

# Former FAO and Other UN Staff Association

Associazione dei Pensionati della FAO e di altre Organizzazioni delle Nazioni Unite



**Newsbrief 100**  
**October 2016**

## **Pension Fund records net surplus as of end-December 2015!**

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The United Nations Joint Staff Pension Fund (UNJSPF) Secretariat is responsible for the administration of the UN Staff Pension Benefits system and as such the calculation and disbursement of the pensions and related benefits. The Fund reports to the UN General Secretary through its Governing Body, the United Nations Joint Staff Pension Board (UNJSPB), which meets at least once a year, usually in July, to oversee the operation of the Fund. The Pension Board is a multipartite body which receives inputs from its three constituencies, the Member Nations, the UN Organizations, the Staff Representative Bodies plus, on an observer status without voting rights, the Federation of the Associations of UN retirees (FAFICS) of which FFOA is an important member. With its varied and extensive professional complement, its significant degree of independence, and geographical coverage, FAFICS makes its voice heard at the Board and is often the primary source of constructive and productive reform proposals.

### **Actuarial Position of the Fund**

The Actuarial Valuation is in excess of Total Assets (Investments) over its Total Liabilities (Benefits payable) by 562.1 million US dollars representing a Surplus of 0.16%. The market value of the fund's assets as of 31 December 2015 is \$52,266.9 billion.

The Board took note of the favourable valuation results showing a surplus of 0.16%, while reiterating the importance of having to earn a 3.5% annual rate of return for the future solvency of the Fund.

### **Underperformance of Investments**

The Representative of the Secretary-General (RSG), Ms. Boykin, provided an overview of the various issues concerning the management of the Fund's investments, underlining that all investments met the criteria of safety, profitability, liquidity and convertibility. She stressed that due to a disciplined approach in adhering closely to the Fund's Strategic Assets Allocation (SAA), the Investment Management Division (IMD) avoided

## A Word from the President on Behalf of Your Executive Committee

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It is amazing to note that this is the ONE HUNDREDTH Newsbrief being issued by FFOA since it was established in 1970, with the first members enrolled in May 1971. We have come a long way since then, when Mr. Emmanuel S. Abensour was the first Chairman of FFOA. I, of course, was not around nor involved with FFOA when the first Newsbrief was issued, but obviously now I try to contribute, along with the other members of the Executive Committee to enable us to stay connected and share useful information.

The first version of this NB was sent by regular pony post, as email did not exist in those days. Now, over two thirds (approximately 71 percent) of FFOA's 2,255 members instantly receive the NB electronically. The overland versions arrival times depend on how far you are from the Holy City.

I would like to thank Stephen Dembner who helped us modernize the Newsbrief, and Omar Bolbol for the new decorative colour look. I would also like to pay tribute to our new Editor who just took over the coordination and production of this communications tool, George Aelion, who worked for many years with WFP, and so would have been known to many of you in his previous professional

capacities. He is supported by a number of other FFOA members, particularly Peggy Nelson and Omar Bolbol.

Furthermore, I can't hesitate to mention all of the members of the Executive Committee who contribute including Gabriella Sborchia and AnnaMaria Certelli in the FFOA office who help with data and with the Italian translations and distribution to members. As we depend on volunteers to get things done, this conveys a most hearty round of thanks to all who are working on the Newsbrief.

The two key events of the past few months have been the annual meetings of the FAFICS Council, followed immediately by the Pension Board, both in the beautiful city of Vienna this year. Details follow in this NB by Marco Breschi, our General Secretary, who represented FFOA. I had the honor of being elected Presiding Officer of the Council, a task which was challenging, but enjoyable.

Thank goodness for our new members and other recent retirees that the Pension Fund seems to have more-or-less overcome its recent backlog, and we hope its operations will get back to normal.

**Alan Prien**  
**President**

### Newsbrief 100 October 2016

Newsbrief, the FFOA official quarterly newsletter, is produced in English and Italian and is distributed free to all members, electronically to those who have internet access, and in print to those who do not. Newsbrief (current and back issues) is also available on the FFOA website: [www.ffoa-web.org](http://www.ffoa-web.org). Suggestions or contributions from members are welcome.

Editor: G. Aelion, P. Nelson  
Designer: O. Bolbol

The cost of printing Newsbrief, as well as other FFOA documents is borne by the World Food Programme, for which the Association is grateful. Costs associated with documentation for the General Assembly are borne by IFAD, for which the Association is grateful.

## Pension matters

(Responsible: M. Breschi, A. Prien, A. Fusco Femiano)

(continued from page 1)

any negative impacts from the market volatility in 2015. After a comprehensive presentation by the RSG on the status and composition of the investments and the senior positions recruitment campaign, the Board discussed the underperformance of the Fund's investments. FAFICS representatives, flanked by Governing Bodies, expressed their concerns about the Fund's under-performance in calendar year 2015 and the first half of 2016 relative to the policy benchmarks. FAFICS and other representatives further stressed the need for expediting the recruitment process.

### Report of the Assets and Liability Monitoring Committee (ALM)

The ALM Committee reported that the Fund underperformed against the real return rate objective in 2015 noting that a failure to meet benchmarks on a continued basis would threaten the long-term sustainability of the Fund. It was therefore imperative to analyse the causes for the underperformance and identify corrective measures.

The ALM Committee further noted a low level of attendance at meetings, and an unusually large and prolonged vacancy rate in the senior positions of the Fund's Investment Management Division (IMD).

The FAFICS representative pointed out that UNJSPF returns as against the 3.5% real rate of return objective demonstrated that the Fund had not met its target in the interim periods leaving only the 10-year period with a satisfactory return.

The Board requested that the Secretary-General adopt and sign a clear investment policy demonstrating commitment for the strategic objective of the Fund's investments to maximize investment in order to meet the 3.5% rate of return.

The Board also agreed to engage an independent expert to conduct an in-depth

review focusing on practices, risk management, and investment performance by the IMD.

The Board further requested that the Investment Committee be fully staffed and urged the RSG to expedite the recruitment of senior level and professional positions in IMD by the end of the year.

The Board also requested that all the relevant documentation regarding the performance of the RSG be provided for consideration at the 64th session of the Pension Board.

### Delays in Processing first time Pension Payments

The Board reviewed and debated at length the report on the implementation of the Integrated Pension Administrative System (IPAS). The report provided an overview of the achievements as well as the areas still requiring adjustments and refinements. The Board took note of the significant enhancements in internal controls and of the new features, which have significantly improved efficiency and effectiveness.

The findings included the successful implementation of a payroll system for 72,000 retirees in 190 countries, while significantly reducing operational and IT risks. An initial challenge caused by a hiring freeze and a higher than normal number of staff members separating resulted in a backlog in timely processing. Through the creation of a task force, close collaboration with the Staff Pension Committees and the use of temporary human resources, the Fund has been able to clear the backlog.

FAFICS expressed satisfaction over the smooth transition to the new system for existing beneficiaries and that there were no reports of missed or late payments. However, after the launch, FAFICS did receive several reports that for new retirees and surviving spouses, the results were mixed.

In this regard, FAFICS called for the immediate adoption of several measures including close cooperation among all parties as well as improved communication from the Fund Secretariat with acknowledgement of inputs received, review in pre-retirement seminars of

the separation document requirements, improved outreach by establishing Pension Fund hubs in Africa, Asia, Latin America and the Middle East.

### **Evaluation of CEO**

The evaluation of the performance of the CEO was conducted by an Evaluation Panel. The Chairperson of the 62nd session of the Board presented the Panel's summary key findings, observations and recommendations.

A number of the representatives from the Governing Bodies, the Participants' group, the Executive heads and FAFICS commended the Bureau for the adoption of this best practice while noting that this constituted an important governance tool. The Panel assessment, echoed by various representatives, was that the performance of the CEO has been effective and successful, emphasizing the importance of the CEO's leadership in managing the Fund.

The Board took note of the CEO performance evaluation, and approved the Evaluation Panel's conclusions and recommendations including that the overall performance of the CEO has been effective and successful and that reappointing the current CEO would provide critical continuity for the programmes already under way, specifically completion of the next stage of IPAS enhancements.

### **Elections**

The Board took note of the FAFICS nomination of its 6 representatives to the 2017 Board session. In addition, two FAFICS representatives, Messrs. Warren Sach and Marco Breschi were appointed by the Board as members of the Budget Working Group for 2017.

A number and complex issues will be closely followed over the course of the next year and reported in the NB including:

- UNJSPF Strategic Framework
- Emergency Funds
- Appeals Procedures
- Pension Adjustment system
- Recognition of non-traditional unions
- Revised budget and other administrative matters.

### **FAFICS Council Vienna, 08-13 July 2016**

FAFICS supports the integrity and the public image of the United Nations Joint Staff Pension Fund while strongly encouraging measures to resolve its current administrative difficulties.

Perhaps one of the most significant events in the life of our Association after the General Assembly is our participation to the Council of the Federation of Associations of Former International Civil Servants (FAFICS). This year the Council met in Vienna from 08 to 13 July before the annual session of the UN Pension Board. As most of you know, the Federation promotes and defends the interests of all its members, focusing on a number of issues of direct relevance to retirees, placing emphasis on pensions and after-service medical insurance issues. As in past years, our Executive Committee nominated one of its members as FFOA Representative to the FAFICS Council. This year, attendance by our General Secretary, Marco Breschi, as Representative was accompanied by the appointment of our President Alan Prien as Presiding Officer of the Council. We are pleased to report that at the end of its session the Council unanimously thanked Alan Prien for his competent, effective and impartial leadership of the Council. As in previous sessions, the Council observed one minute of silence in memory of former colleagues who had passed away and those international civil servants who lost their lives in the service to the United Nations over the past year.

Main subjects debated by the Council and related deliberations and recommendations are summarized below.

### **Report of the FAFICS President**

FAFICS President Linda Saputelli highlighted key issues for the Council by focusing on the developments in the Pension Fund following the introduction of the new integrated pension administrative system (IPAS) as well as the significant delays in recruiting key managers in the Investments Management Division (IMD). She then pointed to the hard work by the FAFICS Standing Committees on Pension

and After Service Health Insurance (ASHI) including possible introduction of national health schemes.

### **Pension issues**

Discussion on the delays in processing the first pension payment for new retirees took a very substantial part of the Council debate. Individual delegations described adverse scenarios in their countries and in the best cases pointed to temporary measures taken to help speed up the payment process. Notable examples were Japan, where, with the help of a UNJSPF staff on holiday in Tokyo, a task force was able to resolve a number of outstanding cases, or Italy, where close and factual collaboration between organizations, SPC secretaries (FAO/WFP and IFAD), FFOA and the Social Security Secretariat had significantly reduced the backlog by the end of May 2016. Most recurring criticism of the Fund included poor communication, lack of response to queries and emails, perceived by some as arrogance on their part, and at least initially a lack of proper arrangements for tackling the backlogs (Task Force only created at a later stage).

In conclusion, the Council decided to make a resolute address to the Pension Board, recommending improved communication with acknowledgment of inputs received and a record tracking system, addressing separation requirements in pre-retirement seminars, improved outreach by establishing Pension Fund hubs in Africa, Asia, Latin America and the Middle East and finally close cooperation between all parties involved in processing retirement documentation, including the retirees, the Secretaries of the Staff Pension Committees, the organizations and the Pension Fund.

### **Report of the Standing Committee on Pension Issues.**

The Standing Committee acknowledged and supported the recommendation by the Asset and Liability Management Committee (ALM) that in view of an estimated deficit of – 0.5% (well within the 2% acceptance range) no corrective

measures had to be taken by the Board.

At a subsequent stage during the discussion, the Council learned that the estimated deficit had turned into a small surplus of 0.16%. The Standing Committee also supported the ALM recommendation that the Secretary General adopts a clear investment policy with the strategic objective of maximizing investment return within the Fund's investment framework to at least meet the assumed real rate of return of 3.5% over the long-term. Other conclusions reached by the Standing Committee are highlighted in the paragraphs below.

### **Report of the Standing Committee on After-Service Health Insurance (ASHI)**

The subject of the after-service health insurance was discussed by Council at length, drawing on the report of the Standing Committee. One key issue raised during the debate was in relation to the initiative of the High Level Committee of Management (the heads of all UN Organizations) Finance & Budget Working Group to send questionnaires to Member Nations to obtain information on their individual national health systems. In response to queries raised during the discussion, the Council decided to request individual associations to send to the FAFICS Secretary information on their national health systems by 16 September. In conclusion, the Council decided that its representatives should resolutely address the following issues:

- Reaffirmation of the principle that after-service health insurance was an essential component of the conditions of employment and a social matter not a financial matter;
- Protection of retirees acquired rights;
- Rejection of one size fits all e.g. ASHI not a common system issue;
- Rejection of mandatory incorporation of national health schemes as primary health plans;
- Consideration of the feasibility of using national health plans at the discretion of individual organizations with due regard to legal aspects and possible negative impact on retirees' mobility.

## **Meetings with CEO and RSG of the Pension Fund**

The Council met with Sergio Arvizú CEO, Paul Dooley, Deputy CEO, Jaana Sareva, Risk Management and Legal Services, Alan Blythe, Chief of the Geneva PB office, and Carol Boykin RSG for Investments. In their presentations, the Fund's officers gave an overview of the financial health of the Fund, the estimated surplus at the end of 2015 coupled with the underperformance on the investments side where the 3.5% real rate of return was not reached. The issue of the delays in processing new retirees took a large share of the debate. In their replies, Mr. Arvizú, Ms. Boykin and their colleagues pointed to the measures taken in recent months to redress the situation including the establishment of a task force, additional temporary resources dedicated to assist the Fund's staff to cope with the increased workload (also due to an extraordinary number of new retirees in the early part of 2016) and improve the image of the Fund including the establishment of a new position responsible for communications. (The new officer Mr. Lee Woodyear was present). By the end of May 2016, most of the processing backlog was brought back to almost "normal" levels of three-month delays, and some new messages had been circulated to participants and beneficiaries to explain the situation, the level of progress and expected improvements.

The CEO also stressed the need to improve the public perception of the Fund's image, resolutely rejecting the numerous allegations on the status of the Fund and thanking Council members for refusing to sign the numerous petitions.

In essence, there was general recognition by Council members that the Fund is solid and healthy and that all allegations on personal dishonesty or frauds were unfounded and had to be rejected, but that the Fund needed to continue implementing measures to restore the effectiveness and timeliness of its operations.

Ms. Boykin in turn addressed numerous questions on the underperformance of the Fund's investments, the delays in recruitment and the issues regarding the membership of the

Investment Committee. She introduced to the Council the newly recruited Director (D-2 level) of the Investment Management Division Mr. Herman Bril.

## **FAFICS position on the Pension Board**

Following the discussions with the CEO, the RSG and their colleagues, the Council decided that FAFICS Representatives at the Pension Board should act in accordance with the decisions and recommendations taken with regard to pension issues and ASHI, also drawing from the knowledge acquired during the debate with the Fund's Representative during the Council meeting.

## **Local currency track**

The Council reviewed the proposal regarding the reinstatement of the local track facility in countries where it was suspended as a result of extreme adverse economic conditions leading to severe devaluation of the local currency. It also agreed that the proposal to introduce consultations with FAFICS and the local AFICS should be taken up at the Pension Board including the outstanding FAFICS proposal for a "freeze" instead of "suspension" of the local track in certain cases as a way of facilitating the future reinstatement.

## **Improvements in the appeal process**

Subsequent to a number of changes introduced recently that have enhanced the rights of appellants for a transparent and equitable process, the Council approved proposals for further improvements in the appeal process, including a greater degree of flexibility and freedom accorded to appellants and provisions for more transparency throughout the process.

## **Emergency Fund**

As part of the debate, several associations pointed to the imbalance in emergency fund payments where North America and Europe are accounting for the largest share as against other regions, and France and Italy receive the greatest number of payments.



After substantial discussion, the Council agreed to reaffirm the need for a greater flexibility on the part of the Pension Fund Secretariat as well as greater involvement of SPC Secretaries in the process of approving emergency fund payments.

### **FAFICS Statutes**

Associations from Latin America proposed amendments to articles 6 and 8 of the Statutes reintroducing the principle of one association, one vote, for all Council decisions when consensus could not be achieved except for budgetary decisions and amendments to the Statutes (requiring a weighted majority in all cases). A large majority of member associations expressed disagreement with this proposal on the grounds that, 1) a vote is seldom required as most decisions are made by consensus, 2) the present system works well so why change it and 3) the proposed change would not result in equitable representation of retirees in large associations.

In summing up, the Presiding Officer thanked all those participating in the discussion at the end of which a clear majority emerged in favour of maintaining the existing system until the need for change arises.

### **Budget and administrative matters**

Based on the presentations by the Treasurer, the Council approved the interim report on the management of the budget for 2016 and the proposed budget for the year 2017. The per-capita member contributions of \$1.50 remained unchanged for 2017.

The Council took note of the Auditors report stating that the 2015 accounts were kept correctly and that the Balance sheet and the Income statements for 2015 were correctly stated.

### **Election of Officers**

As per current practice the Council took note of the names of all candidates standing for office.

Ms Linda Saputelli was elected President by acclamation. After two rounds of elections, seven candidates were elected to the seven posts of Vice-President. Mr. Sundaresan and Mr.

Milzow were elected by acclamation to the post of Secretary and Treasurer respectively.

On the recommendation of the President, The Council appointed the 6 FAFICS Representatives to the Pension Board in 2017; Linda Saputelli, Gerhard Schamrek, Warren Sach, Marashetty Seenappa, Marco Breschi and Louis Dominique Ouedraogo.

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## **Medical Insurance**

(Responsible: E. Seidler, A. Prien, M. Breschi)

FFOA continues to monitor the performance of Allianz (AWC). Individual problems and cases and generic issues are taken up with FAO Social Security to expedite their consideration and resolution by AWC.

The Joint Advisory Committee on Medical Coverage (JAC/MC) which involves management and staff representatives of the three Rome based Agencies and of which FFOA is a full member has regrettably not met for a number of months. The JAC/MC is meant to monitor the performance of the medical plan, address issues and advise on improvements. It does this on the basis of reports on plan performance (claims, premiums etc.) and without this data, the FFOA is unable to fulfill its responsibilities.

AWC has been improving its client servicing but still faces challenges. Inaccurate responses to patient inquiries continue and the interpretation of benefits is often variable. The lack of information from AWC to US based participants on the change in the provider network from Coventry to Aetna as of 1 January 2016, and the delay in the issue of new cards created confusion. FFOA continues to follow these issues and others and relies on getting communications from members to highlight problems.

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## **News from the Staff Associations**

(Responsible: A. Van Arkadie)

### **UGSS**

UGSS announced that over 550 FAO staff responded to the earthquake appeal for victims

in Central Italy. Supplies donated included 1,791 packages of clothing, shoes, blankets, toys, food and medicine.

Furthermore, according to UGSS and the Report of the Joint Inspection Unit (JIU/REP/2012/5 which outlined the over-use of non-staff contractual modalities), FAO (along with the other Rome-based agencies) was one of the highest employers of non-staff human resources (NSHR) in the UN common system, putting the Organization at risk of losing control of core functions and services and loss of institutional knowledge due to an increasing temporary workforce.

Finally, UGSS shared with FFOA a proposal by the UGSS-WFP's Standing Committee which foresees the need to create a Second Executive Committee at WFP under the overall leadership of the General Secretary and steered by a common secretariat. Its feasibility is under review by the UGSS Control Board and Executive Committee.

### **WFP-PSA**

Following elections held last June/July for the WFP-PSA Staff Council and the Executive Committee, Ms. Maryna Mananikova and Mr. Eric Kenefick were elected President and Vice President. We wish them success in the new lead role and look forward to reinforce the contact and collaboration with WFP-PSA.

### **FICSA**

Mr. Mauro Pace retired early after serving at FAO Rome for over 30 years. He was elected President of FICSA for a 2-year mandate in February 2010 and was re-elected for a 2nd Term in Feb.2012. FICSA praised the work of Mr. Pace who represented staff through his active participation on a number of inter-agency committees working groups and advisory panels.

FFOA-ExCo is pleased to personally thank Mauro for his valuable contributions especially as the Lead Representative of the UGSS and also for his significant collaboration with the FFOA-ExCo. While we wish him a long and healthy retirement, we will look forward to tapping into his experience and expertise as a future active member of FFOA.

## **News from the Executive Committee**

### **News from the Membership Sub-Committee**

The Association is confronted yearly with members who risk suspension for having been delinquent in paying dues for two consecutive years (30-60 lately, but in the past there were also higher numbers). Reminders about the need to renew/pay membership dues are regularly in the Newsletter. A reminder letter is sent to those members who have been delinquent in paying their dues for two-years. The letter further advises that the member concerned will be suspended, if they do not pay the retroactive amount within thirty days. Upon the expiry of the thirty days if payment is not received, the membership will be suspended. The suspended member will no longer receive emails, announcements, or the Newsbrief from FFOA. Also the access to the FFOA website will be suspended. The membership will be suspended in accordance with Article 3b) of the Statutes, which states: "Membership shall be suspended if a member fails to pay annual fees for two consecutive years. The member may be re-admitted upon payment of all fees in arrears".

Article 3b) of the Statutes has been enforced/interpreted in a way that suspended members, who would like to re-join must pay the cumulative fees for all the years for which they are delinquent, i.e., for the initial two years that they failed to renew their membership, the number of years in arrears and for the year in which they would like to join again. This creates a disincentive to re-join and it is unfair to have to pay many years of fees, while not having received service or information from the Association during that period.

Therefore, the Membership Subcommittee (MSC) has recommended and the Executive Committee has accepted, that Article 3b) of the Statutes be interpreted in such a way that a suspended member who would like to be readmitted to the Association would have to pay only fees for the years that he did not renew his membership prior to his suspension



and for the year that he is being readmitted. In practice this means, that a suspended member has to pay only fees for three years, i.e. € 75 We would like to encourage suspended members to contact the Front Desk Assistants to renew their membership. Readers of the Newsbrief are kindly requested to advise their friends who have been suspended about this new policy, which should bring back a number of former members into the Association.

### Monthly coffee morning

The Social Activity Group's 'Monthly Coffee Morning Chat' held at FAO for members, spouses and prospective retirees from FAO, IFAD, WFP, ICCROM, attracts a number of people each month. This informal event gives our Members an opportunity to meet ex-colleagues and friends, and to share points of view on common issues. At the same time, it gives the Association the opportunity to become aware of issues important to our Members.

Queries raised and advice sought at recent gatherings centred on Allianz Claims and Re-Settlement Forms, which participants pointed out were complicated. It was agreed to furnish samples of the former VAN BREDA Claims and Settlement Forms as examples for improvement. Information was provided on how FFOA members could qualify for a discount of 15% on purchases made at the Farmacia San Sabina.

## Social and recreational activities

(Responsible: J. Smidt, G. Monciotti, A. Van Arkadie, A. Fusco Femiano)

### Previous activities

Since our last Newsbrief 99, the following activities were enjoyed by some of our Members:

June 2016	Mini vacanza in Sicilia: Selinunte, Segesta, San Vito Lo Capo, Riserva Naturale dello Zingaro, Marsala, Favignana ed Erice
July 2016	Ponza, Palmarola e Zannone (4 Trips) Gita a Zompo lo Schioppo ed al Castello di Balsorano

September 2016 Ponza  
Cappella Sistina e Musei Vaticani  
Isole Egadi in barca a vela

### Upcoming activities

October 2016 Parma per "Mercanti in Fiera" e Visita della Città  
Napoli – Villa Imperiale di Pausilipon e Teatro San Carlo  
Frosolone nel Molise: dal 1500 crea Coltelli e Capolavor  
Tour di: Sorrento, Capri, Cava dei Tirreni e Vietri  
Praga (4 days)  
November 2016 Week end tra Pievi e Castelli

Piano Concerts  
Enrico Camerini – Per Piano Solo  
Sala Baldini, Piazza Campitelli 9,  
(Teatro Marcello), Roma  
Season 2016: 08/10; 05/11; 03/12 at 17:00 hrs

## Your Good Health

### How common procedures became 20% cheaper for many Californians

At a time when health care spending seems only to go up, an initiative in California has slashed the prices of many common procedures.

The California Public Employees' Retirement System (Calpers) started paying hospitals differently for 450,000 of its members, beginning in 2011. It set a maximum contribution it would make toward what a hospital was paid for knee and hip replacement surgery, colonoscopies, cataract removal surgery, and several other elective procedures. Under the new approach, called reference pricing, patients who wished to get a procedure at a higher-priced hospital would pay the difference themselves.

In 2011 the Calpers maximum contribution for a knee or hip replacement surgery was set at \$30,000. A Calpers patient receiving knee or hip replacement surgery at or below this reference price paid the usual cost-sharing: 20 percent of the cost, up to a maximum of \$3,000. But a patient electing to

use a hospital that charged, say, \$40,000 paid the usual cost-sharing plus the \$10,000 above the reference price.

As Calpers initiated the new approach, 41 of the several hundred hospitals in California could provide knee and hip replacement procedures at or below \$30,000 and with acceptable quality, as measured by things like low readmission rates and high rates of use of guideline infection controls. However, some hospitals charged more than \$100,000 for the procedures.

The results of knee and hip replacement surgery reference pricing were striking, as were those for cataract removal, arthroscopy and colonoscopy. In a series of studies, James Robinson and Timothy Brown, University of California, Berkeley, health economists, found that under reference pricing, Calpers patients flocked to lower-priced hospitals and outpatient surgical centres. Prices and total spending for the procedures plummeted.

For knee and hip replacements, lower-priced hospitals saw their market share increase by 28 percent. As higher-priced ones lost market share, many chose to reduce their prices. Prices for the procedures fell by an average of more than 20 percent, saving Calpers and its patients \$6 million over two years.

Under reference pricing for cataract removal surgery, the average price paid also dropped by nearly 20 percent, saving \$1.3 million over two years. For colonoscopies, \$7 million was saved — a 28 percent drop. And for knee or shoulder arthroscopy, prices fell by about 17 percent. For these procedures, Calpers reduced patient cost-sharing if they chose a free-standing, outpatient surgical centre, as opposed to a much more expensive hospital.

During the period of time Calpers saw 20 percent price declines for reference-priced services, typical health care prices paid by employer-sponsored plans rose by about 5.5 percent.

Despite the success of the effort by Calpers, reference pricing is not a full solution to rampant health care spending growth. Because it relies on encouraging patients to visit lower-priced hospitals and surgical centres, it works only with procedures for which patients can reasonably shop around.

This excludes care over which patients have little control, such as that provided in emergencies or while they are already hospitalized or incapacitated. One study estimated that about 40 percent of health care spending is for services for which patients could shop.

But there is another reason reference pricing is hard to install broadly. It requires patients to have ready access to comprehensible price and quality information. Such transparency is not commonplace. Even when this information is available, consumers with cognitive impairments or who are overwhelmed with illness and other demands would have trouble making the best use of it.

Some consumers might prefer to delegate to insurers the decisions about where to obtain care. In narrow network plans, for instance, insurers select high-quality hospitals and negotiate the best price; patients pay the same amount out of pocket no matter which hospital they visit within the network. Reference pricing shifts some of the burden of working out where to obtain care from insurers to consumers. On the other hand, compared with narrow network models, it preserves broader choice for the consumer.

Reference pricing also requires sufficient competition among hospitals. If the number of hospitals is too low, patients will not have a choice about where to receive care, and hospitals will not have an incentive to reduce prices. Assessing the degree of competition, quality and choice for the purposes of establishing and updating reference prices imposes an administrative cost that should be weighed against any savings.

For this reason, some large employers are contracting with regional “centres of excellence,” such as the Cleveland Clinic, to which patients can be referred even if there is limited hospital choice in their home towns.

One concern is that reference pricing could encourage lower quality, as health care organizations cut costs to reduce prices. Analysis by Mr. Robinson and colleagues did not find adverse effects of reference pricing, however. “Significant reductions in cost with no change in quality: That’s called improved value,” he said.

*Excerpted from an article by A. Frakt in The New Health Care, 8 August 2016.*

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## **News from the Membership**

### **New members**

A hearty welcome to all new FFOA members.

Ammati, Mr Mohammed  
Braatz, Ms Susan  
Calpe, Ms. Concepción  
Cleves, Ms. Beatriz  
Davelli, Mr. Giuseppe  
Fauro, Ms. Marilisa  
Fourcaud, Ms Hélène  
Haggmark, Ms. Siri Ulrika  
Incerti, Ms. Stefania  
Oppusunggu Thompson, Ms. Kartini  
Sasso, Mr. Aldo  
Seroa, Ms. Eugenia  
Smith John, Ms Marjorie  
Vellucci, Mr. Carlo  
Zaytsev, Mr Nikolay

**All retirees ought to join the Association to support its work representing the pensioners, and for their own interest, and should encourage their ex-colleagues to join!**

## IN MEMORIAM

Gara, Mr Abdelmajid  
26 December 2015

Bell, Ms Rhoda  
9 April 2015

Dawed, Ms Renée  
23 January 2016

Galway, Ms Anne Marie  
22 July 2016

Juras, Ms Ivanka  
23 July 2016

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Ssentongo, Mr George William  
07 August 2016

Morrell, Mr René Robert  
02 September 2016

Ciccorelli, Mr Domenico  
03 September 2016

Lopez Villarino, Ms Hilda  
08 September 2016

**On behalf of all the members of FFOA, we express heartfelt sympathy to the families and friends of the above-mentioned members.**

### **Hilda Lopez Vallarino**

September 8, 2016

It is with great sadness that I inform you that I have lost my dearest spouse Hilda Lopez Vallarino on September 8, 2016 at our home in Santiago, Chile. Hilda joined FAO, when the organization was temporarily settled in Washington DC. She was transferred to Rome, Italy in 1951, when the permanent offices of FAO were established in Italy. In Washington, as well as in Rome, she was an interpreter.