

RP/CP/08/9

April 29, 2008

To: Members of the Pension Committee
(Mr. Portugal, Acting Chairman; Mr. Gakunu, Mr. Ge, Mr. Kiekens,
Mr. Kotegawa, Ms. Alonso-Gamo, Mr. Ghosh)

From: Padma Gotur, Pension Committee Secretary

Subject: **Cost-of-Living Adjustment to Pensions Effective May 1, 2008**

Attached for the **information** of the Pension Committee is a memorandum from the Chairman of the Administration Committee on the above-mentioned subject.

Att: (1)

Other Distribution:
Members of the Executive Board



Office Memorandum

To: Chair, Pension Committee
Staff Retirement Plan

April 28, 2008

From: Chair, Administration Committee *DSR*
Staff Retirement Plan

Subject: **Cost-of-Living Adjustment to Pensions Effective May 1, 2008**

The purpose of this memorandum is to inform you and the members of the Pension Committee of the cost-of-living adjustment that will become effective on U.S. dollar pensions as of May 1, 2008.

In accordance with Section 4.11 of the Staff Retirement Plan (see Attachment I), pensions being paid under the Plan are adjusted for increases in the cost-of-living on May 1 of each year. Pensions being paid in U.S. dollars are adjusted based on the March to March increase in the Consumer Price Index of All Urban Consumers (CPI-U) for the United States.¹ That Index increased by 4.0 percent from March 2007 to March 2008. As a result, the May 1, 2008 adjustment for pensions in U.S. dollars will be 4.0 percent.

Attachment

¹Section 4.11(d) (i) of the Plan was amended to reflect the change from the Washington, D.C. Consumer Price Index to the U.S. National Consumer Price Index for All Urban Consumers (CPI-U) effective May 1, 1998. Pensions being paid in local currencies are normally adjusted in accordance with the latest available data published or selected to be published in International Financial Statistics for the country in question under the terms of Sections 4.11(d) (ii) and 16.3 of the Staff Retirement Plan.

CONSUMER PRICE MOVEMENTS MARCH 2008

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9 percent in March, before seasonal adjustment, the Bureau of Labor Statistics of the U.S. Department of Labor reported today. The March level of 213.528 (1982-84=100) was 4.0 percent higher than in March 2007.

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) increased 0.9 percent in March, prior to seasonal adjustment. The March level of 209.147 (1982-84=100) was 4.3 percent higher than in March 2007.

The Chained Consumer Price Index for All Urban Consumers (C-CPI-U) increased 0.8 percent in March on a not seasonally adjusted basis. The March level of 123.204 (December 1999=100) was 3.6 percent higher than in March 2007. Please note that the indexes for the post-2006 period are subject to revision.

CPI for All Urban Consumers (CPI-U)

On a seasonally adjusted basis, the CPI-U advanced 0.3 percent in March, following virtually no change in February. The energy index increased 1.9 percent in March after declining 0.5 percent in February. Within energy, the index for petroleum based energy increased 2.0 percent and the index for energy services rose 1.9 percent. The food index, which rose 0.4 percent in February, increased 0.2 percent in March. The index for food at home also rose 0.2 percent. The index for all items less food and energy rose 0.2 percent in March, following virtually no change in February. A larger increase in the index for household furnishings and operations and an upturn in the index for airline fares more than offset a larger decline in the apparel index.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U)

Expenditure Category	Seasonally adjusted								Un-adjusted 12-mos. ended Mar. 2008
	Changes from preceding month							Compound annual rate 3-mos. ended Mar. 2008	
	Sep. 2007	Oct. 2007	Nov. 2007	Dec. 2007	Jan. 2008	Feb. 2008	Mar. 2008		
All items	0.4	0.3	0.9	0.4	0.4	0.0	0.3	3.1	4.0
Food and beverages .....	.5	.2	.4	.1	.7	.4	.2	5.1	4.4
Housing .....	.3	.2	.4	.3	.2	.2	.4	3.4	3.0
Apparel .....	.2	.1	.6	.1	.4	-.3	-1.3	-4.7	-1.4
Transportation .....	.7	.3	3.5	1.0	.5	-.7	.7	2.4	8.2
Medical care .....	.4	.5	.4	.3	.5	.1	.1	3.2	4.6
Recreation .....	.2	.3	.2	.0	.2	.1	.3	2.3	1.3
Education and communication .....	.2	.3	.0	.3	.4	.1	.3	3.2	3.0
Other goods and services ...	.3	.2	.2	.3	.4	.2	.4	4.5	3.2
Special indexes:									
Energy	1.4	1.0	6.9	1.7	.7	-.5	1.9	8.6	17.0
Food .....	.5	.2	.4	.1	.7	.4	.2	5.3	4.5
All items less food and energy .....	.2	.2	.2	.2	.3	.0	.2	2.0	2.4

For the first three months of 2008, consumer prices increased at a seasonally adjusted annual rate (SAAR) of 3.1 percent. This compares with an increase of 4.1 percent for all of 2007. The index for energy, which rose 17.4 percent in 2007, advanced at a 8.6 percent SAAR in the first quarter of 2008. Petroleum-based energy costs increased at a 5.6 percent annual rate and charges for energy services rose at a 12.8 percent annual rate. The food index rose at a 5.3 percent SAAR in the first quarter of 2008, following a 4.9 percent increase in all of 2007. The index for grocery store food prices increased at a 5.9 percent annual rate, reflecting increases in each of the six major groups ranging from annual rates of 0.7 percent in the index for dairy products to 15.7 percent in the index for cereal and bakery products.

Excluding food and energy, the CPI-U advanced at a 2.0 percent SAAR in the first quarter, following a 2.4 percent rise in all of 2007. The moderation thus far in 2008 largely reflects smaller increases in the indexes for shelter--up at a 2.0 percent rate after advancing 3.1 percent in all of 2007--and medical care, coupled with a larger decline in the index for apparel. The annual rates for selected groups for the last seven and one-quarter years are shown below.

ATTACHMENT 1

4.11 Pension Supplements

(a) Whenever the cost of living for a fiscal year beginning after April 30, 1977 increases, pensions shall be augmented by a pension supplement that, expressed in percentage terms, shall be equal to the increase in the cost of living for the fiscal year.

(b) 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 3 percent. In the case of an additional supplement calculated on the basis of (d)(ii) below, any such reduction shall be made applicable through uniform rules adopted by the Employer upon the recommendation of the Administration Committee.

(c) A pension supplement shall be payable in respect of any pension, as previously augmented by pension supplements paid directly from the Employer or from the Plan, that commenced prior to, or commences during, the fiscal year in which the supplement becomes effective, provided that a pension supplement that becomes effective during the fiscal year in which the pension commences and is payable in respect of a pension, other than a deferred pension, that commences during a fiscal year beginning after April 30, 1977, shall be reduced by one twelfth for each full calendar month between the beginning of the fiscal year and the effective date of the pension.

(d) For the purpose of subsections (a) and (b) above, an increase in the cost of living for a fiscal year shall be measured on the basis of either: (i) the most recent U.S. Consumer Price Index for All Urban Consumers, either published or certified to be selected for publication by the U.S. Bureau of Labor Statistics; or, if applicable, (ii) the most recent consumer price index for a country either (1) published or certified to be selected for publication in *International Financial Statistics* or (2) in the absence of (1), another index

determined to be suitable. The determination of which index under (ii) applies to an election made in accordance with Section 16.3 shall be made by the Administration Committee.

(e) Pension supplements pursuant to this Section 4.11 shall be paid in respect of normal and early retirement pensions, disability pensions, pensions under Section 4.5(b), and related pensions payable under Section 4.6 or Section 4.9, and children's benefits pursuant to Section 4.10, subject to the current minimum and maximum amounts, but shall not be paid in respect of supplementary pensions pursuant to paragraph 7 of Schedule B, or annuities pursuant to Section 4.4(b), or paragraph 10 of Schedule B. The minimum amount per child, maximum amount per child, and maximum amount per family applicable to children's benefits and allowances shall be changed by the same percentage (subject to rounding to the nearest \$10 for the benefits payable between May 1, 1974, and April 30, 1978) as a pension based on the U.S. Consumer Price Index for all Urban Consumers whenever it is changed. A survivor's pension under Section 4.6 shall reflect increases under this Section since the retired participant's pension became eligible for pension supplements.

(f) Any deferred pension on account of a participant to which Section 4.11(a) and (b) would apply, had the pension commenced, shall be augmented by a percentage equal to that determined under Section 4.11(a) and (b) with respect to any period of deferral after his contributory service ceased, and after the sum of his age in full months and of eligible service in months was at least 600, provided that a pension supplement that becomes effective during the fiscal year, beginning after April 30, 1977, in which this sum is attained shall be reduced by one twelfth for each full calendar month between the beginning of the fiscal year and that effective date.

(g) If a participant has elected an optional benefit under Section 4.6 that is in effect at the date of his death, or has elected to commute a stated portion of his pension under Section 15.1, there shall be included in charges against his accumulated contributions for the purpose of determining the amount thereof under Section 4.4(a)(ii) as of any date, payments

that would have been made to him as cost of living increases in his pension if there had been no reduction in that pension pursuant to Section 4.6 or Section 15.1, and the percentage in that Section 4.4(a)(ii) shall apply to his pension without reduction under Section 4.6 or Section 15.1, adjusted in the same manner.

(h) If any change shall be made in the composition of any consumer price index referred to in this Section 4.11 that, in the judgment of the Employer, would change substantially the basis upon which this Section 4.11 was established, or if that index shall be abolished, the Employer may adopt, in its stead, such other actual or adjusted index as shall, in the judgment of the Employer, record as fairly as possible the change in the cost of living from year to year.

(i) Any amounts, payable under this Section shall, when added to any pension payable in accordance with Section 4.1 or Section 4.2, be subject to the provisions of Section 4.12.

4.12 Maximum Benefits

(a) The portion of a participant's pension provided by the participant's contributions shall be denoted the participant-derived annual pension and shall be equal to the participant's accumulated contributions as of the effective date of his pension multiplied by a conversion factor. For purposes of this subsection (a), a participant's accumulated contributions and applicable conversion factor are to be determined under applicable governmental regulations.

(b) The portion of a participant's pension provided by the Employer's contribution shall be denoted the Employer-derived annual pension and shall be equal to the excess, if any, of the total annual pension over the participant-derived annual pension as computed in accordance with subsection (a).

(c)(i) The maximum Employer-derived annual pension payable under Section 4.1 or Section 4.2, as adjusted by cost of living increases under Section 4.11,