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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT AND FINANCIAL STATEMENTS

## Health Insurance Benefit Account

## December 31, 2019 and 2018

KPMG LLP
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## Independent Accountants' Review Report

The President of the Inter-American Development Bank:

We have reviewed the accompanying financial statements of the Inter-American Development Bank (Bank) – Health Insurance Benefit Account, which comprise the statements of net assets available for benefits as of December 31, 2019 and 2018, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Bank management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

*Accountants' Responsibility*

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with U.S. generally accepted accounting principles. We believe that the results of our procedures provide a reasonable basis for our conclusion.

*Accountants' Conclusion*

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Washington, D.C.
May 13, 2020

**INTER-AMERICAN DEVELOPMENT BANK**
**HEALTH INSURANCE BENEFIT ACCOUNT**

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

*(Expressed in thousands of United States dollars)*

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 7,182 | $ 6,641 |
| Investments | 26,626 | 26,369 |
| Accrued pharmacy rebates | 2,029 | 1,272 |
| Receivable from Employer for Large claims reserve | 694 | 437 |
| Accrued US Medicare part D subsidy | 845 | 577 |
| Other assets | 23 | 64 |
| Total assets | $ 37,399 | $ 35,360 |
| **LIABILITIES** | | |
| Accounts payable | 353 | 1,120 |
| Claims incurred but not paid | 8,138 | 6,710 |
| Total liabilities | 8,491 | 7,830 |
| Net assets available for benefits | $ 28,908 | $ 27,530 |
| consists of: | | |
| Net assets excluding Large claims reserve | 22,253 | 20,791 |
| Large claims reserve | 6,655 | 6,739 |
| | $ 28,908 | $ 27,530 |

*The accompanying Independent Accountants' Review Report and the notes to financial statements should be read in conjunction with these statements.*

**INTER-AMERICAN DEVELOPMENT BANK**
**HEALTH INSURANCE BENEFIT ACCOUNT**

## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

*(Expressed in thousands of United States dollars)*

| | Years ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| **ADDITIONS** | | |
| Contributions | | |
| Employer contributions | $ 23,846 | $ 23,104 |
| Postretirement Benefits Fund contributions | 21,305 | 20,852 |
| Participant contributions | 22,420 | 21,945 |
| Total contributions | 67,571 | 65,901 |
| Net appreciation in fair value of Investments | 607 | 491 |
| Other income | 110 | 155 |
| Total additions | 68,288 | 66,547 |
| **DEDUCTIONS** | | |
| Benefits to participants | | |
| Claims paid | 69,417 | 67,388 |
| Change in claims incurred but not paid | 1,428 | (340) |
| Insurance recoveries | (37) | (3) |
| Pharmacy rebates | (3,112) | (1,633) |
| US Medicare part D subsidy | (786) | (647) |
| Total deductions | 66,910 | 64,765 |
| **Net increase in net assets available for benefits** | 1,378 | 1,782 |
| **Net assets available for benefits:** | | |
| **Beginning of year** | 27,530 | 25,748 |
| **End of year** | $ 28,908 | $ 27,530 |

*The accompanying Independent Accountants' Review Report and the notes to financial statements should be read in conjunction with these statements.*

## NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018
*(Currency amounts expressed in thousands of United States dollars)*

### NOTE A - DESCRIPTION OF THE PROGRAM

The following description of the Health Insurance Benefit Program (Medical Insurance Program, or Program) of the Inter-American Development Bank (Bank) is provided for general information purposes only. Participants should refer to Staff Rules PE-375 and PN-8.03 (and related Annexes) on the Medical Insurance Program as well as the Medical Insurance Program Handbook for a complete description of the Program's provisions.

The Bank and the Inter-American Investment Corporation (IIC) (herein jointly referred to as the Employer) are the sponsors of the Program and have the responsibility to establish benefits and participant premium amounts. The Program is for the benefit of current and retired national and international staff members of the Employer and their dependents. All Employer staff with employment contracts defined in Staff Rule PE-311 and PN-5.02 "Types of Appointments", and their respective spouses and dependents, must participate in the Medical Insurance Program, unless a waiver is requested and accepted.

Executive Directors, their Alternates, Counselors and Co-Terminous Office Assistants, and their dependents can participate on a voluntary basis. Participation is also voluntary for children (biological or adopted) of the staff member or spouse of the staff member who do not qualify as dependent children for purposes of Employer policy, regardless of whether (a) they reside with the staff member, or (b) are married. Such coverage ceases on the child's 26th birthday.

Employer retirees vested in the Medical Insurance Program, along with their respective dependents, have the option to participate in the Medical Insurance Program. The applicable vesting criteria depends in part on the staff member's corresponding date of hire. There are three groups that regulate vesting criteria: (1) staff hired prior to September 1, 1995; (2) staff hired on or after September 1, 1995 and prior to January 1, 2015; and (3) staff hired on or after January 1, 2015. For staff hired on or after January 1, 2015, there is a progressive vesting criteria for benefits under the Program established in the above mentioned Staff Rules.

Retirees not complying with the minimum years of coverage (in groups 1 and 2), staff absent on leave-without-pay and those who end their employment with the Employer may elect to continue coverage under certain conditions.

The Program provides health benefits (medical, hospital, surgical, major medical, prescription drug, dental and vision) to participants and covered dependents. Participants' claims are processed by contracted Program administrators, but the responsibility for payments to participants and providers is retained by the Employer. The payment of claims is coordinated with participants' benefits under other health benefit programs, including U.S. Medicare.

The overall objective of the Program is for the Employer to provide a benefit, with relevant premiums paid by employees and retirees, except for administrative and other expenses which are fully paid by the Employer. The Employer determines periodically the premiums required by current and retired participants to finance the Program.

At present, the Employer pays two-thirds of the total contributions to the Program for employees and retirees that were hired before January 1, 2015, excluding contributions from participants on leave-without-pay. The Employer follows a progressive contribution schedule for staff hired on or after January 1, 2015. The Employer also pays the full cost of U.S. Medicare part B for certain eligible participants, as well as administrative and other expenses of the Program. The Employer contributions for retirees are provided from resources of a separate plan sponsored by the Employer, the Postretirement Benefits Fund (PRF).

In 2016, the Bank established a separate Large claims reserve to cover individual claims exceeding $500. This reserve is accounted for separately in the Health Insurance Benefit Account to provide protection to the Program in the event of large claims.

The Large Claims Reserve will receive an annual contribution from the Bank equivalent to 1% of total claims paid to participants in the current year or other amounts so that the reserve level never exceeds 10% of total claims. For the year ended December 31, 2019, Employer contributions include $694 (2018 - $437) committed by the Bank to fund the Large claims reserve. Amounts committed are paid through the regular inter-company settlement process between the Bank and the Program. Claims exceeding the deductible level of $500 totaled $778 (2018 - $291); these amounts are included in Claims paid in the Statement of Changes in Net Assets Available for Benefits. The Large claims reserve as of December 31, 2019 was $6,655. (2018 - $6,739).

The following table sets forth the activity in the Large claims reserve during the years ended December 31, 2019 and 2018:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Large claims reserve beginning of the year | $ | 6,739 | $ | 6,593 |
| Claims absorbed by the reserve | | (778) | | (291) |
| Additional Employer contributions | | 694 | | 437 |
| Large claims reserve, end of the year | $ | 6,655 | $ | 6,739 |

For the year ended December 31, 2019, administrative and other expenses of the Program funded by the Employer included: (i) contracted program administrator fees of $2,060 (2018 – $3,687); (ii) the contracted administrator fees for Medicare part B of $79 (2018 – $76), and (iii) the premium for Medicare part B of $2,952 (2018 – $2,722).

The Bank applies for a subsidy under the U.S. Medicare part D program on all Medicare eligible retirees who were not enrolled in this program.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are expressed in United States dollars, which is also the functional and reporting currency of the Program. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions to and deductions from net assets available for benefits during the reporting period. Actual results could differ from these estimates.

**Investments**

Investment securities are recorded using the trade-date-method. The Program holds interests (referred to as shares) in a mutual fund type structure internally maintained and managed by the Bank exclusively for the portfolio of funds administered by the Bank and comprise what is referred to as the investment pool. The Program's investments are reported at fair value, with realized and unrealized gains and losses included in Net appreciation in fair value of Investments[1]. The Program holds shares in the internal investment pool and a daily net asset value (NAV) is calculated by the Bank. Note C discloses the nature of the investment securities held by the investment pool and the Program's pro rata interest in the fair value of each investment security class based on the ratio of the shares held by the Program as compared to the total shares issued by the investment pool. Shares in the investment pool are also held by other funds administered by the Bank.

**Claims paid**

Claims paid are recorded as a deduction in the Statement of Change in Net Assets Available for Benefits when paid.

[1] References to captions in the review report are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the review report

**Claims incurred but not paid**
Claims incurred by participants but not paid are estimated based on an actuarial determination, which takes into consideration the timing of the claims paid, and are reported as a liability in the Statements of Net Assets Available for Benefits. Adjustments made to Claims incurred but not paid are shown in the Statements of Changes in Net Assets Available for Benefits.

**Related party transactions**
As part of the administration of the Program's resources, the Bank may pay claims and receive contributions and other payments on behalf of the Program. The net amount receivable related to these activities is included in Receivable from Employer for Large claims reserve.

**NOTE C – INVESTMENTS**

As part of its overall portfolio management strategy, the Employer invests the Program's resources in the same type of securities in which it invests its own funds under its investment authority. Such resources are invested in securities through a mutual fund type structure – the Treasury Bill Mutual Fund (TBF Mutual Fund). Substantially, all of the investment pool's securities have a credit quality equivalent to a rating of AA[2].

The Bank limits the Fund's investment activities to a list of authorized dealers and counterparties. Further, exposures and term limits have been established for these counterparties based on their size and creditworthiness.

The Program can contribute or withdraw funds from the investment pool by purchasing or redeeming shares. The number of shares purchased or redeemed each time a trust fund undergoes a transaction is the result of the dollar amount of the contribution or withdrawal and the NAV as calculated on a daily basis. At December 31, 2019, the Program held 25,097,349 shares or 2.01% of the TBF Mutual Fund. At December 31, 2018, the Program held 25,428,164 shares or 2.11% of the TBF Mutual Fund.

The table below shows the assets held by the investment pool through the mutual fund type structure. The amounts represent the Program's proportionate ownership share of the securities based on the aforementioned ownership share.

As of December 31, 2019 and 2018, Investments comprise the following:

| | 2019 | 2018 |
|---|---|---|
| Investment pool (1): | | |
| Obligations of the United States Government | $ 24,453 | $ 24,808 |
| Commercial bank obligations (2) | 2,173 | 1,561 |
| | $ 26,626 | $ 26,369 |

(1) Detail of investments by class represents the Program's proportionate share of the investment pool's assets.
(2) May include bank notes and bonds, certificates of deposits, commercial paper, and money market deposits.

Net unrealized gains on investments held at December 31, 2019, in the amount of $600 (2018 – $491), were included in Net appreciation in fair value of Investments.

**NOTE D – FAIR VALUE MEASUREMENTS**

The framework for measuring fair value establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

[2] Letter ratings refer to the average ratings from major rating agencies and to the entire range in that rating category including numeric (i.e., 1–3), symbolic (i.e., +/-), or similar qualifications used by eligible rating agencies.

Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets;
Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly, for substantially the full term of the asset or liability;
Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

Obligations of the United States Government amounting to $24,453 as of December 31, 2019 (2018 – $24,808), are valued based on quoted market prices in active markets, a valuation technique consistent with the market approach, and are classified within Level 1 of the fair value hierarchy.

All of the remaining investment pool's securities are measured at fair value based on quoted prices in markets that are not active or external pricing services, where available. These methodologies represent valuation techniques consistent with the market and income approaches. These investments are classified within Level 2 of the fair value hierarchy and amount to $2,173 at December 31, 2019 (2018 – $1,561).

The Program's policy for transfers between levels is to reflect these transfers effective as of the beginning of the reporting period. There were no transfers between levels during 2019 or 2018.

**NOTE E – FUNDING**

The funding to provide the benefits specified in the Program consists of contributions by the participants and the Employer. Participant contributions are provided by employees and retirees, as established by the Employer. Employer contributions for retirees are provided through the PRF. Employer contributions for active participants are provided directly. Contributions to the Program for the year ended December 31, 2019 amounted to $67,571 (2018 – $65,901), of which $45,151 (2018 – $43,956) was contributed by the Employer and $22,228 (2018 – $21,760) by active employees and retirees. The Employer contribution includes $694 to the Large claims reserve (2018 – $437). An additional $192 (2018 – $185) was contributed by participants on leave-without-pay.

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**NOTE F – PROGRAM CONTRIBUTIONS AND BENEFITS TO PARTICIPANTS**

The following table shows contributions and benefits by employee status for the years ended December 31, 2019 and 2018:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **Contributions** | **Active Employee** | **Retirees** | **Total** | **Active Employee** | **Retirees** | **Total** |
| Employer | $ 23,152 | $ 21,305 | $ 44,457 | $ 22,667 | $ 20,852 | $ 43,519 |
| Active participants | 11,576 | 10,652 | 22,228 | 11,334 | 10,426 | 21,760 |
| Participants on leave-without-pay | 192 | - | 192 | 185 | - | 185 |
| | 34,920 | 31,957 | 66,877 | 34,186 | 31,278 | 65,464 |
| **Claims Paid to Participants** | | | | | | |
| Medical | 25,489 | 20,663 | 46,152 | 23,257 | 19,831 | 43,088 |
| Dental | 3,395 | 3,027 | 6,422 | 3,176 | 2,691 | 5,867 |
| Medicines | 5,408 | 11,435 | 16,843 | 6,751 | 11,682 | 18,433 |
| | 34,292 | 35,125 | 69,417 | 33,184 | 34,204 | 67,388 |
| **Contributions higher (lower) than claims paid** | 628 | (3,168) | (2,540) | 1,002 | (2,926) | (1,924) |
| **Other Items** | | | | | | |
| (Increase) decrease in Claims incurred but not paid | (697) | (731) | (1,428) | 176 | 164 | 340 |
| Insurance recoveries | 14 | 23 | 37 | 3 | - | 3 |
| Pharmacy rebates | 1,040 | 2,072 | 3,112 | 555 | 1,078 | 1,633 |
| US Medicare part D subsidy | - | 786 | 786 | - | 647 | 647 |
| | 357 | 2,150 | 2,507 | 734 | 1,889 | 2,623 |
| **Contributions and other items higher (lower) than claims paid** | 985 | (1,018) | (33) | 1,736 | (1,037) | 699 |
| Employer to Large claims reserve | - | - | 694 | - | - | 437 |
| **Contributions and other items including Employer to Large claims reserve higher (lower) than claims paid** | $ 985 | $ (1,018) | $ 661 | $ 1,736 | $ (1,037) | $ 1,136 |

**NOTE G – CONCENTRATION OF CREDIT RISK**

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted. For concentration of credit risk related to Investments, refer to Note C. In addition, at December 31, 2019, the Program had cash deposits in two financial institutions in the United States in the amount of $7,182 (2018 –$6,641). The Bank does not anticipate non-performance by any of its counterparties. The amount of credit risk shown, therefore, does not represent expected losses.

## NOTE H – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 13, 2020, which is the date the financial statements were available to be issued. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the Program's financial statements as of December 31, 2019 except as disclosed below:

On March 11, 2020, the World Health Organization announced that infections of the coronavirus COVID-19 had become pandemic. The global outbreak of COVID-19 has disrupted and created significant volatility in economic markets and is expected to change the historical pattern and timing of the Program participants' benefit utilizations in 2020. Management deems the COVID-19 outbreak as a non-recognized subsequent event and continues to closely monitor its impact on the Program's operations.