IMMEDIATE ATTENTION

RP/CP/09/2
Correction 1

CONFIDENTIAL

March 27, 2009

To: Members of the Pension Committee
(Mr. Portugal, Acting Chairman; Mr. Alazzaz, Mr. Fayolle, Mr. Kiekens, Mr. Mojarrad, Ms. Alonso-Gamo, Mr. Ghosh)

From: Padma Gotur, Committee Secretary

Subject: **The Fund's Contribution to the Staff Retirement Plan in FY 2010**

The attached page 4 of RP/CP/09/2 (3/18/09) is being reissued to include the last lines of paragraph 5, which were inadvertently omitted.

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

Att: (1)

Other Distribution:
Members of the Executive Board
Ms. Siegel
Mr. Rodlauer
Mr. Rosales
Mr. Vicini
Ms. Marzouk

II. Determining and Funding the Fund's Staff Retirement Plan Contribution

1. The Pension Committee and the Executive Board have established a funding methodology that is designed to ensure the Staff Retirement Plan's sound financial position over the expected lifespan of current retirees and active staff.

A. Regular Annual Contribution

2. Each year, an actuarial valuation is conducted to determine the recommended rate of Fund contributions to the SRP.[5] This contribution rate is determined using the actuarial cost method and actuarial asset method selected for the Plan. For the SRP, the Pension Committee adopted the *aggregate actuarial cost* method and a *five-year asset smoothing valuation* method.[6] Under these methods, the contribution rate is equivalent to the "normal cost" expressed as a percentage of pensionable gross remuneration (PGR).

3. The aggregate actuarial cost method determines the difference between (1) the actuarial present value of projected benefits for existing participants as of the valuation date, and (2) the actuarial value of Plan assets and expected future participant contributions. This net liability is allocated as a level percentage of the PGR of current participants projected from the annual valuation date to assumed retirement dates, resulting in the rate of normal cost.

4. The actuarial value of Plan assets is determined under a five-year asset smoothing valuation method. This method reduces the volatility in Plan costs by recognizing asset gains and losses over a five-year period. Thus, in years that the market value of Plan assets declines due to market conditions, the Plan's costs would not increase to the extent that they would if only the current market value of assets were considered. On the other hand, when the market value of Plan assets increases, the Plan costs do not decrease to the same extent.

5. The annual valuation is based on participant and asset data along with economic and demographic assumptions intended to reflect a best estimate of future events that would affect the Plan's liabilities. To the extent that Plan participation and experience differ from the assumptions, actuarial gains and losses will occur.[7] The Pension Committee is responsible for establishing the assumptions used in the annual valuation of the Plan.[8] The

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[5] The regular annual contribution rate is determined as an overall rate, reflecting the assets and liabilities of the SRP and the Supplemental Retirement Benefits Plan (SRBP). The SRBP was established in 1985 to provide for the payment of benefits that could not otherwise be paid from the SRP, due to certain legal limitations placed on qualified plans, such as the SRP.

[6] The actuarial methods were adopted in 1986 and last approved, with some modifications to the asset valuation method, in 2006. See *Staff Retirement Plan—Review of Actuarial Assumptions and Methods* (RP/CP/06/11, 10/12/06).

[7] A gain represents a decrease in Plan costs, whereas a loss represents an increase in plan costs.

[8] The Actuary for the Plan reviews the experience every five years, and makes recommendations for changes in the actuarial assumptions, as appropriate. The last five-year review took place in 2006. See *Staff Retirement Plan—Review of Actuarial Assumptions and Methods* (RP/CP/06/11, 10/12/06).

assumptions include the interest rate for discounting Plan liabilities, the rates of salary growth and inflation, and the rates at which Plan participants are expected to separate, retire, become disabled, or die. A summary of the key assumptions approved by the Pension Committee in 2006 is provided in Table 1 below.

Table 1. Key Actuarial Assumptions

Actuarial Assumption	Annual Rate	
Interest rate	7.5 percent	
Salary growth	10.8 percent at age 21, decreasing to 6.4 percent at age 64	
Pension increases (cost-of-living adjustments)	4 percent	
Separation rates:		
Age	Men	Women
35	8.5	5.0
40	6.5	2.5
45	4.0	2.0
50	3.0	1.0
Retirement rates:		
Age	Rate	
50	--	
55	17	
60	18	
62	25	
Disability	Up to .03 percent at age 30 and younger, increasing to .38 percent (for males) and .55 percent (for females) at age 64	
Death	Up to .12 percent at age 45 and younger, increasing to .65 percent (for males) and .34 percent (for females) at age 60, and .98 percent (for males) and .53 percent (for females) at age 64	

B. Funding Framework

6. The current funding framework was adopted by the Executive Board in 2004 with a view to "normalizing" the Fund's budgetary payments to the SRP. Accordingly, the Fund