

**IMMEDIATE
ATTENTION**

MASTER FILES
ROOM C-525

0494

EB/CAP/96/5
Correction 1

July 30, 1996

To: Members of the Committee on Administrative Policies
From: The Committee Secretary
Subject: **Proposed Changes to Financing the Group Life Insurance Plan**

The proposal for establishment of a Premium Stabilization Reserve, page 4 of EB/CAP/96/5 (7/25/96), envisages that "...a portion of the expected surplus contributions in 1996 could be used to fund this reserve initially, and the balance of the surplus would be refunded to the Fund and participants in mid-1997." Paragraph 3 of the proposed draft decision on page 5 is amended to clarify that the proposal for discontinuing the refunding of surplus contributions would begin with policy year 1997.

To give the Committee an opportunity to take into account the amended recommendation, the lapse of time period for consideration of changes in the Group Life Insurance Plan is extended until noon on Thursday, August 1, 1996. In the absence of an objection by that time, the report and recommendation, as amended, will be deemed approved by the Committee for submission to the Executive Board.

Att: (1)

Other Distribution:
Members of the Executive Board

excess of claims and expenses over premium and interest income would be met by drawing down the PSR. The schedule of contributions would be examined annually with John Hancock at the time of the financial reconciliation for the past policy year to determine the appropriateness of the level of the PSR and the contribution schedule.

3. New minimum death benefit for retirees

It is recommended that the death benefit of \$3,000 at ages 75 and older be increased to \$15,000. The current benefit has been in place since the early 1970s and has never been adjusted for inflation. This change will bring the Fund's GLI design into line with current market practice.

4. Advantages of proposals

The advantages for the Fund and staff include actuarially more correct and stable contribution rates, a cash flow improvement, avoidance of the opportunity cost (valued at \$10,000) arising from the nonpayment of interest on the refund after the end of the policy year, and modest administrative savings from eliminating the need for refunding contributions at the end of the policy year.

IV. Recommendations

It is proposed that the Committee on Administrative Policies recommend the following draft decision for adoption by the Executive Board:

The Managing Director is authorized to implement the following changes in the administration of the Fund's Group Life Insurance Plan with effect from September 1, 1996:

1. Reduce contribution rates and modify the rate structure by reducing the age brackets from 10-year to 5-year increments, in accordance with the attached contribution schedule (Attachment II);
2. Establish a Premium Stabilization Reserve from the excess premium paid in 1996 (to be initially set at 20 percent of total annual premium), which will be drawn down in the case of Plan deficits;
3. Beginning with policy year 1997, discontinue the refunding of any Plan surplus to the participants and the Fund at the end of each policy year and instead deposit such surplus as might accrue to the Premium Stabilization Reserve; and
4. Increase the minimum death benefit for retirees to \$15,000.

Comparison of Life Insurance Programs
of Several International Organizations

Organization	Amount of Coverage	Employer Subsidy	Total Monthly Rates 1/
International Monetary Fund	1, 2, or 3 times net salary	One-third of total cost	Based on age. Current composite rate of \$0.40 per \$1,000 vs. proposed rate of \$0.27 per \$1,000
United Nations	2 times pensionable remuneration up to \$130,000 maximum	None	\$0.30 per \$1,000
World Bank	Up to 6 times net salary	100 percent of 1 times salary	Raised by 20 percent recently to \$0.25 per \$1,000 on average
Pan-American Health Organization (PAHO)	In flat amounts but about 2 times pensionable gross remuneration up to \$130,000 maximum	None	\$0.28 per \$1,000
	Second program in addition to the one above - up to 6 times pensionable gross remuneration to maximum of \$600,000	None	\$0.38 per \$1,000 below age 63; higher thereafter for amounts over \$600,000

1/ Rates are expressed as a monthly contribution per \$1,000 of coverage unless otherwise specified.