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ATTENTION**

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EBAP/84/74

April 10, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Cost of Living Supplements for Pensioners, Effective
May 1, 1984

The Managing Director has requested that the attached memorandum from the Chairman of the Administration Committee of the Staff Retirement Plan, dealing with the cost of living supplements for pensioners effective May 1, 1984, be brought to the Executive Board for its consideration.

It is not intended to place this matter on the agenda unless an Executive Director so requests by noon on Tuesday, April 17, 1984. In the absence of such a request, the recommendation in the memorandum will be deemed approved and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

Other Distribution:
Members of the Pension Committee
Department Heads



Office Memorandum

TO: The Managing Director

FROM: Chairman, Administration Committee
Staff Retirement Plan

SUBJECT: Cost of Living Supplements for Pensioners
Effective May 1, 1984

DATE: April 4, 1984

The purpose of this memorandum is to provide the necessary information so that a decision can be taken with respect to funding cost of living supplements for pensioners in the fiscal year beginning May 1, 1984.

The rules and procedures governing the determination, funding and payment of cost of living supplements to pensioners are set forth in Section 4.11 of the Staff Retirement Plan and in EBAP/76/194, Supplement 2, as follows:

Staff Retirement Plan

4.11(a) "Whenever the cost of living for a fiscal year beginning after April 30, 1977 increases, pensions shall be augmented by a pension supplement which, expressed in percentage terms shall be equal to the lesser of (i) the increase in the cost of living for the fiscal year or (ii) two percent."

4.11(b) "If the increase in the cost of living for a year exceeds two percent, pensions shall be augmented by an additional supplement, to be paid from contributions of the Employer under Section 6.2(a)(ii), equal in percentage terms to the difference between the supplement under subsection (a) above and the increase in the cost of living, provided that the Employer, for good cause shall have the right, not later than the commencement of the fiscal year in which the additional supplement is payable, to reduce prospectively the additional supplement to not less than one percent. In the case of an additional supplement calculated on the basis of [a non-U.S. index] any such reduction shall be made applicable through uniform rules adopted by the Employer upon the recommendation of the Administration Committee."

EBAP/76/194, Supplement 2:

Paragraph 5: "Estimated amounts which may be required to fund cost of living supplements above 2 percent will be submitted for approval prior to the beginning of a fiscal year in which the supplements become effective and will be included in the Administrative Budget for the following

fiscal year. Payment to the Plan will be effected following receipt of the annual actuarial valuation which will provide the precise amount to be contributed."

The Bureau of Statistics has estimated that the rise in the cost of living from March 1983 to March 1984 as measured by the increase in the Washington D.C. Consumer Price Index for All Urban Consumers will be about 5.8 percent (Attachment I).

In accordance with the above decision and on the assumption that there is no reduction of the supplements "for good cause" under Section 4.11(b) of the Plan, a cost of living supplement of 3.8 percent--i.e., the difference between the 5.8 percent and the 2 percent that is prefunded and paid for by the regular contributions of the Employer and the participants--would need to be funded by the Employer. This amount would include the 1 percent guaranteed under the Plan and 2.8 percent subject to possible reduction "for good cause."

It has been estimated by the Actuary that the cost of funding a 1 percent increase in pensions as of April 30, 1985 will be \$1,380,000 (Attachment II). Therefore the estimated cost of funding the 3.8 percent portion of the total cost of living supplements of 5.8 percent would be \$5,244,000. However, the precise amount will not be known until the Actuary's Report with the results of the April 30, 1985 valuation is received. The actual amount will be included in the Administrative Budget for Fiscal Year 1986.

A comparison of the cost of living adjustments on pensions and the general salary adjustments in recent years may be of interest:

<u>Year</u>	<u>Cost of Living Increase to Pensions (Percent)</u>	<u>General Salary Adjustment on Salaries (Percent)</u>
1979	9.5	11.3
	A-E 13.2	
1980	F-M 19.1	12.3
1981	7.0	9.8
1982	7.5 (14 months)	6.3
1983	6.4	3.7
1979 - 1983 compounded	A-E 51.7	
	F-M 59.6	51.3

The figures are not directly comparable because adjustments to pensions are on a gross basis, and adjustments to salaries are on a net basis.

The Fund measures the CPI for pension increase purposes from March to March with the increased pensions effective on May 1. The Bank

measures the same CPI from November to November, with the increased pensions effective on January 1. The Bank increase in January 1984 was equivalent to the cost of living increase between November 1982 and November 1983, i.e., 4.3 percent.

It is suggested that this matter be brought to the attention of the Executive Directors and that they be requested to approve, pursuant to Paragraph 5 of EBAP/76/194, Supplement 2, the payment to the Staff Retirement Fund of the amount required to meet the cost of funding the portion of the augmentation equivalent to 3.8 percent effective May 1, 1984.

The Administration Committee will provide the actual change in the index as soon as it becomes available and if necessary will furnish a revised estimate of the cost of funding.

Attachments



Office Memorandum

TO : Mr. Hogan

DATE: March 30, 1984

FROM : C. A. Patel

SUBJECT : Estimate of Change in Washington, D.C., Consumer Price Index (CPI)-U

In response to your memorandum of March 22, 1984, to Mr. Dannemann on the above subject, the following estimate is submitted for consideration by the Staff Retirement Plan Administration Committee.

1. During the period March 1983 to January 1984 the consumer price index for all urban consumers in Washington, D.C.,-Maryland-Virginia, the so-called Washington, D.C., CPI-U index, went up by 4.98 percent.
2. Between January and February 1984 the national consumer price index for all urban consumers went up by .46 percent.
3. No further data are available, but indications would not contradict the possibility of a rise of .8 percent between January and March 1984.
4. The resultant estimate for the increase in the Washington, D.C., U index for the period March 1983 to March 1984 would then be 5.8 percent.

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March 7, 1984

BUCK
CONSULTANTS

Mr. Francis X. Hogan
Senior Pensions Officer
International Monetary Fund
Room 6-320
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Hogan:

Based on data submitted with your letter of February 13, 1984 to Mr. Peskin, we have estimated that the maturity funding cost, payable on April 30, 1985, for each 1% of the cost-of-living increases in pensions in excess of 2% granted on May 1, 1984 will be \$1,380,000. This estimate is based on the actuarial assumptions used in the April 30, 1983 valuation of the Plan. Our estimate includes an allowance for the cost-of-living payments expected to be made between May 1, 1984 and April 30, 1985.

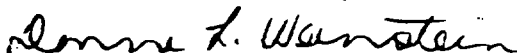
Please let me know if you have any questions.

Sincerely,

GEORGE B. BUCK CONSULTING ACTUARIES, INC.



Michael W. Peskin
Benefit Consultant



Donna L. Weinstein, F.S.A.
Consulting Actuary