FOR AGENDA

EBAP/08/73
Correction 1

CONFIDENTIAL

July 24, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Medical Benefits Plan—Review and Proposed Further Reform**

The attached corrections to EBAP/08/73 (7/11/08) have been provided by the staff:

Page 7, para. 15, lines 1–3: for "***Medical services abroad.*** Participants who reside..."
read "15. (a) ***Medical services abroad.*** Participants who reside ...."

Page 7, para. 16, lines 1–2: for *"**Implementation.*** All plan design changes...."
read "15. (b) ***Implementation.*** All plan design changes..."

Page 7, para. 16, add: "16. ***Dental.*** For the dental plan, it is proposed to raise the cap on allowable fees under the Plan, referred to as the level of 'reasonable and customary' fees from the 90th percentile plus $10 to the 90th percentile plus 10 percent."

Page 10, proposed decision, para. 2, line 2:
for "...as set out in paragraphs 20–21 of EBAP/08/73."
read "...as set out in paragraphs 18–21 of EBAP/08/73."

Questions may be referred to Ms. Brookbank, HRD (ext. 36764).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (2)

Other Distribution:
Department Heads

Other issues

15. (a) ***Medical services abroad.*** Participants who reside and incur claims outside the United States would continue to be treated as if using in–network benefits. These claims would be paid at 90 percent subject to reasonable and customary levels, after the deductible.[9]

15. (b) ***Implementation.*** All plan design changes are proposed to be effective for services received on or after September 1, 2008.[10]

16. ***Dental.*** For the dental plan, it is proposed to raise the cap on allowable fees under the Plan, referred to as the level of 'reasonable and customary' fees from the 90th percentile plus $10 to the 90th percentile plus 10 percent.

IV. PROPOSED FINANCING

A. Funding within the Medium-Term Budget

17. The proposed revisions to the MBP are affordable and additional expenses can fit within the MTB spending ceilings. The revised Plan could contribute about $6 million in annual savings through network efficiencies, after taking the estimated $4.1 million cost increase (annual rate at 2008 prices) for plan changes into account.

18. The higher plan costs would be financed by contribution increases by participants, the administrative budget, and the Retired Staff Benefits Investment Account (RSBIA).[11] Contributions would be determined by existing rules, in particular the 1:3 formula under which the administrative budget and RSBIA contribute $3 for each $1 of staff and retiree contributions. For FY 2009, staff and retiree contributions would increase by 4.2 percent on September 1, the approved structural increase for staff and very close to the 4 percent cost of living adjustment given to retirees.[12] A similar increase is planned for May 1, 2009. Administrative budget and RSBIA contributions would rise proportionally. For FY 2009, plan reserves would be $1 million lower than under the current plan, but would still increase relative to the previous year reflecting the $6 million in anticipated savings.

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[9] Since there are no in-network providers available outside the United States, participants who reside abroad and receive care outside the United States do not have the option to use in-network providers. Therefore, the plan provides coverage for those services at the same level as in-network in the United States. For participants who live outside the United States and use services in the United States, coverage for services in the United States would be the same as for United States based participants with in-network and out-of-network benefit levels.

[10] The exception to the September 1, 2008 implementation would be a retroactive feature for the annual out-of-pocket expense maximum for prescriptions back to January 1, 2008. For 2008, this would be administratively handled after the end of 2008.

[11] The RSBIA was established in 1995 to hold, invest, and administer resources contributed by the Fund for meeting the accruing obligations of the Fund with respect to the medical and life insurance costs of current and future retirees. Additional plans related to post-separation benefits were added in later years.

[12] Appendix I shows the current and proposed contribution schedules. The contribution increase will begin September 1, 2008 for retirees and the first full payroll period in September for Fund staff.

19. The projected increase in administrative budget contributions to the medical plan can fit within the MTB ceiling. Staff is committed to the three-year budget envelope and the path to achieve $100 million in savings by FY 2011. Staff recommendation is to shift some of the planned RSBIA prefunding to MBP contributions. The MTB assumed $37 million in annual funding, well above the minimum actuarially-determined contribution for FY 2009 of $26 million based on the improved plan design. Reducing planned RSBIA funding to $36 million from $37 million in FY 2009 to pay for higher MBP contributions would leave total spending within the MTB ceiling, keep the mix of personnel and non personnel costs unchanged, and still provide for significant prefunding in the RSBIA for FY 2009. In a similar vein, the projected required contribution declines to $18 million a year in FY 2010–2011, enabling a similar financing strategy in these years. Longer- term options will need to be assessed, however, as RSBIA minimum required contributions are projected to increase steadily in future years.

B. The Funding Model

20. Staff proposes that the current pay-as-you-go funding model be modified to be more in line with the MTB multiyear budgeting framework. In the current system, contributions are set to cover current year projected expenses while maintaining an actuarially-determined minimum reserve. Although under the current system contributions would be increased in order to keep income in line with expenditures (even with the existence of excess reserves), it is prudent to ensure that contribution increases are smoothed to avoid any unanticipated increases that would put pressure on other budget priorities.

21. Smoothing rate increases and prefunding by pre-announcing annual adjustments in line with the structural increase in staff salaries at a minimum, would simplify planning for the administrative budget and reduce the risk of unanticipated costs on the contingency. Similarly, staff and retirees would see more predictable rate increases, thus facilitating their own financial planning. A consequence of this approach would be that reserves would be above the actuarially-determined minimum level for the next several years. This could be seen as an advantage in view of the uncertainties of medical costs. Annual actuarial reviews would continue to be done to closely monitor the financial experience over time and to evaluate the necessity for any changes to the funding model.

C. Ten-Year Projections

22. Ten-year projections indicate that the revised MBP would be healthy through FY 2011 in terms of a projected surplus as shown in Table 2. Assuming that medical costs rise in line with past experience, and contributions are aligned with salary adjustments, implies that contributions would remain above expenses through FY 2011 and the nominal level of reserves would rise. After that the plan surplus would turn to deficit, and in FY 2014, reserves would fall below the minimum and the contribution rate would need to increase by more than the salary adjustment rate.

23. These projections suggest that, while MBP finances are currently sound, contributions and expenses will need to be reviewed over the medium term to align plan revenues and medical costs. In all years, expenses are projected to rise by 10 percent. The projections show that from FY 2009–FY 2013, the increase in costs could be accommodated by a combination of the estimated 4–4.2 percent annual contribution increase and reserve drawdown. From 2014 onwards, the projections reflect the additional contributions needed to meet the actuarially-determined reserve targets. However, expenditures are expected to exceed contributions by FY 2012, thus necessitating additional review.

Table 2. Medical Benefits Plan Funding Projection FY 2009–FY 2018
Proposed Automatic Contribution Increases

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
A. Beginning reserves	17.5	25.4	30.0	31.4	29.2	22.6	13.3	14.7	16.1	17.7
B. Total contributions 1/	58.7	62.0	64.6	67.2	69.9	74.8	93.9	103.1	113.5	124.9
C. Expenditures 2/	50.8 3/	57.4	63.2	69.5	76.4	84.1	92.5	101.7	111.9	123.1
D. Change in reserves (B–C)	7.9	4.6	1.4	-2.3	-6.5	-9.3	1.4	1.4	1.6	1.8
E. Ending reserves	25.4	30.0	31.4	29.2	22.6	13.3	14.7	16.1	17.7	19.5
F. Actuarially-determined required reserves	8.3	9.1	10.0	11.0	12.1	13.3	14.7	16.1	17.7	19.5

1/ Assumptions: automatic contribution increase of 4.2 percent on September 1, 2008, May 1, 2009, and May 1, 2010; 4.0 percent automatic contribution increases thereafter and additional contributions as needed (beginning in FY 2014) to meet the reserve target. Contributions do not reflect a) any additional interest on reserves over 2008 levels or b) growth in contributions due to staff/retiree movement upward in income-based contribution bands.

2/ Expenditures are projected to increase 10 percent per year.

3/ 2009 expenditures are based on the Actuary's projected cost of $48.1 million for the current plan plus $2.7 million for the proposed plan changes ($4.1 million projected annual cost increase prorated 8 months from September 1, 2008 to the end of FY2009).

V. FUTURE MEDICAL BENEFITS PLAN WORK PROGRAM

24. The proposed plan revisions address the main issues that have arisen in implementing the January 2008 reform, while preserving its key structural elements. A key priority will be to ensure smooth implementation of the proposed changes, in particular to avoid the kind of transition problems experienced with the January 2008 reform.

25. Following implementation of the proposed changes effective September 1, 2008, it is proposed to return to the previously envisaged next stage of the MBP work program to encourage more participation by retirees in national health schemes, especially Medicare. United States medical costs are projected to continue to rise by about 10 percent on average each year—well above the rate of salary and pension increases. As long as this trend continues, there will be a need periodically to revisit plan features comprehensively, to realign contributions and expenditures. With the plan revisions proposed in this paper, including the move to automatic contribution increases in line with annual increases in the salary structure, it is recommended that the next such review would be necessary in about 5–6 years.

VI. PROPOSED DECISION

It is recommended that the Executive Board approve the following decision:

1. The Managing Director is authorized to implement plan design reforms to the Medical Benefits Plan as set out in paragraphs 8–16 of EBAP/08/73, to go into effect on September 1, 2008.

2. The Managing Director is authorized to implement funding reforms to the Plan as set out in paragraphs 18–21 of EBAP/08/73. Specifically,

   a. The Managing Director is authorized to increase the Plan contribution rates by 4.2 percent effective September 1, 2008, as reflected in the proposed contribution schedule set forth in Appendix I of EBAP/08/73;

   b. The Managing Director is authorized to increase the Plan contribution rates, effective May 1 each year, by the percentage structural increase to staff compensation that is incorporated into the administrative budget for that financial year.