

EBAP/08/73
Correction 2*

CONFIDENTIAL

August 28, 2008

To: Members of the Executive Board

From: The Secretary

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

The following correction is to be made to the Medical Benefits Plan—Review and Proposed Further Reform, EBAP/08/73, which reflects the view of the Board on July 25, 2008.

Page 9, para. 25, line 10: for “...*it is recommended that the next such review would be necessary in about 5–6 years.*”, read “...*it is recommended that the next such review would be necessary in about 2–3 years.*”

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

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

Att: (1)

Other Distribution:
Department Heads

*Being reissued to correct the subject line on the Secretary's note of transmittal.

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 ~~52–63~~ years.¹

¹ [The MBP work program will also address the funding and governance structure of the RSBI.](#)

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.