ON EMPLOYER CONTRIBUTIONS

PREPARED BY: IOTC SECRETARIAT

PURPOSE

1. In 2020, the Commission requested the Secretariat to provide more information about how IOTC staff Employer Contributions are calculated by FAO. This document provides the SCAF with explanatory information on employer contributions and the results of an analysis of recent employer contribution costs.

EMPLOYER CONTRIBUTIONS EXPLAINED

Budgeting and Reporting on Employer Contributions

2. The Indian Ocean Tuna Commission (IOTC) is an Article XIV body formed under the FAO Constitution. IOTC operates under its own set of Financial Regulations but these are required (under the IOTC Agreement) to be consistent with the principles embodied in the Financial Regulations of FAO.

3. When reporting to the SCAF, the amounts paid from the IOTC budget towards 'Employer Contribution' costs have historically been broken down into two components: (i) the Employer Pension and Health Fund and (ii) the Employer FAO Entitlement Fund.

   (i) All FAO employees are required to join the UN Pension scheme and the FAO Health Fund, and the employer (IOTC) is required to contribute an amount to the costs of these items.

   (ii) All FAO employees qualify to receive a range of grants, for example, to travel to their duty station, travel home every two years, and be repatriated when they leave. Some employees also qualify to receive allowances for the education of their children, maternity leave, paternity leave, and housing allowance, etc. All such grants and allowances are drawn from the FAO's Entitlement Fund, and IOTC is required to make a contribution to the costs.

4. Note, the UN Pension scheme, the FAO Health Fund and FAO Entitlement Fund are mandated by the UN and FAO Council and managed by the FAO. The Commission has no discretion on their implementation or cost.

Employer Pension and Health (e.g. budget line 1.3 in the attached draft 2022 budget).

5. The IOTC, as an employer is required, by FAO regulations, to contribute to the compulsory UN pension scheme and FAO Health Fund of each staff member.

6. **UN Pension Plan:** The United Nations Joint Staff Pension Fund (UNJSPF) provides retirement, disability and survivors' benefits for the staff. The current rate of contribution to the Fund is 23.7 per cent of each staff member's pensionable remuneration https://icsc.un.org/Home/PensionableRenumeration, with two-thirds paid by the IOTC and one-third by the staff member.

7. **Basic Medical Plan (Health Insurance):** This is calculated according to an FAO contract with an external Health Insurance Provider and FAO's current health insurance policy (see Annex 1). Costs can change due to changes in the insurance premiums. For IOTC staff members, premium rates are shared equally between the staff member and the IOTC, except where the monthly deduction would represent more than 5 percent of the staff member's gross base salary, the amount actually charged is 5 percent of gross base salary, and the IOTC's share is be increased accordingly. Staff may also opt out of full family coverage and there are different levels of coverage, so costs can vary further due to the preferences of individuals.

Employer FAO Entitlement Fund (usually budget line 1.4)

8. IOTC, as an employer is required to contribute to the various allowances provided for under an FAO contract. Not all staff are eligible for allowances and the allowances can change depending on the circumstances of each staff member. the major allowances are:

9. **Benefits at Standard**: These are costs that FAO applies using a varying percentage of certain elements of the salary. In summary, they are a provision for benefits that may or may not be received by all staff members, and which do not appear on an individual staff members payslip, such as education grant, home leave travel and end-of service benefits. They are calculated using the average cost of the 'non-recurrent' pay elements and are charged as a monthly "unit cost" through a monthly percentage or "uplift" applied to the cost of the 'recurrent' pay elements. The percentage factor is obtained on a rolling, continuously monitored basis, and essentially it is the figure necessary to recoup all the actual costs to date of "off-payslip" benefits to project-funded staff (all staff employed by IOTC are considered by FAO to be 'project funded')

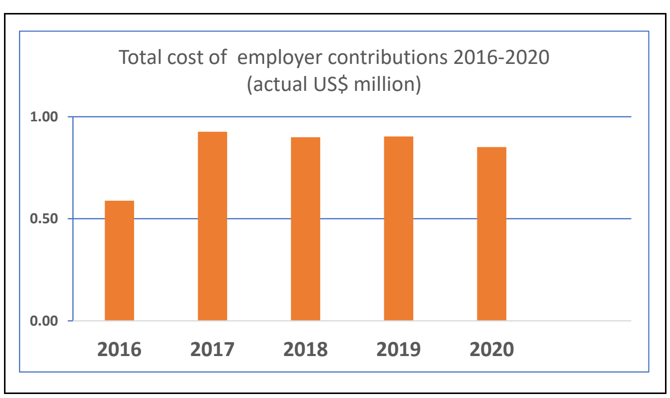
10. **Rental Subsidy:** This entitlement is provided to international staff in line with UN rules (see ICSC link) and charged directly to IOTC for each eligible staff member. Not all staff are eligible (only 2 of 11 professional IOTC staff are currently claiming this entitlement). The total cost of each rental subsidy is variable, being dependant on the grade of staff (including step), the type of property the staff Member lives in, the market costs and the exchange rate. A UN housing survey is carried out every two years which usually results in a change in the allowance. Therefore, increases and decreases are difficult to predict.

Adjustment Staff Cost Variance (usually budget line 1.6)

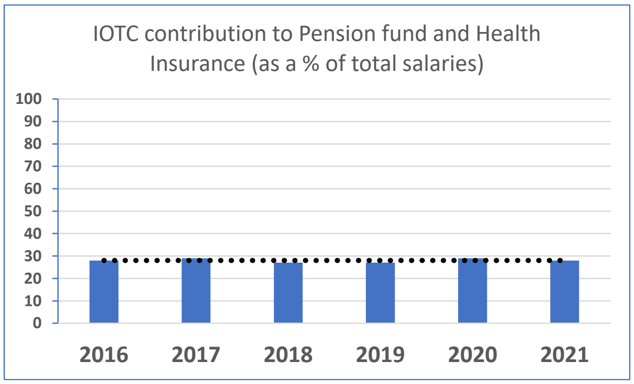
11. Often the Secretariat includes a line in the Financial Statement labelled "Adjustment Staff Cost Variance (SCV)" and this is shown as a zero-budget line called "Adjustment Entitlement Fund" in the current budget. It is set to zero in the PWB because it cannot be predicted. The SCV can represent an FAO year-end debit transaction to cover unforeseen extra costs or an FAO credit/rebate due to lower-than-expected costs. Essentially it covers the FAO differences at year-end between the total of all actual costs calculated and those already charged. The FAO terminology for this is staff cost variance and a full explanation (received from FAO) can be found in Annex 2. The SCV is shown as a separate line in the financial statement to ensure transparency, since IOTC has little control over the amount applied.

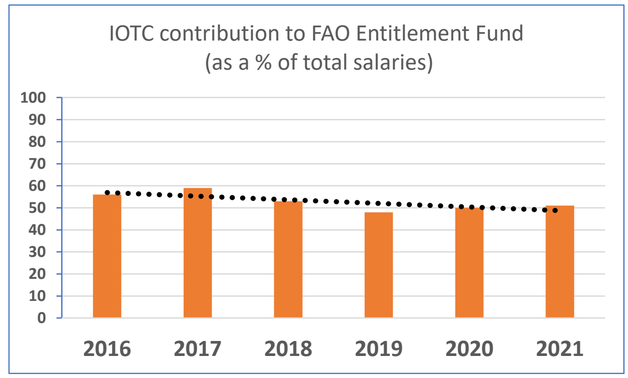
RECENT TRENDS IN EMPLOYER CONTRIBUTIONS

12. Comparing the levels of employer contributions across years is not straight forward because factors such as FAO policy changes and changes in staffing can change the costs of contributions. Also, FAO's Entitlement Fund is managed on the basis of all FAO staff being included. Notwithstanding these influential factors, the actual cost of employer contributions (pension & health and FAO entitlements) paid by IOTC has decreased slightly since 2017.



13. The employer contributions of the two components of employer contributions i.e. pension & health and FAO entitlements, respectively are shown below (each bar reflects the annual cost of the contribution as a percentage of the total salary). The trend lines (dotted) on the below figures show that IOTC's contributions to staff pensions & health have been relatively stable in recent years, while IOTC's contributions to the FAO entitlement fund have reduced slightly.





14. In summary, FAO employer contribution costs in relation to IOTC's salaries have been relatively stable since 2016.

Note About the Method Used for Budgeting Salaries

15. The IOTC Secretariat uses the most recent transaction data available from the FAO accounting system to forecast future salaries, including employer contributions. After forecasting salary costs based on current levels, a contingency amount (currently 2% for 2021 and 2022) is added to each budget line to cover salary progressions (steps) and other variable factors as previously discussed. Despite the variability of individual budget lines, this contingency has worked well in estimating total staff costs and the method will continue to be reviewed on an annual basis by analysing previous estimates against actual costs.

SUGGESTED ACTIONS BY THE STANDING COMMITTEE ON ADMINISTRATION AND FINANCE

That the SCAF:

a) **NOTE** the information provided in IOTC-2021-SCAF18-09 when analysing the IOTC Financial Report and Programme of Work and Budget for 2022.

b) **NOTE** the costs of employer contributions have been relatively stable since 2017.

Annex 1

Medical Insurance Plan – Monthly Premium Rates for 2020

Food and Agriculture Organization of the United Nations

administrative circular

No. 2019/10

Date: 06 December 2019

MEDICAL INSURANCE PLANS MONTHLY PREMIUM RATES FOR THE YEAR 2020

After the successful conclusion of the medical insurance tender process, Cigna has been selected as the new medical insurance provider for the Basic Medical Insurance Plan (BMIP) and the voluntary Major Medical Benefits Plan (MMBP) for FAO staff members and retirees effective 1 January 2020.

This is to inform active staff and retirees from FAO that the Director-General has approved the 2020 BMIP contributions, for both the Euro and United States Dollar schemes, with a fixed monthly rate of premiums, using a transparent methodology which aligns FAO with the common approach of the other Rome-based Agencies as well as the best practices in the UN common system. The fixed monthly rate of premiums for 2020 are as follows:

1) For active staff members, premium rates are shared equally between the staff member and the Organization, except where the monthly deduction would represent more than 5 percent of the staff member's gross base salary, the amount actually charged shall be 5 percent of gross base salary, and the Organization's share shall be increased accordingly.

2) For retirees, premium rates are shared equally between the participating former staff member (or their survivor/s) and the Organization; however, the monthly deduction of the former staff member (or their survivor/s) shall not exceed the higher of:

a. 4 percent of the full periodic benefit from the United Nations Joint Staff Pension Fund (UNJSPF) (i.e. recalculated to include any portion that may have been commuted into a lump-sum), including cost-of-living adjustments; or

b. 4 percent of 46 percent of the Final Average Remuneration (as calculated by the UNJSPF and expressed in United States Dollars) of the former staff member as long as he/she participates in the plans.

The below table represents the **BMIP/MMBP New Monthly Premium Deduction (participant's share only)** **as at 1 January 2020**:

EURO SCHEME

(Headquarters Staff and Retirees under Euro Scheme)

	January 2020 Rates (in Euros)	
Participants	BMIP	MMBP
Staff member only	132.45	16.35
Staff member + 1 family member	257.75	32.44
Staff member + 2 family members	323.05	40.53
Staff member + 3 family members	388.35	48.62
Staff member + 4 or more family members	453.66	56.73

DOLLAR SCHEME

(Staff[1] in the Field and Retirees under USD Scheme)

	January 2020 Rates (in US Dollars)	
Participants	BMIP	MMBP
Staff member only	162.77	18.98
Staff member + 1 family member	317.55	37.96
Staff member + 2 family members	398.19	47.43
Staff member + 3 family members	478.88	56.90
Staff member + 4 or more family members	559.54	66.37

Annex 2

Explanation Received from FAO Finance Regarding Staff Cost Variance

Staff costs for Trust Fund Projects are of two kinds:

1. Costs arising from 'recurrent' pay elements, processed through the monthly payroll - salary, mobility and hardship allowance and rental subsidy etc. together with social security (medical insurance and pension) contributions made by FAO each month.

2. Costs arising from 'non-recurrent' pay elements viz.:

• The payment of other, usually non-monthly staff entitlements outside the monthly payroll, for example education grant payments claimed towards the education costs of eligible children;

• Provision for the eventual cost to FAO of end-of- service and after-service benefits, other than pension, earned through qualifying service.

As part of the payroll accounting process, these two groups of payroll and other pay/entitlement elements are charged as follows:

• The 'recurrent' pay elements directly arising from monthly payroll payments and charges are charged based on the actual costs for each payroll month.

• The average cost of the 'non-recurrent' pay elements are charged as a monthly "unit cost" through a monthly percentage or "uplift" applied to the cost of the 'recurrent' pay elements.

The account in which the actual cost of 'non-recurrent' payroll elements are recorded is the EB **Staff Cost Variance (SCV) Account**. It comprises two sections: 1) for the Professional and Higher Categories and National Professional Officers and 2) for staff in the General Service category. Their respective 'uplifts' are also separately calculated and credits arising recorded in the respective section.

Differences at year-end between the total of all costs charged to each of the two sections of the Staff SCV Account (Professional etc. category and General Service category) and the related credits from the uplift charged each month, are distributed to financially open projects in proportion to the total of uplift charges made throughout the year for each of the two categories of staff. The charges of USD refer to this distribution process.