained in section 5.1.1 of this paper, the payment of an actual benefit such as a death benefit or long-term disability benefits under the workers compensation should not be recognized as an expense as the expense has effectively been recognized as part of the inclusion of the post-employment benefit liability.

Instead any benefit payment should be debited to the actuarial liability recognized and consequently reduce that liability.

8.4.2.3 Accounting for contributions by member organizations

As mentioned in section 8.4.1, member organizations submit their contributions to the United Nations, which in return recognizes the entire benefit obligations in its accounts.

By recognizing the total benefit obligation in its statement of financial position, the United Nations also recognizes the entire expense in its statement of financial performance. However as part of the expense is technically borne by the other member organizations, the contributions received by the United Nations can be considered as a reduction of the United Nations' expense and should consequently be credited to the expense account[24].

Example – Contributions received from member organizations

Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Cash	Contributions received
Cr	Statement of financial performance	Employee benefits - workers' compensation expense	Contributions received

8.5 *Recognition of proportionate liability in financial statements of participating organizations*

As mentioned in sections 8.2.2.2 and 8.4.2, the United Nations Secretariat recognizes the entire liability for the workers compensation scheme provided for its own employees and employees of other organizations in its financial statements.

The question addressed in this section is whether the various participating organizations should also recognize a liability for their proportionate share of the total obligations.

As indicated, the accounting for such benefits is generally based on the approach taken over recent years, instead of specific terms and conditions. It is therefore difficult to assess whether the other participating organizations maintain a certain responsibility to provide such benefits, even though they have forwarded the contributions to the United Nations Secretariat.

In this situation, the recommended approach is to follow the prudence principle included in IPSAS and recognize the liabilities in each set of the financial statements.

Consequently, at the end of each financial year, each organization participating in the plans administered by the United Nations Secretariat should include the liability applicable to its own employees in its financial statements.

Example – Recognition of proportionate benefit liability in financial statements of participating organizations

[24] This accounting treatment is based on the assumption that the actuarial valuation is not adjusted for the receipt of contributions from other participating organizations.

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits	Proportionate amount of benefit obligation
Cr	Statement of financial position	Liability	Proportionate amount of benefit obligation

8.6 Choosing the appropriate discount rate

As mentioned in sections 5.1 and 6.1, IPSAS 25 requires the defined benefit obligation for post-employment and other long-term benefits to be **discounted** to present value, in order to take into consideration the time value of money.

Determining the right discount rate to use is critical as it can have a significant impact on the defined benefit obligation included in the financial statement.

The **only aim** of the discount rate is to take account of **the time value of money**. It does not reflect investment risk or actuarial risk, since other actuarial assumptions deal with these items.

IPSAS 19 provides guidance on how to establish an appropriate discount rate and requires employers to establish discount rate on a plan by plan basis instead of establishing one discount rate for all benefit plans.

The standard recommends that entities look to yields of government bonds and high quality corporate bonds when establishing the appropriate discount rates to use. In addition, when looking at such bonds, the standard mentions 2 aspects that should be considered:

- Timing; and
- Currency.

Timing

The United Nations should only consider such yields where the term of the underlying bond corresponds to **the timing** of the expected benefit payments.
One should identify multiple bonds with payment terms corresponding to the expected payment pattern of the specific benefit and calculate the weighted average of yields on these bonds.
This approach would be replicated for each defined benefit obligation to assure the discount rate chosen reflects the pattern of that specific benefit.

Example – Timing of benefit payments

The United Nations currently provides its employees with after service health insurance and death benefit. As the timing of benefit payments under these schemes varies greatly (one paid after an employee retires and one potentially starting in the following year and continuing for many years to come), the United Nations should establish discount rates for both scheme independently of each other and consider different bonds for each of the schemes.

Currency

When assessing various bonds to establish the discount rate to be used, it is key to assure **the currency** of such bonds corresponds to the currency the benefits are paid in.
For each scheme, one should identify multiple bonds that correspond to the currencies the benefits are paid in and calculate a weighted average of the yield on such benefits.

This approach would be replicated for each defined benefit obligation to assure the discount rate chosen reflects the pattern of that specific benefit.

Example – Repatriation Benefit

The United Nations provides its employees a repatriation benefit , which is paid in many different currencies depending where the individual is located and depending on where the travel is made. The discount rate used to discount the defined benefit obligation for the repatriation benefit should take the different currencies into consideration.

As both, timing and currency, are considered key aspects when determining the appropriate discount rate, for each benefit plan, the United Nations should **identify bonds** that correspond to both, the timing of benefit payment and the currency benefits are paid in, and calculate the weighted average of the yields on these bonds[25].

[25] As the United Nations pays benefits in many different countries and currencies, an assessment of all currencies used is considered unpractical. The recommendation would be to analyze each benefit scheme and to create an inventory of all of the plans based on similar characteristics. For each of the plans, the United Nations should then consider which discount rate is most relevant to the currency of each plan.

8.7 Cut-off procedures for new and separating employees

Information on how to assure that expenses incurred for new and separating employees is included in the right accounting period (correct cut-off) is included in Corporate Guidance #2 Delivery Principle.

9 Presentation considerations

The following section provides information on how liabilities for employee benefits should be presented in the statement of financial position. This is considered key as the classification of an employee benefit into one of the four categories does not automatically trigger the presentation of the resulting liability.

For example, just because a benefit is classified as other-long term, does not require the presentation of the resulting obligation as non-current.

9.1 Short-term benefits

Due to the nature of short-term benefits, any liability existing at the end of the year should be categorized as a current liability on the statement of financial position.

9.2 Post-employment benefits

As for other long-term benefits, the question regarding presentation of post-employment benefits is how it should be classified in the statement of financial position: Current, non-current or split between both? The available accounting guidance states that the liability should be classified depending on when it is legally payable, or in other words when the United Nations could be forced to pay it and not when it is usually paid.

9.2.1 Post-employment defined benefit schemes

When looking at the United Nations' post-employment defined benefit schemes, part of it is legally payable in the next 12 months and part of it is payable after more than 12 months.

In order to represent the most accurate information, the United Nations should therefore carve-out the liability relating to the next 12 months and reflect it as a current liability with the remainder shown as a non-current liability in the statement of financial position.

The necessary information to do so is generally provided in the actuarial valuations as the report shows benefit payments expected in the following year.

Example – Classification of ASHI benefit obligation

The actuarial valuation as of 31 December 2011 provides the following information:

Exhibit 1 - UN Principal Valuation Results
(In $1,000's)

	ASHI		
Fiscal Year Ending December 31	**2010**	**2011**	**2012**
Change in present value of obligation			
Obligation at end of prior year	**2,304,197**	**2,472,664**	**3,654,426**
Service cost	95,420	101,145	200,107
Interest on obligation	136,353	146,249	162,794
Prior service cost	0	(258,364)	0
Benefits paid (net of participant contributions)	(63,306)	(70,372)	(73,590)
Actuarial (gain)/loss	0	1,263,104	0
Obligation at end of year	**$ 2,472,664**	**$ 3,654,426**	**$ 3,943,737**

According to this table, the total defined benefit obligation is $3,654,426,000. The benefit payment expected in the following year is $73,590,000 and should consequently be shown as a current liability. The remainder of the total liability ($3,580,836,000) should be shown as a non-current liability.

9.2.2 Post-employment defined contribution schemes

As mentioned in section 5.2, a liability related to UNJSPF would only be included in the statement of financial position, if any contributions remain unpaid. Considering the nature of such a potential liability, the expectation is that this liability would be classified as current.

9.3 Other long-term benefits

Another question regarding disclosure of such benefits is how it should be classified in the statement of financial position: Current, non-current or split between both? While one might assume the nature of other long-term benefits would trigger a classification of non-current liabilities on the statement of financial position, the available accounting guidance states that the liability should be classified depending on when it is legally payable and not when it is usually paid.

With regards to the United Nations' other long-term benefits such as annual leave and home leave, the suggested presentation is as follows:

Annual leave: As mentioned in this paper, the annual leave benefit will be accounted for as an other long-term benefit. Having said that, for presentation purposes, the liability will be shown as current as the United Nations could be obliged to make payments within the next 12 months.

Home leave: While the home leave benefit is technically classified as a short-term and other long-term benefit, management has decided to account for all of it as a short-term benefit. In line with section 9.1, the presentation of this benefit should consequently be current.

9.4 Termination benefits

The presentation of termination benefits depends on the specific circumstances of the benefit. If payment is expected to be required within the next 12 months, the liability should be classified as current.

10 Disclosure requirements

10.1 Short-term benefits

While IPSAS 25 does not require specific disclosures on short-term benefits, other IPSAS standards require the following information to be disclosed in the financial statements:

- IPSAS 20 *Related party disclosures* requires disclosure of aggregate remuneration (including short-term benefits) of key management personnel[26];
- IPSAS 1 *Presentation of Financial Statements* requires information on nature of total expenses incurred including employee benefits and consequently short-term benefits to be disclosed.

10.2 Post-employment benefits

Unlike as for other employee benefits, the disclosure requirements for post-employment benefits are **extensive**, especially for defined benefit plans, which all of the United Nations' plans are.

[26] This paper includes multiple references to additional disclosure requirements under IPSAS 20 *Related party disclosures* with regards to key management personnel. Please refer to Corporate Guidance paper #14 on related parties for further information.

10.3 Defined benefit plans

As the United Nations has multiple defined benefit plans, it can either provide the below disclosure notes for each of its plans on a separate basis or can group its plans into relevant groups and provide the disclosure notes on an aggregate basis.

The key requirements can be grouped into the following categories:

General information

In its disclosure notes to the financial statements, the United Nations should disclose at least the following information on its defined benefit plans:

- A general description of its plans;
- The accounting policy for its plans, especially where the standard offers entities a choice (e.g recognition of actuarial gains and losses);
- Best estimate of contributions expected to be paid over the next 12 months;
- Actuarial assumptions used for the valuation, including:
  - Discount rates;
  - Basis for determining discount rate;
  - Expected rates of salary increase and changes in an index or other variable specified in the plan as the basis for future benefits;
  - Medical cost trend rates.

Defined benefit obligation

In its disclosure notes, the United Nations needs to provide a reconciliation of the opening and closing balance of its defined benefit obligations.

Example – Reconciliation defined benefit obligation	20X2 $'000	20X1 $'000
At 1 January	**X**	**X**
Current service cost	X	X
Interest cost	X	X
Employee contributions	X	X
Actuarial gains / losses	X	X
Exchange differences (if any)	X	X
Past service costs	X	X
Benefits paid	X	X
Curtailments / settlements	X	X
At 31 December	**X**	**X**

Expense recognized

In addition to reconciling the defined benefit obligation, the United Nations should also provide details on the overall expense recognized in the statement of financial performance with regards to its defined benefit plans.

Example – Breakdown of expenses recognized	20X2 $'000	20X1 $'000
Current service cost	X	X
Interest cost	X	X
Actuarial gains / losses	X	X
Past service costs	X	X
Losses on curtailments / settlements	X	X
Total included in employees costs	**X**	**X**

ASHI[27] sensitivity analysis

In addition to the above information, the United Nations should also disclose the effect of an increase and decrease of 1% in the assumed medical cost trend rates on:

- The aggregate of the current service and interest costs of post-employment medical costs;
- The accumulated post-employment benefit liability for medical costs.

Example – ASHI sensitivity analysis

The effect of a 1% movement in the assumed medical cost trend rate is as follows:

	Increase $’000	Decrease $’000
Effect on the aggregate of the current service cost and interest cost	X	X
Effect on the defined benefit obligation	X	X

Additional disclosures might be required by IPSAS 20 *Related party disclosures* with regards to key management personnel[28].

Finally, regarding benefit schemes the United Nations Secretariat administers for many participating organizations, it is recommended that information is provided on the nature and circumstances of the arrangements with participating organization so that the reader can understand the benefits the liabilities cover.

10.4 Defined contribution plans (UNJSPF)

As mentioned in section 3.1.2.1, while UNJSPF is technically a defined benefit scheme, it is accounted for as a defined contribution scheme and disclosure notes should consequently be provided on that basis.

The specific requirements are as follows:

- Include the fact that the plan is a defined benefit plan and why it is accounted for as if it were a defined contribution plan.
- Include the amount recognized as an expense for the defined contribution plan.

[27] After-service-health-insurance (ASHI).
[28] If key management personnel is included in the overall United Nations wide schemes, instead of having a separate plan, the calculation of post-employment benefit information to be disclosed for related party purposes can be difficult. The recommendation is that reliable and supportable assumptions are made and that the post-employment benefit information is allocated on that basis.

Additional disclosures might be required by IPSAS 20 *Related party disclosures* with regards to key management personnel.

10.5 Other long-term benefits

While IPSAS 25 does not require specific disclosures on other long-term benefits, other IPSAS standards require the following information to be disclosed in the financial statements:

- IPSAS 20 *Related party disclosures* requires disclosure of aggregate remuneration (including other long-term benefits) of key management personnel[29];
- IPSAS 1 *Presentation of financial statements* requires information on nature of total expenses incurred including employee benefits and consequently other long-term benefits to be disclosed.

10.6 Termination benefits

As mentioned in section 7, a termination benefit liability is only recognized if it can be reliably measured. If uncertainty exists around the liability, it might not meet the recognition criteria and is instead considered to be a contingent liability. IPSAS 19 requires the disclosure of such liabilities.

With regards to termination benefits actually recognized in the financial statements, IPSAS 25 does not provide detailed guidance on what information should be disclosed. However, similar to short-term benefits, other standards provide some information:

- IPSAS 20 requires disclosure of aggregate remuneration (including termination benefits) of key management personnel;
- IPSAS 1 requires information on nature of total expenses incurred including employee benefits and consequently termination benefits to be disclosed.

10.7 Disclosure requirements for restricted funds

The United Nations Secretariat administers various employee benefit schemes for other participating organizations as summarized in section 8, which are funded in different ways. As these funds are generally earmarked for the various employee benefit schemes and therefore might not be available to cover other

[29] If key management personnel is included in the overall United Nations wide schemes, instead of having a separate plan, the calculation of other long-term benefit information to be disclosed for related party purposes can be difficult. The recommendation is that reliable and supportable assumptions are made and that the other long-term benefit information is allocated on that basis.

cash needs, they might have to be shown separately in the financial statements to point out that these funds are restricted.

Besides providing information on whether the funds, including investments and cash, are restricted, it is important to assess whether those funds in the form of cash meet the definition of cash and cash equivalents and should consequently be disclosed as such.

IPSAS 2 *Cash flow statements* provides the following definitions and guidance for cash and cash equivalents:

Cash comprises cash on hand and demand deposits.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

In other words, only such items available to meet short-term cash commitments should be classified as cash and cash equivalents.

Consequently, only such funds received for employee benefit purposes that meet the above definitions should be shown as cash and cash equivalents in the financial statements. If the funds do not meet the definition, the United Nations should consider presenting the funds in a separate line item such as other assets in the statement of financial position in line with guidance provided in IPSAS 1 *Presentation of Financial Statements.*

In any case, as mentioned above in this section, information should be provided in the **disclosure** notes of the financial statements on any funds held (including cash and cash equivalents and investments), whose use is **restricted** to certain purposes. This information should at a minimum include details on the relevant amounts and nature of the restriction[30].

10.8 Disclosure requirements for participating organizations

As per section 8.5, the recommendation is that while the United Nations Secretariat recognizes the total liability for the self-insurance, and workers' compensation scheme, the participating organizations should also include their proportionate liability in their financial statements. In addition to recognizing the liability, it is also recommended that each participating organization provides detailed disclosures on the nature and circumstances of the arrangement with the United Nations Secretariat. UN would also disclose the nature and circumstances of the arrangement with the participating entity in addition to recognition of proportionate receivable from each participating entity.

[30] As mentioned in this section, the funds received for employee benefits are generally earmarked for such purposes. The expectation is therefore that the balances related to employee benefits are indicated as “restricted” in the financial statements.

11 Appendices

11.1 Case study: Employee benefits provided to an employee throughout his life[31]

Background:

John Smith, aged 45 years, citizen of New Zealand is working with Government of New Zealand as a senior economic advisor. On 15 November 2014, he receives an offer to work in the Secretariat of the United Nations in New York. His effective date of appointment is 15 December 2014 for the position of Inter-regional Advisor in Department of Economic and Social affairs.

11.1.1 Initial travel costs

John Smith is coming to New York for the first time and he intends to bring his family with him. He requests the United Nations to send him one-way travel tickets for his family for travel on 5 December 2014 so that he can settle his family in New York before time and can join the office beginning 15 December 2014.
The United Nations books the travel tickets for him and his family members.

Accounting treatment – Initial travel costs

Under IPSAS, an expense is recognized when it is incurred. The travel expense for John and his family is incurred when he comes to New York and consequently should be recognized at that point in time (5 December 2014).

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – travel costs	Total travel costs
Cr	Statement of financial position	Payable (if unpaid) or cash (if paid)	Total travel costs

[31] This case study describes how specific benefits a single United Nations employee receives should be accounted for under IPSAS. As the accounting for employee benefits on an employee by employee basis can be very time consuming, it is possible that certain educated and well supported assumptions are made on a benefit by benefit basis that will simplify the practical application of the accounting requirements included in this paper.

11.1.2 Shipping costs

Then he decides to use the entitlement of shipping the unaccompanied baggage by asking the United Nations to arrange the shipment of his goods from his country. The shipment leaves New Zealand on 4 December. The invoice has not arrived in New York as of 31 December 2014.

Accounting treatment – Shipping costs

Following the guidance provided in section 4, the shipping costs paid by the United Nations qualify as a short-term benefit and consequently, the expense is recognized in the statement of financial performance when incurred. In this specific situation, the cost is incurred on 4 December 2014, when the shipment leaves New Zealand and consequently, the United Nations records an expense in its financial statements at that point in time. As no invoice is received, an estimate of the expense is made and included as an accrual in the statement of financial position[32] for the year ending 31 December 2014.

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – shipping costs	Estimate of total cost
Cr	Statement of financial position	Accruals	Estimate of total cost

11.1.3 Assignment grant

On 15 December 2014, after submission of his personal documents to office of Human resource Management of the United Nations he receives an initial appointment personal action. His assignment grant is released by the United Nations on 26 December 2014.

Accounting treatment – Assignment grant

The release of his assignment grant entitles John to 2 benefits:
- Daily allowance for thirty days,
- Lump-sum payment.

While the accounting for both follows the guidance for short-term benefits as detailed in section 4, the specifics for each of these benefits are slightly different and therefore covered separately.

[32] Please note that the accrual included in the financial statements can be adjusted to reflect the actual invoice amount, if the invoice is received before the financial statements are finalized.

Daily allowance:

As the name implies, the entitlement to this benefit is on a daily basis from the starting day and consequently John is entitled to the daily allowance from 15 December 2014 onwards. Therefore, from a technical perspective, the daily amount should be booked in the financial statements, every single day for thirty days, starting from 15 December 2014. As this is not practical, the United Nations will book the daily allowance on an aggregate basis on the day the employee is first entitled to it.

On 15 December 2014:

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – assignment grant daily allowance	Daily allowance for 15 December 2013 – 14 January 2015
Cr	Statement of financial position	Payable to employee (if unpaid) or cash (if paid)	Daily allowance for 15 December 2013 – 14 January 2015

Even though part of the payment can be considered a prepayment for the days relating to 2015, for practical reasons, the United Nations will recognize the entire expense when the expense first arises.

Lump-sum allowance:

Unlike as for the daily allowance, John is entitled to the full lump-sum grant on the day entitlement is granted (26 December 2014). Consequently, the full benefit should be booked then as follows:

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – assignment grant lump-sum	Lump sum
Cr	Statement of financial position	Payable to employee (if unpaid) or cash (if paid)	Lump sum

11.1.4 Health insurance

He receives a notification from his office on 15 December 2014 to enroll in health insurance plans for his family. He enrolls himself and his family in Blue cross/blue shield insurance program and Cigna Dental program on 18 December 2014 valid effective from 1 January 2015.

Accounting treatment – Health insurance

Under the United Nations' self-insured health insurance, the employer and the employee, John, make monthly contributions. These amounts can be found on the pay slip as "Medical Insurance Contributions" under deductions and "UN Medical Insurance Subsidy" under Organization's Contribution.

The accounting for these contributions is as follows:

Employer contributions

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – health insurance contribution	Monthly contribution
Cr	Statement of financial position	Health insurance liability	Monthly contribution

Employee contributions

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – gross salary	Gross salary costs
Cr	Statement of financial position	Payable to employee	Net salary
Cr	Statement of financial position	Health insurance liability	Monthly contribution

11.1.5 Salary

At the end of December he receives a statement of earnings and deductions (Pay slip) for 15-31 December 2014. The amount of pay check is deposited into his bank account on 31 December 2014.

Accounting treatment – Salary

John's regular salary is a typical short-term benefit and the expense should consequently be included when incurred, i.e. when he provides the service. On 31 December 2014, the expense for 16 days of his service should be included in the financial statements as follows:

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – salary costs	Salary costs
Cr	Statement of financial position	Payable to employee (if unpaid) or cash (if paid)	Salary costs

11.1.6 Rental subsidy and real estate agent commission

He finds a house in New York with the help of real estate agent. He pays a commission to real estate agent for finding the house. He submits the bill of real estate agent to United Nations office. He pays monthly rent for the house. The house owner agrees to waive the first half month rent as part of one year lease agreement beginning on 1 January 2014. With effect from 15 January 2015, he is entitled to receive a monthly rental subsidy to pay his house rent.

Accounting treatment – Rental subsidy

Following the guidance provided in section 4, both benefits, the monthly rental subsidy and the one off payment of the real estate agent commission, are classified as short-term benefits.

The double entries for each of these are as follows:

Real estate agent commission:

When John signs the rental agreement, and the commission consequently becomes payable, the United Nations should recognize:

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – real estate agent commission	Commission amount
Cr	Statement of financial position	Payable to employee (if reimbursed) or payable to real estate agent (if paid directly)	Commission amount

Rental subsidy:

While the rental subsidy is also a short-term benefit, it is recognized on an ongoing, monthly basis and not just once as the real estate agent commission. In the first month, only half of the monthly rental subsidy is paid and booked as John is only entitled to half the rental subsidy.

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – rent subsidy	Rental subsidy
Cr	Statement of financial position	Payable to employee (if unpaid) or cash (if paid)	Rental subsidy

11.1.7 Education grant

He is not able to find a good school for his daughter in New York. He decides to send his daughter to a boarding school in New Zealand. She is going to join that school from 1 February 2015. She will leave New York on 28 January 2015 for school.

He decides to send his son James Smith to Boston University for doing his business degree. James will join his college on 15 February 2015. John is entitled to receive the education grant entitlements for his kids. He receives the education grant on 5 February 2015 for John Smith for one semester (February 2015-May 2015). He receives education grant and education travel money on 25 January 2015 for Lena Smith for a full year period of February 2015-January 2016.

Accounting treatment – Education grant

Daughter:

As specified, on 25 January 2015, John receives the education grant for year and the education travel money for his daughter's return trip to and from New Zealand.

While both of these benefits are considered short-term benefits, the accounting slightly differs as one of them is a one-off cost and the other one is a regular, monthly benefit.

Education travel money double-entries when amount is paid to John (25 January 2015):

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – education travel money	Total payment
Cr	Statement of financial position	Cash	Total payment

Even though part of the payment can be considered a prepayment for the return journey, for practical reasons, the United Nations will recognize the entire expense when the expense first arises.

Education grant double-entries when amount is paid to John (25 January 2015):

Generally, an expense should be recognized when it is incurred. Applied to the education grant for school fees, this would in theory be every month the child goes to school. Amounts paid up front would consequently be recognized as a prepayment and released monthly.

Having said that, the United Nations has decided to take a more practical approach. Those costs that relate to the current financial year will be recognized immediately instead of on a monthly basis. All costs relating to the next financial year will be recognized as a prepayment.

The education grant received for the daughter covers the period February 2015 to January 2016. 11/12th of the cost therefore relate to the current year (2015), while 1/12th relates to the next financial year (2016).

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – education grant	11/12th of school fees paid
Dr	Statement of financial position	Prepayment	1/12th of school fees paid
Cr	Statement of financial position	Cash	School fees

Son:

As specified, on 25 January 2015, John receives the education grant for one semester for his son’s college. The accounting treatment is very similar to the accounting for the education grant for his daughter:

Education grant double-entries when amount is paid to John (25 January 2015):

As the son’s school term is entirely within the same financial year, there is no need to recognize a prepayment, but instead the expense will be recognized in full.

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – education grant	Total school fees
Cr	Statement of financial position	Prepayment	Total school fees

11.1.8 Post adjustment allowance

On 25 December 2015, post adjustment allowance component of salary for United States is changed from 67% to 70%. United Nations office has already released his salary with 67 per cent of post adjustment allowance on 31 December. The office decided to pay the balance allowance with January 2016 salary.

Accounting treatment – Post adjustment allowance

While the accounting for post adjustment allowance generally follows the information provided for regular salaries above, some specific aspects have to be considered when changes to the benefit are made.

The details provided state that the post allowance is increased in December 2015, but only paid in January 2016. Under accrual accounting, this increase should be reflected in the period in which it occurred (2015). At the end of 2015, the following entry should consequently be made;

Dr / Cr	Primary financial statement	Account	Amount

Dr	Statement of financial performance	Employee benefits – post adjustment allowance	Post adjustment allowance increase for 25-31 December 2015
Cr	Statement of financial position	Payable to employee (if unpaid) or cash (if paid)	Post adjustment allowance increase for 25-31 December 2015

11.1.9 Post-employment benefits

By joining the United Nations on 15 December 2014, he is also entitled to certain post employment such as ASHI, repatriation grant and death benefit.

Accounting treatment – Post-employment benefits

While the accounting for short-term benefits can be broken down by individual, as described in section 4 and this section, the accounting for post-employment is generally done on an aggregate basis and not by employee.

As mentioned, the United Nations receives an actuarial valuation for all of these benefits, except the home leave and uses these as the basis for its accounting treatment.

In order to roll the defined benefit obligation included in the previous year's statement of financial performance forward to the current year, the following information is needed for each benefit scheme[33]:

- Current service costs;
- Interest costs;
- Past-service costs;
- The effect of any settlements or curtailments (if any);
- Actuarial gains and losses.

Using these amounts, found in the actuarial valuation, the year-end accounting entry to roll forward each of the benefit obligations for post-employment benefits is as follows:

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial performance	Employee benefits – current service costs (e.g. ASHI)	As per actuarial valuation
Dr	Statement of financial performance	Employee benefits – interest costs (e.g. ASHI)	As per actuarial valuation
Dr	Statement of financial performance	Employee benefits – past service costs *fully vested* (e.g. ASHI)	As per actuarial valuation
Dr / Cr	Statement of financial performance	Employee benefits – settlements or curtailments (e.g. ASHI)	As per actuarial valuation
Dr / Cr	Statement of financial performance	Employee benefits – actuarial gains and losses (e.g. ASHI)	As per actuarial valuation
Cr	Statement of financial position	Defined benefit obligation (e.g. ASHI)	As per actuarial valuation

[33] Please note that all of these costs can be found in the actuarial valuation.

11.1.10 Other-long term benefits

By joining the United Nations on 15 December 2014, he is also entitled to certain other-long term benefits such as annual leave and home leave.

Accounting treatment – Other-long term benefits

Similarly to post-employment benefits, the accounting for other long-term benefits is generally done on an aggregate basis and not by employee.

As mentioned, the United Nations receives an actuarial valuation for all of these benefits, except the home leave and uses these as the basis for its accounting treatment.

In order to roll the defined benefit obligation included in the previous year's statement of financial performance forward to the current year, the following information is needed for each benefit scheme[34]:

- Current service costs;
- Interest costs;
- Past-service costs;
- The effect of any settlements or curtailments (if any);
- Actuarial gains and losses.

Using these amounts, found in the actuarial valuation, the year-end accounting entry to roll forward each of the benefit obligations for other long-term benefits is as follows:

Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial performance	Employee benefits – current service costs (e.g. Annual Leave)	As per actuarial valuation
Dr	Statement of financial performance	Employee benefits – interest costs (e.g. Annual Leave)	As per actuarial valuation
Dr	Statement of financial performance	Employee benefits – past service costs *all* (e.g. Annual Leave)	As per actuarial valuation
Dr / Cr	Statement of financial performance	Employee benefits – settlements or curtailments (e.g. Annual Leave)	As per actuarial valuation
Dr / Cr	Statement of financial performance	Employee benefits – actuarial gains and losses (e.g. Annual Leave)	As per actuarial valuation
Cr	Statement of financial position	Defined benefit obligation (e.g. Annual Leave)	As per actuarial valuation

[34] Please note that all of these costs can be found in the actuarial valuation

Other-long term benefits – Specific example

A specific example for this approach is provided by the following scenario:

In March 2016, John goes for a Mission assignment at Lebanon. He gets an injury on his right hand when his car is struck by a pickup truck in the Lebanon. Doctor advises him to take three months rest. He files a claim for injury under Appendix D workers compensation with the UN. Under this scheme, he is entitled to a lump sum payment, which is made in January 2017.

As described in section 8.4, the long-term disability under the workers' compensation scheme is classified as a post-employment benefit and the accounting consequently follows the double-entries provided in section 11.1.9.

In January 2017, when John's lump-sum is paid, the double-entry made looks as follows:

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial position	Defined benefit obligation	Lump-sum payment made
Cr	Statement of financial position	Cash	Lump-sum payment made

11.1.11 Employees on secondment

After getting clearance from his office, he is informed that he can be seconded to another organization and his contractual relationship with the releasing organization will be suspended until the expiry of the agreed period of secondment, or until December 2018. He will carry with him all his entitled or accumulated benefits as per terms of *Inter-organization agreement concerning transfer, secondment or loan of staff among the organization applying the United Nations common system of salaries and allowance*.

Example – Employees on secondment

Generally, the accounting for benefits of seconded employees depends on the arrangement between the two organizations. Details for most benefits are included in the *Inter-organization agreement concerning transfer, secondment or loan of staff among the organization applying the United Nations common system of salaries and allowance.*

Some specific examples for John's situation are as follows:

Short-term benefits - Salary and allowances:

The *Inter-organization agreement concerning transfer, secondment or loan of staff among the organization applying the United Nations common system of salaries and allowance* clearly states[35] that the receiving

[35] Paragraph 33.a.

organization shall bear the cost of the employee's salary and allowance and consequently the receiving organizations shall apply the guidance provided and account for John's benefits and entitlements.

Repatriation grant:

The following information is included in the *Inter-organization agreement concerning transfer, secondment or loan of staff among the organization applying the United Nations common system of salaries and allowance* with regards to repatriation grant benefits[36]:

a) If during a period of secondment the services of a staff member are terminated both by the receiving and the releasing organization, or if the he resigns from both organizations, or if he dies, his entitlements will be determined under the rules of the releasing organization as if all his service had been with it.

Based on this information, the releasing organization is still liable for the repatriation grant in case John is terminated, dies or resigns. Consequently, John should be included in the actuarial valuation of the releasing organization.

b) If during a period of secondment the services of a staff member are terminated by the receiving organization but not by the releasing organization, or if he resigns from the receiving organization, but not from the releasing organization, his entitlements to the repatriation grant, will be as follows:

   Entitlement to repatriation grant, if any, will be determined solely on the basis of service with the receiving organizations. A period of service in respect of which a repatriation grant was paid by the receiving organization will not be reckonable toward any subsequent entitlement to the grant from the releasing organization.

Similarly to the situation under a), the fact that an individual goes on secondment, does not release the releasing organization from its liability to provide repatriation benefits. The individual on secondment should therefore be included in the actuarial assessment. Having said that, the period the individual spends with the other organization does not qualify for repatriation grant with the releasing organization and the actuaries should therefore be informed of any individuals on secondment.

Post-employment and other long-term benefits:

As mentioned in section 5 and 6, the accounting for post-employment and other long-term benefits is done on an aggregate basis. A secondment of an employee therefore does not change the actual accounting entries required to update the defined benefit obligation in the financial statements.

[36] Paragraphs 20 and 21.c.

Instead the key aspect here is, under which organization the secondee should be included for the actuarial valuation.

While general information on this is included in section 1, this aspect also depends on the details of the arrangement between organizations. With regards to John, the organizations agreed that all entitlements (including accumulated entitlements) should be transferred to the receiving organization.

Consequently the receiving organization should ensure that John is included in its actuarial valuation.

11.1.12 Benefit payments upon retirement

John Smith comes back and joins his original job position in New York in December 2018. After that he works happily for 10 more years and receives his regular salary entitlements for his services. In December 2028, He decides to opt for early retirement before his real retirement date i.e. year 2031.

Example – Benefit payments upon retirement

Once an employee retires, all the post-employment defined benefit obligations built up over the time of service are released as follows:

Dr / Cr	Primary financial statement	Account	Amount
Dr	Statement of financial position	Defined benefit obligation	Benefit
Cr	Statement of financial position	Cash	Benefit

11.2 Case study: self-insured health insurance

Included below is an overview of the different accounting entries necessary for the United Nations self-insured health insurance.

As there are various different components to the self-insured health insurance, the following topics are covered separately:

- Accounting for monthly contributions by employer for active and retired staff;
- Accounting for monthly contributions by active and retired employees;
- Accounting for contributions made by participating organizations;
- Accounting for reimbursements to insurance companies;
- Accounting for year-end organization wide provision.

11.2.1 Accounting for monthly contributions by employer

As mentioned in section 8.1.3.1, the accounting for employer contributions depends whether the contribution is for active staff or whether it is for retired staff.

11.2.1.1 Accounting for monthly contributions by employer for active staff

Every month, the United Nations makes a contribution for each employee to its self-insured health insurance. This payment is classified as a short-term benefit and the amount is visible on the pay slip as "UN Medical Insurance Subsidy".

The double-entries for such contributions under IPSAS are as follows.

Accounting for monthly contributions by employer to self-insured health insurance			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial performance	Employee benefits – health insurance contribution	Monthly contribution
Cr	Statement of financial position	Health insurance liability	Monthly contribution

11.2.1.2 *Accounting for monthly contributions by employer for retired staff*

On a monthly basis, contributions to the scheme are also made for retired staff. However, unlike as for active staff, the expense is not a current year expense, but instead is charged against the actuarial liability established for the after-service health insurance (ASHI).

The double-entries for such contributions under IPSAS are as follows.

Accounting for monthly contributions by employer to self-insured health insurance			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	After-service health insurance (ASHI) actuarial liability	Monthly contribution
Cr	Statement of financial position	Health insurance liability	Monthly contribution

11.2.2 *Accounting for monthly contributions by employee*

Similarly to the monthly contributions by the employer, contributions by staff are made during employment (Active staff) and after employment (retired staff). While neither of these contributions qualifies as an employee benefit, the accounting is included for completeness purposes.

11.2.2.1 *Accounting for monthly contributions by active employee*

An active employee makes contributions to the scheme on a monthly basis. On the pay slip these are included under deductions and labeled “Medical Insurance Contribution”.

The double-entries for such contributions under IPSAS are as follows.

Accounting for monthly contributions by employee to self-insured health insurance			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial performance	Employee benefits – gross salary	Gross salary costs
Cr	Statement of financial position	Payable to employee	Net salary
Cr	Statement of financial position	Health insurance liability	Monthly contribution

11.2.2.2 *Accounting for monthly contributions by retired employee*

As explained above, a retired employee still makes monthly contributions to the health insurance. These premiums are deducted from the pension paid by the UNJSPF and should be recorded as balance sheet transactions by the United Nations.

11.2.3 *Accounting for contributions made by participating organizations*

On a regular basis, participating organizations forward their own contributions and the contributions of their employees to the United Nations Secretariat as their employees are covered under the scheme administered by the United Nations.

The double-entries for such contributions under IPSAS are as follows.

Accounting for monthly contributions by participating organizations			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Cash	Contributions received
Cr	Statement of financial position	Health insurance liability	Contributions received

11.2.4 *Accounting for reimbursements to insurance companies*

While the scheme is a self-insured scheme, the United Nations relies on insurance companies for the processing of claims and reimburses the insurance companies on a regular basis. Whenever such a reimbursement is made, the transaction should be accounted for as follows:

Accounting for reimbursements to insurance companies			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Health insurance liability	Reimbursement
Cr	Statement of financial position	Cash	Reimbursement

Should the liability recognized in the statement of financial position not be sufficient for the reimbursement, the entry would look as follows:

Accounting for reimbursements to insurance companies			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Health insurance liability	Total liability
Dr	Statement of financial performance	Employee benefits – health insurance costs	Shortcomings of liability for United Nations employees
Dr	Statement of financial position	Receivable from participating organizations	Shortcomings of liability for employees of participating organizations
Cr	Statement of financial position	Cash	Reimbursement

11.2.5 Accounting for year-end organization wide provision

As explained in section 8.1.3.2, the United Nations needs to recognize a provision at the end of the year for those amounts it expects to pay for claims relating to the closing financial period.

To establish this provision, it should consider claims received by the insurance company since the year end and amounts that are still expected to come in relating to the financial period that is being closed. Usually the latter is assessed by looking at historical experience. For example:

- Throughout the year reimbursements over $10,000,000 were made to the insurance company;
- The insurance company has received claims since the year end over $3,000,000;
- In prior years, the total health insurance reimbursements made per financial year were usually around $15,000,000.

Based on these facts, the United Nations should include a provision of $5,000,000 in its financial statements to cover the $3,000,000 already known by the insurance company and the $2,000,000 still expected to come in considering historical experience and trends.

When establishing the year-end provision in its statement of financial position, the United Nations should incorporate the existing liability for health insurance in its accounts, which has been created throughout the year from its own contributions, employee contributions and contributions received from participating organizations, as the total liability in its accounts should be $5,000,000 and not just the provision amount.

Facts:

- Provision needed: $5,000,000;
- Health insurance liability as of 31 December 20X2[37]: $1,200,000.

- Of the difference of $3,800,000, $800,000 relates to staff of the United Nations Secretariat and the remainder relates to staff of other participating organizations.

In order to establish the full provision over $5,000,000, the following double-entries should be made:

Accounting for reimbursements to insurance companies			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Health insurance liability	$1,200,000
Dr	Statement of financial performance	Employee benefits – health insurance costs	$800,000
Dr	Statement of financial position	Receivable from participating organizations	$3,000,000
Cr	Statement of financial position	Provision for health insurance	$5,000,000

In the unlikely event, that the year-end liability is higher than the required provision, the liability should be reduced by crediting the expense account for the share attributable to United Nations staff and a liability for the share attributable to staff of other participating organizations.

Facts:

- Provision needed: $5,000,000;
- Health insurance liability as of 31 December 20X2[38]: $6,200,000.
- Of the difference of $1.2m, $200,000 relates to employees of the United Nations Secretariat.

In order to establish the full provision over $5,000,000, the following double-entries should be made:

Accounting for reimbursements to insurance companies			
Dr / Cr	**Primary financial statement**	**Account**	**Amount**
Dr	Statement of financial position	Health insurance liability	$6,200,000
Cr	Statement of financial performance	Employee benefits – health insurance costs	$200,000
Cr	Statement of financial position	Payable to participating organizations	$1,000,000
Cr	Statement of financial position	Provision for health insurance	$5,000,000

[37] The health insurance liability is created from the monthly employer and employee contributions and reduced by reimbursements made. See 11.2.1-11.2.4.
[38] The health insurance liability is created from the monthly employer and employee contributions and reduced by reimbursements made. See 11.2.1-11.2.4.