

GENERAL AGREEMENT ON

RESTRICTED
Spec(89)9
18 April 1989

TARIFFS AND TRADE

ADMINISTRATIVE AND FINANCIAL QUESTIONS

Sickness Insurance for GATT Staff

Note by the Secretariat

1. The Director-General has decided to change the arrangements for the health insurance of the staff and retirees of GATT, at present provided by the United Nations Mutual Insurance Society against Sickness and Accident. With effect from 1 July 1989, health insurance coverage will be provided by the "Caisse Maladie Suisse d'Entreprise" (CMSE). The following paragraphs contain information on the background to this change, and an indication of its practical consequences.
2. The Committee will recall that in the estimates of expenditure for 1989 (both regular budget and Uruguay Round), under the heading "Other common staff costs", an amount of Sw F 908,000.- was allocated for the statutory contribution on behalf of GATT staff and pensioners to the United Nations (the organizations participating in this insurance are: the United Nations Office at Geneva, the World Meteorological Organization and GATT). This amount was based on what was known then (October 1988) about the rates of contributions for 1989, which were due to go up. It was in itself a substantial increase over the amount allocated to this item in 1988. The Committee was informed at the time of the precarious financial situation of the insurance scheme and that the Secretariat would be reviewing the situation, since it appeared likely that further increases in contributions were unavoidable. The Secretariat would be seeking to identify alternative ways of meeting the organization's and staff members' needs.
3. In January 1989, i.e. after the expenditure estimates had been approved, further measures were introduced designed to redress the financial situation of the insurance scheme. These were:
 - reduction in benefits to members;
 - an even larger increase in contributions for staff and organizations.

For this reason, the actual cost of the organization's share of the total contribution to the insurance scheme is expected to be Sw F 1,048,000.- for 1989. Consequently, the allocation in the 1989 budget would fall short of requirements by Sw F 140,000.-.

4. A word of explanation about the reasons for this spiralling cost of medical insurance is in order. It must be borne in mind that the situation facing the insurance scheme corresponds to a general trend regarding medical insurance. Nevertheless, an actuarial study carried out in March 1988 identified the specific reasons for the deterioration of the financial situation of the United Nations scheme. They are:

- unfavourable developments in the demographic composition of the participants (more retirees, less younger staff due to recruitment constraints);
- stagnation of remuneration of staff in the professional and higher categories. As contributions to the scheme are a percentage of pay, the income of the scheme has not been augmented as a result of increases in pay;
- ever increasing cost of medical services;
- exaggerated liberalization in the structure of the premiums and
- lack of cost-control vis-à-vis members of the medical profession, hospitals and clinics.

5. In addition to the prospect that the cost of participating in the insurance scheme will continue to grow, there is also the question of the extent to which GATT has control over the management of the scheme. As one of the two smaller partners, GATT has not been able to exert as much influence as would be desirable, with a consequent lack of control over developments.

6. This is the background against which the search for ways of meeting insurance needs has been conducted. The objective sought was to identify an insurance which would provide a similar level of benefits at costs that did not exceed those which would have to be met if GATT remained in the UN scheme, while at the same time guaranteeing a certain stability in these costs and more control over the arrangements than is possible at present.

7. Accordingly, specifications were drawn up and a call for tenders was made. This was addressed to a number of insurance companies capable of operating worldwide in the field of group insurance against sickness and accident. After a careful examination of the offers received, and after consulting with the staff representatives, the Director-General decided to accept the offer from the CMSE, a non-profit Swiss enterprise. The insurance offered will provide, on a worldwide basis, benefits for active

and retired staff members with their dependants similar to those provided under the present scheme, at a cost which will not be higher than that of the United Nations scheme. The premium will be set and guaranteed for at least two years. As there will be a direct relationship between GATT and the insurer, it will be possible to exert control over the running of the scheme.

8. An additional advantage is that practically all the administrative work (except the collection of premiums) will be performed by the insurer at no cost to the GATT. Responsibility for the financial management and the equilibrium of the scheme will lie with the insurer. In this connection, it is worth noting that the CMSE offers every guarantee of security and stability; it insures 250,000 people, and is one of the largest Swiss insurers operating in this field. Participants in the CMSE are thus able to benefit from considerable economies of scale and actuarial advantages. The World Intellectual Property Organization, as well as other large employers in the public and private sectors, is also insured with the CMSE.

9. The cost to the organization in 1989 for medical insurance, with six months covered under the new arrangement, is expected to be Sw F 1,040,000.-. In this case, the shortfall referred to in paragraph 2. becomes Sw F 132,000.-. The Director-General will make every effort to provide for this unforeseen expenditure out of savings within the budget. However, as the budgetary situation is likely to be very tight again this year, this may not be possible, in which case the additional expenditure might be met from the Working Capital Fund. The Director-General will have to place the matter before the Committee later in the year.

10. The Director-General has every confidence that the new arrangements will provide the kind of insurance which the staff are entitled to expect from their employer, and will serve the best interests of both the staff and the organization.