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# FINANCE COMMITTEE

**Two Hundred and Third Session**

**Rome, 10-14 March 2025**

**2024 Actuarial Valuation of Staff Related Liabilities**

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### EXECUTIVE SUMMARY

- This document presents an update to the Finance Committee on the preliminary results of the actuarial valuation of the Organization’s liability for staff-related plans (the “Plans”) as at 31 December 2024. It contains three sections as follows:
  - *Section I. Introduction* describes the Plans, which provide distinct benefits to staff either on completion of service or as a result of work-related illness or injury. It also explains the purpose of annual actuarial valuations.
  - *Section II. Results of Actuarial Valuations* summarizes the total liability of the Plans as at 31 December 2024, 2023 and 2022 and provides the key assumptions used in those valuations. During 2024, the total liabilities of the Plans decreased by an amount of USD 104.9 million from USD 982.3 million at 31 December 2023 to USD 877.4 million at 31 December 2024. The various reasons for the decrease are detailed in this section.
  - *Section III. Current Financial Situation* provides the total recorded, unrecorded and net balance sheet liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for the Plans as at 31 December 2024, 2023 and 2022, respectively. The total unfunded liability of the Plans as at 31 December 2024 was USD 250.2 million compared with USD 374.2 million at 31 December 2023.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to note the results of the 2024 actuarial valuation and the current financial situation, accounting and funding of the Organization’s liability for staff-related plans at 31 December 2024.

#### Draft Advice

#### **The Committee:**

- **noted that total staff related liabilities as at 31 December 2024 amounted to USD 877.4 million, representing a net decrease of USD 104.9 million from the valuation at 31 December 2023; and**
- **further noted that despite the decrease in total liabilities driven mainly by the impact of an increase in the discount rates applied, the After Service Medical Coverage (ASMC) liability remained seriously underfunded.**

## I. Introduction

1. FAO (the “Organization”) has five staff-related plans (the “Plans”) that provide benefits to staff members either upon completion of service or as a result of work-related illness or injury. The Plans are as follows:

- Separation Payments Scheme (SPS): the provisions of the SPS apply only to staff members in the General Service category at headquarters and are paid on separation from the Organization or on promotion to the Professional category;
- Termination Payments Fund (TPF): the TPF comprises benefits payable to staff upon separation from service, specifically Repatriation Grant, Repatriation Travel and Removal, Commutation of Accrued Leave, Termination Indemnity, and where applicable, Death Grant;
- After Service Medical Coverage (ASMC): a medical insurance plan for retired staff and their families meeting certain eligibility criteria. The in-service equivalent of ASMC is the Basic Medical Insurance Plan (BMIP) for active staff members. Both ASMC and BMIP provide partial reimbursement for certain hospital, physician, dental, psychiatric, physical therapy, hospice and eyeglass charges subject to various limits and exclusions. The premium of the ASMC is nominally shared between the retired staff member and the Organization;
- After Service Medical Insurance (ASMI): an alternative plan, ASMI, is offered to active National staff hired after 30 September 2016 in duty stations categorized other than headquarters ‘H’. Due to the small size of the ASMI population, this group has been valued under ASMC assumptions and provisions; and
- Compensation Plan Reserve Fund (CPRF): the CPRF provides benefits subject to certain limitations to staff members and Non-Staff Human Resources (including, inter alia, consultants and persons holding Personal Service Agreements) in the event of injury, illnesses, or death attributable to the performance of official duties. The benefits include annuities or lump-sum payments (supplementing the UN Pension benefits, if applicable) in the event of death or disability, and reimbursement of reasonable medical, hospital and directly related expenses.

2. All of the above-mentioned Plans are treated by the Organization as defined benefit plans. To meet the financial reporting requirements the Organization obtains annually a valuation of all plans from an external actuarial firm. This allows the Organization to:

- a) Determine the Organization’s overall liabilities associated with the Plans.
- b) Establish the annual expense related to the Plans’ maintenance.
- c) Quantify recommended rates of contributions to fully fund the liabilities.
- d) Obtain information necessary to meet financial reporting requirements.

3. The actuarial valuations for 2024, 2023 and 2022 were all performed by Aon Consulting ([www.aon.com](http://www.aon.com)). This document refers to the results of the actuarial valuation as at 31 December 2024 and the current financial situation, and accounting and funding of the Organization’s liability with information as at 31 December 2023 and 2022 provided as comparisons.

## II. Results of Actuarial Valuations

4. A comparison of the total actuarial liability by plan as at 31 December 2024, 2023 and 2022 is detailed in Table 1.

**Table 1**

<i>(in USD Millions)</i>							
Plan	2024	Increase/ (Decrease)		2023	Increase/ (Decrease)		2022
		USD m	%		USD m	%	
CPRF	18.9	2.9	18.1%	16.0	(2.1)	-11.5%	18.1
TPF	63.4	(3.3)	-4.9%	66.7	2.9	4.6%	63.8
SPS	34.4	(4.0)	-10.4%	38.4	1.9	5.3%	36.5
ASMC	753.8	(101.6)	-11.9%	855.4	(19.0)	-2.2%	874.4
ASMI	6.9	1.1	n.a.	5.8	5.8	n.a.	-
<b>Total actuarial liability</b>	<b>877.4</b>	<b>(104.9)</b>	<b>-10.7%</b>	<b>982.3</b>	<b>(10.4)</b>	<b>-1.0%</b>	<b>992.7</b>

5. The net decrease in the actuarial liability between 2024 and 2023 amounted to USD 104.9 million. Table 1a below provides a breakdown of the reasons for this decrease, with the most significant impact coming from the updates to changes in discount rates, assumptions from experience studies, movement in Euro-Dollar exchange rates and updates to medical claims and trend rates:

**Table 1a**

Sources of Changes of the Plans from 2024 to 2023	Variations USD millions
Expected change, without new entrants *	28.5
Updates to Medical Claims and Trend Rates **	(16.0)
Movement in Euro-Dollar Exchange Rate ***	(27.4)
Changes in Discount Rates	(54.4)
Changes in Assumptions from Experience Studies	(39.5)
All Other Experience and Assumption Changes	3.9
<b>Total net decrease</b>	<b>(104.9)</b>

\* Expected change due to interest cost and service cost, offset by expected decrease due to actual benefit payments made  
\*\* Excludes the impact of exchange rates on the expected net medical claims  
\*\*\* Excludes the impact of exchange rates on TPF benefits for active staff paid in U.S. Dollars and on CPRF annuities

6. The actuarial valuation of the Plans requires the Organization to make certain assumptions in order to best estimate the cost of providing these benefits to its staff members. These include demographic assumptions (e.g. mortality rates/estimates, rates of staff member turnover, claim rates under medical plans, etc.) and financial assumptions (e.g. discount rate, future salaries and benefits, future medical costs, etc.). Owing to changes in both internal and external factors, the Organization, together with the actuaries, performs an annual review of the assumptions used in the actuarial valuation and adjusts them where it is deemed necessary for a more accurate calculation of the Plan liabilities. Like most actuarial calculations, annual valuations are subject to significant uncertainty and unpredictability. In particular, the values of the Organization's liabilities for the Plans are highly sensitive to changes in the Euro-United States Dollar exchange rate, the discount rate, medical claim rates and anticipated medical inflation.

7. The key assumptions used in the valuations of the Plans for 2024, 2023 and 2022 are presented in Table 2.

Table 2

<b>Key Assumptions</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>
<b>Economic</b>			
<b>Discount rate</b>			
ASMC & ASMI	4.6%	4.2%	4.5%
SPS	3.2%	3.2%	3.8%
TPF	4.8%	4.3%	4.6%
CPRF	5.7%	5.0%	5.2%
<b>Medical cost inflation rate</b>	4.40% during 2025, decreasing 0.05% annually to 3.8% in 2037 and later years	4.45% during 2024, decreasing 0.05% annually to 3.8% in 2037 and later years	4.5% during 2023, decreasing 0.05% annually to 4.0% in 2033 and later years
<b>General inflation rate</b>	Varies by plan (1.9% - 2.3%)	Varies by plan (2.1% - 2.5%)	Varies by plan (2.2% - 2.5%)
<b>Year end spot rate €/USD</b>	1.0417	1.11	1.06

### III. Current Financial Situation

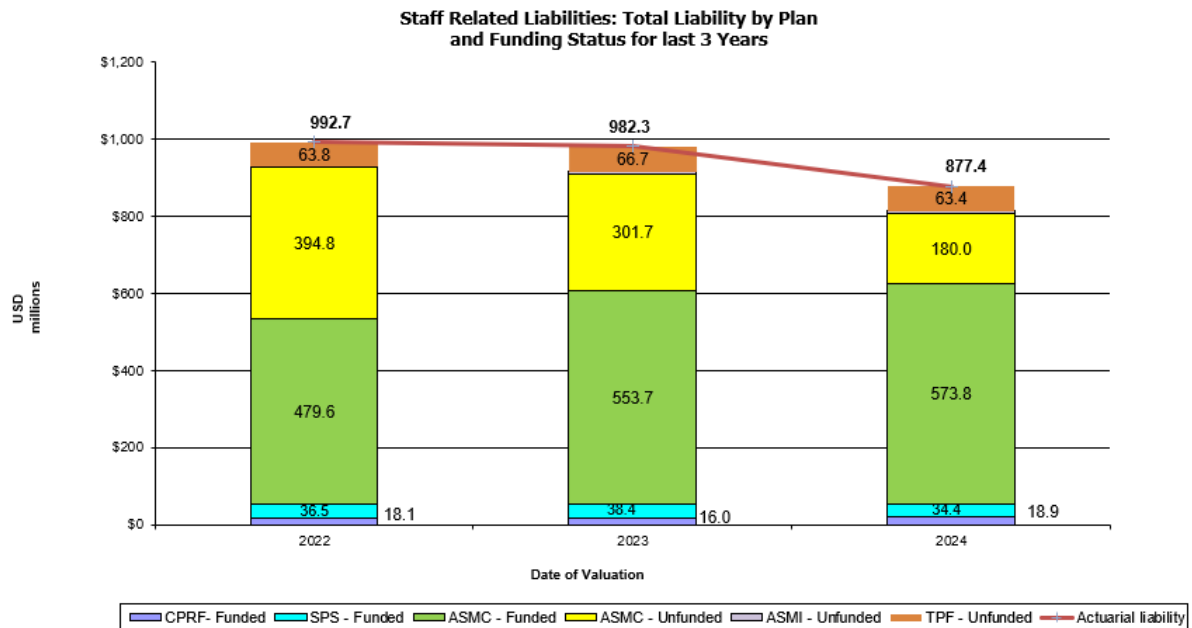
8. Table 3 below shows the total recorded liabilities for the Plans based on the actuarial valuations, as well as the total funded and unfunded liabilities for all Plans as compared with the fair market value of earmarked long-term assets at 31 December 2024, 2023 and 2022 respectively.

Table 3

<b>USD millions</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>
<b>Plan</b>			
<b>Fully Funded</b>			
CPRF	18.9	16.0	18.1
SPS	34.4	38.4	36.5
<b>Partly Funded</b>			
ASMC	573.9	553.7	479.5
<b>Total Funded</b>	<b>627.2</b>	<b>608.1</b>	<b>534.1</b>
<b>Funded by:</b>			
Earmarked long-term investments (at Fair Market Value)	<b>(627.2)</b>	<b>(608.1)</b>	<b>(534.1)</b>
<b>Unfunded</b>			
ASMC	179.9	301.7	394.8
ASMI	6.9	5.8	
TPF	63.4	66.7	63.8
<b>Total unfunded liabilities</b>	<b>250.2</b>	<b>374.2</b>	<b>458.6</b>
<b>Total actuarial liability</b>	<b>877.4</b>	<b>982.3</b>	<b>992.7</b>

9. Conference resolutions 10/99 and 10/2001 provide that long-term investments and any income which they generate are to be applied first to ensure the adequacy of funding of the SPS and CPRF. The resolutions also provided that any additional investments and related income then be earmarked for the ASMC and subsequently for the TPF. As at 31 December 2024, the ASMC, TPF and ASMI continue to be underfunded as shown in Graph 1.

Graph 1

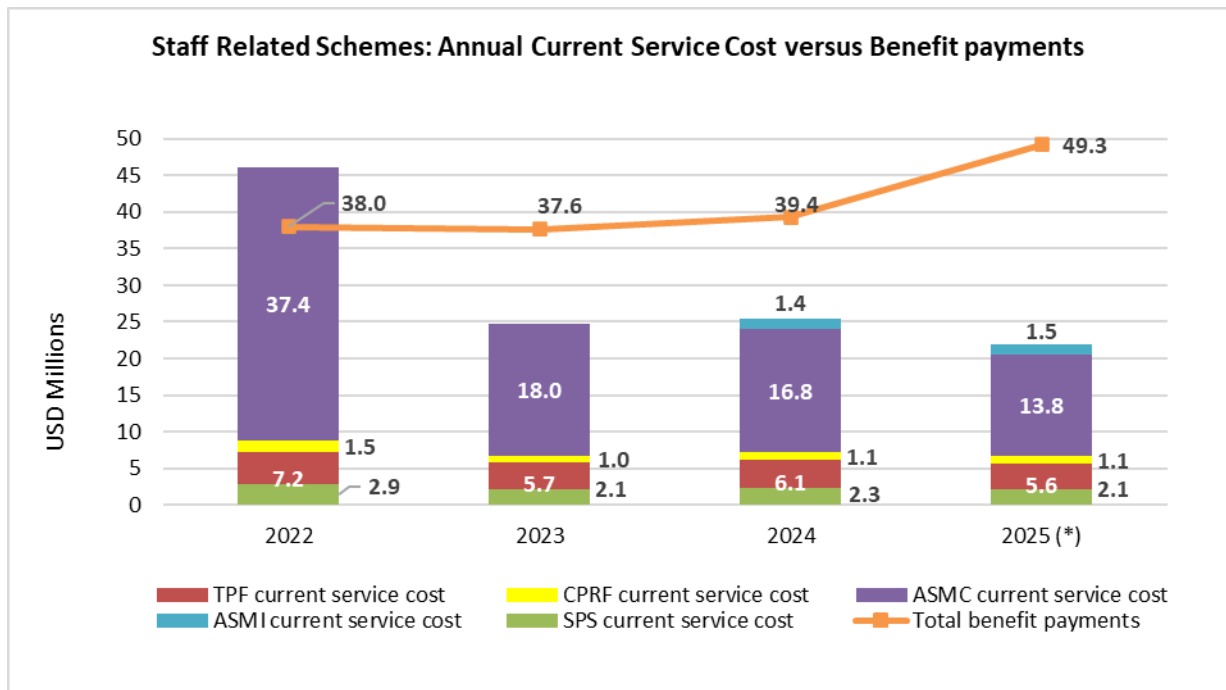


10. During 2024, the carrying value of long-term investments earmarked by the Organization for the Plans increased by USD 19.1 million from USD 608.1 million at 31 December 2023 to USD 627.2 million at 31 December 2024. Further details on these investments are presented in the Report on Investments 2024 (document FC 203/3).

11. In addition to the unfunded past liabilities, all schemes contain a current service cost. The current service cost is a standard component of staff costs and arises each year as active staff members provide their services in exchange for these benefits to be paid in the future. Only the Regular Programme portion of the current service cost is met from the budgetary appropriations of the Programme of Work (PWB). The PWB is prepared on the basis of the last available estimate of current service cost as prepared by the external actuaries. The Trust Fund portion is charged to Trust Fund projects.

12. Graph 2 shows the annual Current Service Costs for all schemes for the four years ending 31 December 2025, compared to the actual benefit payments incurred for the years 2022-2024, and the expected benefit payments for the year 2025. These costs are based on the actuarial valuations for the preceding years at 31 December 2024, 2023 and 2022, respectively, and the 2025 expected benefit payments have been calculated and reported in the actuarial valuation at 31 December 2024.

**Graph 2**



13. Since 2022 there has been a significant decrease in the annual current service cost charged across all of the staff liability plans to respective budgets. The reduction in expense has been largely driven by the increase in discount rates affecting the value of the liability, particularly for the after service medical plans which have increased from 2.2 percent at 31 December 2021 to 4.6 percent at 31 December 2024, impacting the current service cost for years 2022 and 2025, respectively. General and medical inflation rates have been relatively flat throughout this period, causing payments to beneficiaries to have remained relatively stable and not to have decreased along with current service costs. As a result, the 2025 expected net benefit payments are anticipated to exceed the current service cost by USD 25.2 million.

14. In total, the 2025 service cost will decrease by USD 3.6 million, of which USD 3.0 million relates to a decrease in ASMC. The reasons for the decrease in ASMC service cost include:

- a) a decrease of USD 1.7 million due to the increase in the discount rate from 4.2 percent to 4.6 percent;
- b) a decrease of USD 1.1 million due to expected changes, before new entrants;
- c) a decrease of USD 0.2 million due to changes in claims and administrative expenses, ageing factors, cost sharing assumptions and other demographic experiences; offset by
- d) an increase of USD 0.5 million due to new entrants.