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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 10/35-1

10:10 a.m., April 12, 2010

1. Reforms to the IMF's Retirement Benefits Program

Documents: EBAP/10/27

Staff: Siegel and Rodlauer, HRD; Redifer, SAC; Nearpass, Actuary

Length: 32 minutes

Executive Board Attendance

D. Strauss-Kahn, Chairman

Executive Directors	**Alternate Executive Directors**
S. Itam (AE)	
	M. Sidi Bouna (AF), Temporary
	V. De la Barra (AG), Temporary
	C. Legg (AU)
W. Kiekens (BE)	J. Prader (BE)
	P. Fachada (BR), Temporary
	Y. Luo (CC)
R. Guzmán (CE)	
T. Hockin (CO)	S. O'Sullivan (CO)
A. Fayolle (FF)	
K. Stein (GR)	
A. Virmani (IN)	P. N. Weerasinghe (IN)
A. Sadun (IT)	
D. Kotegawa (JA)	
	M. Daïri (MD)
	W. Abdelati (MI), Temporary
A. Bakker (NE)	
	J. Bergo (NO)
A. Mozhin (RU)	
	A. Al Nassar (SA)
	P. Phan (ST), Temporary
R. Weber (SZ)	K. Zajdel-Kurowska (SZ)
	D. Rediker (UA)
A. Gibbs (UK)	

B. Esdar, Acting Secretary
F. Gimbel/V. Thakoor, Assistants

Also Present
African Department: M. Petri. European Department: K. Moran, M. Moreno Badia. External Relations Department: A. Kumar. Finance Department: D. Hicks, M. Nilssen. Human Resources Department: A. Carpenito, C. Clarke, D. Mendis, S. Siegel, M. Rodlauer, M. Vicini, S. Zhang. Institute: E. Clifton. Legal Department: R. Leckow, J. Lester, K. Plith. Monetary and Capital Markets Department: J. Di Censo, R. Sheehy. Office of Budget and Planning: G. Conway, M. Henderson. SAC: E. Flores, N. Kerby-Lachnani, W. Oliver, L. Redifer, S. Rosa, H. Weisfeld, C. Willis. Secretary's Department: P. Gotur, M. Yslas. Strategy, Policy, and Review Department: A. Demba. Statistics Department: A. Burgi-Schmelz. Western Hemisphere Department: A. Wolfe. Senior Advisors to Executive Directors: N. Giammarioli (IT), E. Meyer (UA), J. Rolle (CO), S. Rouai (MD), M. Tanasescu (NE), A. Tolstikov (RU). Advisors to Executive Directors: W. Chetwin (AU), N. Choudhary (IN), I. Chowdhury (SZ), G. Davidsons (NO), H. Do (ST), A. Gerdes (GR), M. Holmberg

(NO), N. Imamura (JA), A. Maciá (BR), M. Maung Gyi (ST), G. Tesfamichael (AE), A. Touret-Blondy (FF), J. Wang (CC).

1. REFORMS TO THE IMF'S RETIREMENT BENEFITS PROGRAM

Mr. Legg and Mr. Chetwin submitted the following statement:

We thank the staff for the papers and for earlier opportunities to discuss the proposed reforms to the Staff Retirement Plan (SRP) at meetings of the Pension Committee.

We support the proposed changes and consequent decision set out in EBAP/10/27. We believe that these changes are appropriate, within the existing framework, for the range of technical reasons cited by the staff paper as well as for their contribution to the Fund's targeted workforce composition. However, we consider that these changes may only be part of what is needed, and that there must be a fuller review of the long-term cost of the plan and whether other payment structures should be considered. We expressed our views on this at the Pension Committee meeting on 25 February 2010, and would like to re-emphasize them here.

While the paper argues that the SRP is financially sustainable, the reality is that defined benefit schemes are becoming increasingly rare as public institutions evaluate the true costs of running these schemes and the financial risks that they bear over longer term horizons. Regardless of the Fund's financial capacity to meet the cost, the Fund is ultimately a public institution and therefore has a responsibility to minimize the cost of delivering its objectives.

While at this stage we are not advocating any specific changes to the retirement benefits scheme, it is time to commission a credible and detailed assessment of options that could deliver long term cost savings and reduce financial risks while still offering an overall remuneration package that attracts and retains the highest quality staff. This is important both to ensure that the Fund is getting the best value possible by providing an SRP and to make clear to the public that the Fund takes seriously the responsibility to use its finances judiciously.

On another matter, we would also like to emphasize our strong support for the proposal to develop pension transfer agreements, which we see as a means to encourage people with a diverse range of experience to work at the Fund. Removing impediments to hiring from other international financial institutions is obviously useful in this regard. However, we see the real benefits as coming from greater portability between the Fund's pension scheme and national pension schemes. This would help in the recruitment of

mid-career staff with experience in policy making. Consequently, we encourage the inter-departmental working group to make portability with national pension schemes a focus of its work.

Mr. Shaalan and Ms. Abdelati submitted the following statement:

We thank the staff for the paper and the Task Force for carrying out a review of a range of technical as well as broader reforms to the Staff Retirement Plan (SRP).

We concur with the conclusions of the SRP Task Force to maintain the current defined benefits scheme and see no urgent need for placing more staff resources into another review on the same subject at this time. The current system is administratively simple and current benefit levels are in line with other employer-provided comparators. We see no need for the Fund to shift to a defined contributions scheme simply because a growing number of public institutions have recently adopted such schemes. Most importantly, we are not in favor of changes that reduce staff benefits and reduce the attractiveness of the IMF as an employer.

We look forward to the 2011 review of the financial sustainability of the scheme. In this regard, we are comforted by the staff projections that Fund contributions are expected to remain stable through 2020, which were based on investment returns and market developments through August 2009. Market developments since August 2009 suggest that the financial position has since improved further and Fund contributions will remain stable beyond 2020.

Finally, we support the proposed changes to the SRP and consequent decision set out in EBAP/10/27. We agree that these changes are appropriate, in accordance with the current framework, for the technical reasons cited by the staff paper as well as for their contribution to the Fund's targeted workforce composition. We also welcome the staff's intention to further develop pension transfer agreements, and to explore greater portability between the Fund's pension scheme and national pension schemes.

Mr. Hockin and Mr. Rolle submitted the following statement:

We thank the Pension Committee for its tireless work on this initiative, and the Staff Retirement Plan (SRP) Task Force for an excellent report.

We endorse the recommendations on changes to the SRP, which enhance the competiveness of the Fund's compensation package. They are

more supportive of an HR strategy to encourage increased mid-career engagements and facilitate greater mobility into and out of the Fund—allowing the Fund to attract the quality resources needed to effectively deliver on its mandate. As such, we support the proposed initiatives to negotiate additional pensions transfer arrangements with other organizations and the voluntary savings mechanism, as direct means to increase the portability of retirement savings. We also endorse the changes to the withdrawal formula (making the plan more attractive for shorter service staff) and the increase in the commutation factors, which together permit larger lump-sum withdrawal payments to participants. That said, we consider that the proposals would have had a stronger impact if the recommendations also embraced some shift to non-defined benefits (DB) schemes.

The reduction in gross pensionable remuneration to account for recent year's decreases in average tax rates in the comparator countries strikes a conservative balance between the current over estimation of rates and the potential for future tax increases, as these countries address medium-term fiscal consolidation challenges. Since this revision drives the identified net savings for the Fund, we do not place too much weight on these gains in the longer-term assessments of the SRP's funding costs or financial sustainability. Yet it is comforting that the preliminary assessment in the Task Force's report reaffirms the financial soundness of the plan.

We would have also supported variants of a defined contribution (DC) scheme for new plan participants. This would have further enhanced workforce mobility. The Task Force partly favored retaining the existing structure, because it concluded that DC or hybrid plans would not produce cost savings in themselves. However, even if cost neutral, these alternatives would be highly portable and would ease the pressures on the Fund to establish transfer agreements. While views will differ on whether it is desirable to shift more of the investment risk to the staff, we would agree that such changes in isolation need not reduce the cost to the Fund if done in a benefits neutral fashion. With the appropriate design however, SRP participants would also have more flexibility to tailor the investment profile of their retirement savings to suit their appetite for risk (which is likely to be age-dependent).

Our final comment is on remuneration. There is a direct link between salary determination and the design of the retirement benefits package. It is fundamentally wrong to base pay increases for employees with DB entitlements on pay trends in groups which have DC systems. The latter are

carrying much more investment risks and recruitment/retention considerations ought to reflect that.

With these remarks, we look forward to future work that would enhance the competitive elements of the SRP.

Mr. Gibbs and Mr. Ward submitted the following statement:

We thank the staff for the paper on reforms to the IMF's Retirement Benefits Program, and for the useful discussion of these issues at the Pension Committee in February.

We are content to go along with the proposed decisions, as endorsed by the Pension Committee, on the basis that: (i) it is expected that these changes will result in an overall reduction in the costs of the plan, with savings rising from $7.5m in 2015 to $11.2m in 2030; (ii) that the changes take steps towards making the plan more attractive to short-term and mid-career staff, through improving the portability and flexibility of the SRP; (iii) that there are improvements to provisions for early retirement to incentivize earlier separations; and (iv) that the grossing up formulae for determining pensionable earnings are brought in line with tax rates in the comparator countries. In this regard, we welcome the efforts of the Task Force to address concerns coming out of the ECBR Steering Committee.

However, we share reservations expressed by a number of Directors at the Pension Committee regarding the long-term sustainability of the plan. Even under the baseline case (which assumes a 7.5 percent asset return), it is projected that reserves will be exhausted by 2025 and that higher contributions from the Fund, going above the current contribution of 14 percent of gross pensionable remuneration, will be required by then. Under the pessimistic scenario, the costs would be even higher and arise sooner. We strongly urge careful monitoring of the sustainability of these arrangements and, in the event of less positive outturns than expected in the next few years, there should be a more comprehensive and open review of the system with a view to more fundamental change to the SRP.

As with the proposals on the staff compensation, we should be transparent both about the decision and the analysis that underpins it.

Mr. Bergo and Mr. Bartkus submitted the following statement:

We thank the staff for the paper on this important issue. However, the paper falls short of our expectations of the comprehensive review of the Fund's retirement benefits that was envisaged to follow when amendments were made to facilitate the restructuring process in 2008.

We welcome improved incentives for shorter employment and increased mobility of pensions. We also support changes aimed at making the retirement benefits more flexible and portable, at the same time we continue to view the overall level of separation benefits as excessively generous. Even after the proposed changes employer provided retirement benefits will exceed comparators' plans, and the margin is even higher when total (employer-employee) retirement benefits are considered.

We note that assumed sustainability does not render superfluous a better informed judgment about the Fund's retirement benefit program, including against the backdrop of the Fund's advice to member countries on their pension systems. Having a permanent "Rule of Age 50" seems contrary to the developments in member countries where increasing the retirement age generally would be recommendable.

We would like a further analysis of the sustainability of the program. Would a normalized Fund contribution of 14 percent of gross remuneration be sustainable in the longer term, say after 10-15 years, when changes in parameters such as yield, wage assumptions and expected lifespan are considered? The tables in the paper do not indicate so. Moreover, the proposed reduction of the grossing-up factor of 7 percent seems quite modest compared to the changes in taxes and exchange rates. We would also have expected a more fundamental analysis of the consequences of an increasing life expectancy for Fund staff.

We are ready to go along and accept the proposals if that is the majority view of the Board. The suggested amendments go in the right direction, but a more comprehensive review taking into account inter alia the points we have indicated above would be most welcome.

Mr. Chua and Ms. Maung Gyi submitted the following statement:

We thank the staff for their concise paper detailing the analysis of the current Staff Retirement Plan (SRP) and proposing reforms to the plan, endorsed by the Pension Committee at the committee's meeting on

February 25, 2010. We share the view that the proposed modifications and recommendations set forth in the paper aims at aligning the Fund's retirement benefits with its evolving business and human resource strategy and modernizing the SRP to improve its effectiveness to the future workforce. We support the proposed changes to the current SRP and the proposed decision.

The staff proposes to maintain the current defined-benefit design of the plan, with the proposed reforms help the fund save by about $7.5 million annually by 2015, although they would involve additional administrative costs to implement them. This current design with proposed modifications is in line with the Fund's employment strategy to seek a better balance between short- and long-term employment and support greater flexibility and portability of the SRP and it helps improve staff benefits and the Fund's attractiveness.

We find merit in the improvement made to the SRP's withdrawal benefit formula, the commutation factors and the grossing-up formulae. These reforms will be more attractive to mid-career—and beneficial especially to shorter-service—staff, while retaining core career staff, maintaining overall competitive benefits and ensuring the cost effectiveness of the plan. These reforms will also benefit retiring participants who elect their pension in a lump sum payment and reflecting reduced mortality risks of retires. The average reduction of 7 percent from the current grossing-up formulae is in line with current tax rates while maintaining the SRP's competitiveness together with appropriate transition arrangements so as to protect acquired rights of existing participants.

We also welcome the proposals to enter into pension transfer agreements with other IFIs and member governments and to add a voluntary savings plans for future staff to facilitate mobility into and out of the Fund. We believe that the pension transfer agreements will help increase mobility into and out of the Fund, and protect the staff, especially those in mid-career, from suffering significant pension losses.

Mr. Bakker submitted the following statement:

We welcome the report of the SRP Task Force on reforms to the Staff Retirement Plan and thank members for their efforts.

We believe that the proposals for the SRP advanced by the Task Force fall short of what would be required for the long-term sustainability of the Fund's retirement plan. Therefore, we can only support the proposals as an

interim step, and we urge management to undertake further efforts to modernize the system in a clearly defined timeframe.

When the reform strategy was endorsed in 2006, a more flexible labor force was defined as one of the priorities. Therefore, we support those elements of the package, in particular the supplementary system and the portability arrangements, which underpin the Fund's human resources strategy and related workforce objectives. We would hope that practical implementation will not be delayed further and would favor setting clear deadlines. We suggest that management should explore the possibility of more cooperation with the World Bank in this area. This will require full commitment at the top of both institutions to overcome technical objections by the staff.

With respect to the proposed changes to the SRP per se, our experts note that even with these changes, incentives still work as a 'stay-factor' at several instances in people's careers. In particular, it seems that it is attractive for the staff to stay with the Fund until they have at least 10 years of service, because retirement benefits until ten years service are more beneficial than elsewhere. A similar disincentive seems to exist for the staffs who have worked in the Fund for a rather long period to leave the Fund before they reach the age of 50. The staff comments are invited.

We feel that we need more analysis to be convinced that long-term sustainability of the SRP is preserved. In this respect, we would advocate that moving to a retirement benefit system based on average pay over the working cycle, instead of preserving retirement benefits based on end wages, is contemplated. Maintaining the end wage system leads to additional costs associated with increased withdrawal benefits, which are masked by savings in the grossing-up formulae. We believe that the current proposals will preserve the status quo of the existing SRP, which favors too much the staff with life-long employment aspirations.

The retirement benefits for senior staff surpass the market and we propose that the highest pensions in this institution be capped at a reasonable level, with appropriate transition arrangements for currently employed senior staff.

We suggest that the staff studies offering more diverse options for newly hired staff.

Finally, we would like to emphasize our full commitment to continue working with the staff and management to modernize the IMF's retirement benefits program.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

We thank the staff for their comprehensive and well-written paper on reforms to the Staff Retirement Plan (SRP). We agree that reforms would be instrumental in making the SRP more attractive and competitive from the point of view of shorter-career staff, supporting the new employment strategy and facilitating the change in the staff's composition.

We agree that the defined benefits design of the SRP should remain the cornerstone of the Fund's retirement program. In this respect, we fully support Mr. Shaalan and Ms. Abdelati. We are encouraged by the recent actuary assessment showing that the Fund's required contributions could be maintained at the current level through at least FY2020. Given the SRP's solid financial position, we see no need for change in order to reduce the plan's costs, especially if it would result in the shifting of investment risks to the individual staff members.

We support further efforts to increase pension portability, such as negotiating new pension transfer agreements with other IFIs and exploring the possibility of establishing agreements with national pension schemes.

With these remarks, we support the proposed changes to the SRP.

Mr. Rutayisire submitted the following statement:

We thank the staff for a comprehensive paper on "Reforms to the IMF's Retirement Benefits Program," and welcome the proposed changes to retirement benefits to better align them with the evolving business and human resources strategy of the Fund.

We agree with the proposed decision and would like to make the following comments:

Improving the Withdrawal Benefit Formula

Under current rules, a Staff Retirement Plan (SRP) participant who separates from the Fund before age 55 with more than three years service can choose between a pension and a withdrawal benefit; the withdrawal benefit is

determined as follows: 12 percent of the Highest Average Gross Remuneration (HAGR) for the first 5 years, and 10 percent of HAGR for the next 14 years.

The staff proposes to increase the withdrawal benefit to 20 percent of HAGR over the first 10 years of service. This change would appeal to short-term period staff as it would increase the amount of the withdrawal benefits which under current rules are "low compared with the value of the pension earned" (paragraph 21, p13). However, the staff also points out in paragraph 20 p13 that, in the past, SRP participants who separated from the Fund with less than 10 years of service tended to choose withdrawal benefits rather than pensions despite the fact that the value of the pensions were higher than withdrawal benefits. Could the staff elaborate on the motives for choosing low withdrawal benefits?

Updating the Commutation Factors

Retiring SRP participants have the right to receive up to one third of the value of their pension in a lump sum payment (or "commutation"). The IMF uses the United Nations' mortality tables to determine the amounts of these lump sums.

The staff propose to update commutation factors to take into account recently-published UN Mortality Tables (2007). We note, in this regard, that prior to the proposed changes, the values of commutations factors were derived from 1982 and 1984 UN Mortality Tables. What is the reason for such a delay in updating IMF's commutation factors? Shouldn't consideration be given to more periodic reviews of commutation factors (every 5 or 10 years, for example)?

Adjusting the Grossing-Up Formulae

A grossing-up formulae is used to convert IMF's net pay into a gross pay and then calculate retirement benefits on a gross pay basis. Net pay is converted into gross pay using tax rates in comparator countries.

As indicated in the report, the 2009 review of the grossing-up formulae shows that the current grossing-up formulae overstate the tax rates of comparator countries by about 14 percent. The proposed reduction of the grossing-up formula to bring it down to 10 percent is consistent with the Pension Committee's mandate.

We note, however, that the grossing-up formulae have overstated pensionable gross remuneration by more than 10 percent every year since 2005 despite the Pension Committee's request to conduct reviews every year (which have been delayed successively). Against this backdrop, we urge the staff to return to yearly reviews of the formulae consistent with the Pension Committee's request.

Mr. Stein and Ms. Gerdes submitted the following statement:

We thank the staff for a thorough report and their proposals to align the Fund's retirement benefits with its evolving business and human resource strategies.

Replacing the commutation factors with those that adopt the 2007 United Nations Mortality Tables as well as entering into pension transfer agreements with other international organizations and with member governments are reasonable proposals. Moreover, a voluntary savings plan could be a complementary element to the Staff Retirement Plan as long as the Fund does not encounter any costs or risks related to such a plan. Regarding the reduction of the pensionable gross remuneration, we wonder whether a higher reduction would have been advisable. The staff's comments are welcome.

We acknowledge the objective of the employment strategy to remain attractive for shorter-service staff. However, the proposed changes in the withdrawal benefit formula are too generous. Reaching 200 percent of the highest average gross remuneration after only 10 years of service seems rather exorbitant. Moreover, as the staff points out most SRP participants who took a withdrawal benefit over the past 20 years had 10 or fewer years of service. It seems that the current withdrawal benefit did not deter them from entering and leaving the Fund.

While we are supportive of all other proposed changes as describe in the proposed decision, we cannot support the modification of the withdrawal benefit and therefore wish to be recorded as abstaining.

Mr. Guzmán and Mr. Cova submitted the following statement:

We thank the staff for the papers on reforming the IMF's Retirement Plan (SRP). From the outset, we endorse the proposed changes to the SRP, as well as the decision in EBAP/10/27. We are self-persuaded that the SRP Task Force recommendations contribute to the accomplishment of the EBDs'

objectives, namely introducing more benefits portability, facilitating mobility, maintaining financial sustainability and aligning the Fund's retirement benefits with its strategic human resource goals.

Having said that, we would like to add two comments mainly for emphasis:

We firmly believe in the importance of maintaining a feasible, financially healthy and long-term sustainable SRP. In this regard, even within the critical external economic and financial environment, the Fund has been able to manage the SRP assets in a positive fashion. In fact, the SRP's returns have been favorable for a long period of time. That outcome is commendable. Although a good past performance does not guarantee the same in the future, management of the SRP must continue being rules-based, transparent and flexible enough as to allow sufficient scope for its continued strong performance.

The financial sustainability of the SRP is assessed every year. Every five years there is a review of the actuarial assumptions underpinning the assessment, and the next one is in 2011. While careful and constant monitoring of the sustainability of our system is necessary, we tend to agree with those who consider that any additional ad-hoc review of the SRP system design is not only costly and time-consuming, but it might also have an adverse impact on the staff's motivation.

Mr. Kotegawa and Mr. Imamura submitted the following statement:

We thank the staff for preparing a paper that sets out a comprehensive review of the Staff Retirement Plan (SRP) and the reform proposals.

We broadly support the proposed package that promotes mobility in the staff without impairing the financial soundness of the SRP. In addition, we favorably note that the entire package itself envisages a reduction in the cost for the plan and, thus, no increase in contribution by the Fund's budget.

Going forward, we encourage the staff to keep cautious eyes on the development of the financial soundness of the SRP in light of the most recent data, and expect the staff to report the development to the Pension Committee and the Executive Board periodically.

Mr. Rediker and Mr. Meyer submitted the following statement:

Management's proposals for reforms to the IMF's staff retirement program are broadly sensible. Notably the reduction in the grossing up formula and measures to increase transfer of pension options with other international organizations are welcome, and overdue, improvements. We also welcome the addition of a voluntary savings plan which will provide the staff a vehicle to supplement and build additional retirement savings. But these are small steps. For a number of years now we have called for substantial and comprehensive reform of the staff retirement program (SRP). The proposed measures fail to meet that standard.

The Fund retirement program should reflect best practices in pension funds. Simply put, a defined benefits plan is not a sustainable pension model. Despite the contention that the SRP is financially sustainable, we have concerns about the underlying assumptions. Furthermore, we would be remiss in our fiduciary responsibility to ignore the need to address a significant future shortfall in the SRP. We cannot escape the conclusion that, even in the optimistic base-case scenario, members will likely need to provide large resources to fund the SRP by 2015. Assuming a more realistic "pessimistic" scenario—something much lower than a 5 percent return—the costs could be even larger and more immediate.

For some time we have argued for exploring a defined contribution option. Such plans have increasingly become the norm in the private sector and many public sectors. It is difficult to justify the IMF maintaining a very generous pension system for its staff, while Fund advice to countries often includes significant pension reforms. Beyond public relations challenges, there is a credibility issue of why the Fund is different than other institutions. Other international financial institutions are addressing this by reforming their staff retirement programs to include defined contribution plans; the Fund needs to do the same.

For these reasons, despite the evident work and effort that has gone into them and the constructive small steps contained therein, we oppose these proposals. We join other Directors in calling on management to undertake a comprehensive review of the staff benefits that aims to develop a modern, best practices pension program for the twenty-first century.

Mr. Fayolle submitted the following statement:

We thank the staff for a concise report and we take note of the Task Force's recommendations.

We welcome the approach of this work, aiming at fostering mobility, diversity and flexibility and making the Fund more attractive for the staff members, who will not necessarily spend their whole career in this institution. From this viewpoint, we think that the proposed changes with respect to the withdrawal benefit formula and the commutation factors are sensible. We also strongly support further work on the idea of pension transfer agreements with other international organizations with a view to increasing mobility of the staff.

Adjusting the grossing-up formulae used to determine the basis for the calculation of pensions is also justified from a technical point of view and will help make the system more accurate.

We also welcome that the net financial impact of these changes is positive for the Fund, and does not require a modification of its contribution to the SRP. This being said, we want to stress two interrelated points:

The SRP Task Force underlies the healthy financial status of the SRP. However, on the medium run, we note that the limitation of a Fund contribution by 14 percent of gross remuneration is subject to very optimistic assumptions on the asset returns. Even in the baseline scenario (i.e. asset returns of 7,5 percent over the period), the Fund contribution is expected to rise up to 20 percent of gross remuneration, putting growing pressure on the income. We all know that the SPR is exposed to serious vulnerabilities in the medium term and we need to address them to ensure the sustainability of the system. We regret that these concerns are not really tackled in the report and we call for an informed discussion on this matter.

The reputational risk to the Fund should not be underestimated: even if the proposed measures may be sufficient for the short term, the Fund cannot contemplate only minor adjustments to its pension system. The Fund has to adjust to the changes in life expectancy, consistent with its policy recommendations, and the so called "rule of 85" needs to be revisited sooner rather than later.

Mr. Luo and Ms. Wang submitted the following statement:

We thank the staff for the paper and the Task Force for a comprehensive review of the Staff Retirement Plan (SRP). We would go along with the proposed changes to the SRP and expect such changes would benefit the Fund's HR strategy to attract more short-term and mid-career staff and enhance mobility within and in and out of the Fund.

We believe that the Fund's SRP should maintain its competitiveness and attractiveness to quality economists, in particular, experts in the financial industry. Therefore, the benefits provided by the SRP should be no less than those at comparable IFIs, given the quality of Fund staff and the income position of the Fund.

As reaffirmed in the Task Force's report, the plan is financially sound and remains sustainable in the long run. We note that a number of public institutions have shifted to a defined contribution scheme, but see no immediate need for the Fund to follow such a shift. That said, any potential changes to the fundamental SRP scheme should be cautious and gradual.

The Chairman made the following statement:

Before beginning the meeting, I want to say a few words about the tragic situation in Poland.

I visited Poland two weeks ago where I met with some of the officials who have died in the plane crash. I am sure many of us in this room, especially those from Poland, know many of the victims of this accident.

On behalf of the Fund, I have sent a message of condolence saying our thoughts are with the people of Poland. I cannot imagine how painful this must be for the people in Poland, Russia and all the countries affected. This is a tragic situation and I want to express my deepest condolences.

The representative of the Staff Association Committee (Ms. Redifer) made the following statement:

The Staff Association would like to thank Directors supporting today's decision, and management for its support of the SRP task force's recommendations. The reforms introduce greater portability of benefits, within a system that is financially sustainable and serves the Fund's desired core employment model. The reduction in the grossing-up formula is

unfortunate, but we have supported and will consistently support a rules-based compensation and benefits system, imperative to shield the Fund and its operations from political pressure.

Another ad-hoc review of defined benefits versus defined contributions schemes would be costly, in terms of the staff time and the staff morale. Directors should consider very seriously before adding to the already heavy workload. We urge Directors to pause with the constant reviews of the staff benefits, which distract attention from our work and create a constant climate of uncertainty.

Presumably, the key concern is financial sustainability, as it should be. As of August 2009, the Fund contribution would be stable throughout 2020, and most markets have increased 15-25 percent since then. The plan's financial sustainability is assessed every year and actuarial assumptions underpinning those assessments are revisited every five years. The five year review is scheduled for 2012, and will address concerns raised by some directors regarding these assumptions. Actual assumptions are likely to show slightly longer life expectancies, while revision of other overly conservative assumptions will work in the other direction (e.g. inflation, wages). We would also like to emphasize a few points.

Defined contributions schemes do not automatically ensure financial sustainability: savings come from lowering benefits. The difference is whether the institution or the individual bears the market risk—not the expected value of the pension. The Fund does not advise countries to switch to defined contribution systems, rather, it advises them to prepare for the fiscal implications of population aging (e.g. by changing parameters).

The Fund's employer-provided benefit is not out of line with comparators. With the reduced grossing up formula, the employer-provided benefit in terms of net wage for the staff above the A13-A15 level is less than that of the World Bank and U.S. government.

The Fund pension is the sole safety net for most of the staff. The Fund staff does not qualify for social security in their home countries. National government employees have recourse to national safety nets, and, in fact, most civil service "defined contributions" schemes are hybrid schemes.

The Fund is better equipped to handle risk than individual staff. It can pursue inter-generational risk pooling for market risks and across individuals

for longevity risks. Individuals could do this, but at a higher cost than the Fund, implying a less cost efficient way of providing benefits.

Our plan is administratively simple and cheap, and performance has been strong. Experience with defined contribution systems has shown that these systems have typically much higher administrative costs. SRP assets have been managed well relative to others, even through the financial crisis.

Mr. Sadun made the following statement:

At the outset, I want to thank the staff for the paper and the proposed reform, and also the SAC representative for the comments.

We support the proposed changes and the consequent decision to the Staff Retirement Plan. We believe that those changes would help within the existing framework to achieve two key objectives of our strategy, namely increase the mobility and improve the attractiveness of the Fund for mid-career staff. In particular, we attach great importance to the portability of benefits. To this effect, we encourage HR to establish expeditiously new transfer agreements with other international organizations as well as national pension systems.

The possibility of voluntary saving plans would also contribute to facilitate the overall objective of increasing staff mobility. These changes would be very beneficial, in our opinion, within the existing framework and we consider that only a starting point for possible broader reforms of the system.

We note that the system is financially sustainable and is projected to remain so for a number of years. However, we also consider that the future is somewhat uncertain and it would be appropriate to monitor the situation constantly. Also, we note that defined benefits schemes these days are the exception rather than the common practice. Therefore, we urge to carefully evaluate the opportunity of change the current system and suggest to the Board possible alternatives, keeping in mind that retirement plans, no matter how good or generous they are, are worthless if they are not sound.

Mr. Kiekens made the following statement:

As a member of the Pension Committee, I supported the proposed decisions and I ask my colleagues here in the Board to do so as well.

That being said, I fully agree with what Mr. Fayolle has written in his statement. I think the proposals are justified, but we need to revisit, sooner rather than later, the actuarial assumptions and some of the key parameters of our plan. The two major assumptions are the technical rate of return in the long term, which is 7½ percent—my sense is that this is rather high.

We have an outdated mortality table which needs to be revised. We now live longer and this will have major consequences for the actuarial equilibrium in our plan. It also sheds light on our so-called Rule of 85, which allows the staff to retire—when they join the Fund at age 25 they can retire at 55—without a reduction of their accumulated pension rights because of young age. Similarly, when they join at 30—which is probably more average—the retirement age is 57½ without any reduction for young age.

I believe that we need to revisit these assumptions sooner rather than later, and I would like to make a concrete proposal. I know that the actuarial assumptions review is due in 2012. I would suggest that we are ready with that work and with the review of the key parameters in the plan by the time that we have to adopt the budget for FY2012. This means that we should be ready with that work in April 2011. We can agree further if the Board so wishes—and I think it would be a good outcome of our meeting—together with the approval of the proposed decision.

Mr. Itam made the following statement:

We considered the key elements of the recommended reforms at the level of the Pension Committee and were supportive of most of them. We also consulted with the Staff Association on the acceptability of the proposed reforms. It appears there is broad support among the staff for these reforms.

In light of the earlier Board discussions and conclusions on the employment dynamics at the Fund, and given the assurances that the SRP is well-funded and financially sustainable, we would therefore go along with the recommended reforms to the IMF Retirement Benefits Program and support the proposed decision.

However, we wish to urge that adequate safeguards are put in place when implementing two of the new elements in the Retirement Benefits Program, with a view to protecting the acquired staff benefits, namely the proposal to enter into pension transfer agreements with other number institutions and member governments, and the proposal to set up a voluntary savings plan that will be managed by a private vendor.

Mr. Al Nassar said that, as a member of the Pension Committee, he had already expressed his support for the proposed decision during the last Committee meeting.

Mr. De la Barra supported the proposed decision.

Ms. Zajdel-Kurowska supported the proposed decision and requested further reviews of the Staff Retirement Plan to safeguard the financial solvency of the plan.

Mr. Mojarrad made the following statement:

> As a member of the Pension Committee, we would like to support the proposed decision. We concur that the current defined benefits retirement plan is serving the Fund well and should be maintained.
>
> Like Mr. Shaalan and Ms. Abdelati, we see no urgent need for a review of the system, and we oppose any changes that would reduce the attractiveness of the Fund as an employer. We think that this retirement plan is one of the best elements that maintains the attractiveness of the Fund and it should be preserved.

The Deputy Director of the Human Resources Department (Mr. Rodlauer), in response to questions and comments from Executive Directors, made the following statement:

> A question was raised in the grays whether the 14 percent normalized contribution is sustainable after 10 or 15 years once changes in parameters—like wage assumptions, life expectations, and yield—are made. As the paper shows, the current assumptions are that it would be viable up to at least 2025, and possibly further.
>
> The next five-yearly review of the assumptions is due in FY2011—not 2012—and we plan to review the assumptions over the summer and report to the Pension Committee in the fall. This review will include an update of mortality assumptions—which are already more updated than the mortality assumptions for the commutation factors which were last revised in 1982-83. The mortality tables have been updated in the mid-90s and it is now time to update them further. In addition, there will revisions to the inflation assumptions. The nominal yield is 7½ percent and inflation is 4 percent. Hence, the real yield is 3½ percent, and all of this needs to be reviewed. Some of the revisions will be favorable for the Pension Committee, while others will be unfavorable.

A question was asked as to why the staff would actually choose a withdrawal benefit under the plan even if the net present value of the pension is significantly higher in some cases. What we have seen is that some of the staff do have liquidity preferences. Since the withdrawal benefit is paid as a lump sum up front, the staff chooses the lump sum even though the pension may be higher later—but only a third of that can actually be received as cash up front. If the staff is relatively young, they would even have to wait for that until they are eligible for a pension further down the road.

Why were the commutation factors not updated earlier given the new mortality tables that have been around, and should they be updated more frequently in future? The last comprehensive reform of the pension system was done in 1990. At that point, the mortality tables that existed were the UN tables of 1982-83. There was a new set of tables in the mid-90s which went into the revised actuarial assumptions for the plan. However, since there was not really a reform of the plan parameters, we did not update the commutation factors. We can consider carrying out more frequent updates when new mortality tables come up—in the next 7-10 years.

There was a comment on the incentives to stay in the Fund—the long-term service incentives. The incentive to stay on may be reduced as we are telescoped the accrual of the withdrawal benefit into 10 years from 19 years. It is true that the basic goal of the SRP has been—and will remain—the provision of adequate retirement benefits for the long serving staff who have no recourse to national pensions or other social security systems. The incentives toward long-term service in the plan have gradually been reduced over time. There was a frontloading of the accrual factors in the last reform in 1990; there was also the introduction of the Rule of 85 and 75, and then the Rule of 50 in 2008. The shortening of the accrual period for the withdrawal benefit works in the same direction.

The Task Force carefully reviewed whether a further significant tilting of the Pension Plan toward incentivizing earlier departures from the Fund would be warranted. However, considering the demographic trends of current staff, we found out that there was significant mobility up to about 10-11 years of service. Figure 6 on page 38 of the paper shows that about half of the Fund staff leave within the first ten years of service, and then the rate of mobility drops significantly.

Why would the mobility rate drop so significantly? The Task Force could not really come up with a precise attribution of the factors. There are a

number of factors that work in favor of staying at the Fund after ten years. These include changes in family status, diminished competitiveness in the job market, visa status, and so forth—but not primarily an issue of the pension system. Hence, the Task Force did not recommend tilting the balance further away from supporting the long-service staff. The main purpose of the reform was to give greater flexibility to staff who want to join the Fund to serve only for a short period of time, say 5-10 years.

Would a larger reduction in pensionable gross have been advisable? Here, a key consideration of the Task Force was that the proposed reduction should maintain the SRP's competitive positioning, in line with the mandate that was established by the Pension Committee in 1990. The grossing-up formula review was to look both at tax rates in comparator countries but also at the resulting competitive positioning in the Fund of the pension system. What is proposed would achieve broad alignment with the employer-provided benefit value of the Bank.

Mr. Hockin made the following statement:

Our reading of the staff proposal suggests that the focus of the Task Force was not on cost savings or even optimal risk-sharing—although both affect the evaluation of the benefits package. Instead, it seemed to be on identifying the way to incentivize a more mobile workforce. The only lasting way to reduce the costs of the SRP would be to reduce benefits. We do not see the adjustment in the grossing-up formula as having this intent, and we would not advocate changes that would undermine the competitiveness of the compensation package.

Nevertheless, the inherent employer risks in defined benefit plans cannot be ignored and it makes the funding costs less certain. We would therefore be open to better risk-sharing arrangements. It is not immediately clear, however, that the benefit's neutral shift in investment risk would be cost-neutral. Indeed, it is quite possible that the net present value of a defined contribution plan would be higher for the Fund, depending on how employees expect to be compensated for this risk. This is one of the trade-offs that we would expect to be examined in any comprehensive assessment of the benefits structure in future.

The Deputy Managing Director (Mr. Portugal) made the following statement:

I would like to make a couple of brief comments.

First, as Mr. Hockin has said, we did not have a specific cost-saving purpose. However, we did undertake a comprehensive review and examined other possibilities and other plans. However, we did not come to the conclusion that shifting to other plan designs was the most advisable as the current plan seems sustainable. We will certainly keep it under close review and consideration.

Second, even if we introduced a new defined contributions plan, it would not apply to existing staff. Hence, whatever risk exists to the employer in the current plan would continue. The defined contributions plan would be applied to new staff. These were the main reasons why we did not go for a defined contributions plan this time.

Third, a number of Directors asked us to do more work while some others asked use not to undertake more work, especially as regards revising the plan design. We will definitely follow the financial sustainability of the plan carefully and report to the Pension Committee accordingly.

Fourth, in terms of the agenda going forward, we first have to implement these changes, which are complex. As you see in the paper, it is scheduled that the implementation is going to finish in May 2012, when everything will be in the books and in the information systems. Then we have the review of the actuarial assumptions, which is scheduled for 2012. Mr. Kiekens suggested that we should try to have this ready for May 2012 or earlier. I think it might be too soon because we will be involved with implementing the changes proposed currently. We are going to look whether that is feasible but I do not want to commit to anything now without looking in detail how much work this involves.

Mr. Legg made the following statement:

I thank the staff for the answers and the DMD for his explanations.

We are one of those chairs quite supportive of the proposals on the table. However, we also feel that some fundamental issues have not been investigated. I understand that questions may well have been asked within this process about some of these more fundamental issues—basically defined

benefit versus defined contribution schemes and which is the right model for the Fund over the longer term.

The frustration comes about because the Terms of Reference did not really focus on those issues. Therefore, the judgments made and reflected in the paper are not really elaborated in ways which give us a good feel for the evidence and the considerations behind the judgments that the group made. This is very much a technical exercise, as far as I can see it, and a very robust one in terms of how it was done.

We continue to think that we would go ask some of these more fundamental questions without prejudice to what the answer is. I do not have a mindset—just because I come from a system where we have a defined contribution scheme that everyone should have a defined contribution scheme. That said, we need to be asking this question much more explicitly. I am conscious that there is a risk of over-reviewing these issues and people are tired of this. There are morale issues and resource issues, and I do not want to burden us with constant reviews. Part of the problem is that the reviews we have had have not asked some of these more fundamental questions and, therefore, we just keep coming back to the same question all the time.

I also have reservations about having this discussion separate from the discussion of the staff compensation. At some point we need to bring everything together and decide if the overall compensation package—including the pension scheme and allowances, benefits to staff with children, education expenses—is the right overall package instead of dealing with these issues in a piecemeal manner.

At the moment, I do think that we have a process for undertaking a holistic approach. I know the World Bank has moved to a very different approach to allowances. They now have expatriate allowances. They phase them out over time because—as you say—after ten years people are not really expatriates anymore—they are here and they are committed to be here. We need to be asking the same question as to whether or not that model would work for us. It may not because our target recruitment is different. Nonetheless, we need to be asking some of the more holistic questions, and I am sort of frustrated, notwithstanding the quality of the good recommendations in this report, that we are not asking those questions at the moment.

Mr. Fayolle expressed his support for the proposed decision and supported Mr. Kiekens's call to have the review before 2012.

The Chairman made the following concluding statement:

I want to thank the Board for their support. We now need to consider the changes that need to be undertaken and start the process at the earliest so that we are ready by the 2012 budget.

The current scheme seems to have the approval of a large majority in the Board. Mr. Legg rightly asked the question on the structure and whether it needs to be revisited. This question has been asked by the Task Force and the Pension Committee. While the answer may not be what everybody wanted, those issues have been addressed by the Committee and they concluded that the Fund was better off with the current system in so far as sustainability was monitored regularly.

From this point of view, we have a well-established SRP now, even if many changes have to be taken into account. I want to thank all of you—or almost all of you—for your support on this reform.

The Executive Board took the following decision, with one abstention by Mr. Stein (GR) and one objection by Mr. Rediker (UA):

Reforms to the IMF's Retirement Benefits Program

The Executive Board endorses the staff proposal to enter into pension transfer agreements with other international organizations and with member governments in accordance with Article 14 of the Staff Retirement Plan, and the Executive Board endorses the staff proposal for a voluntary savings plan that will be submitted to the Pension Committee and to the Executive Board for approval in the future. The Executive Board approves the following changes to the Staff Retirement Plan, with the effective date of May 1, 2011:

1. Withdrawal benefits. A participant who withdraws from the SRP in accordance with Section 4.5(a) of the SRP, or Section 4.5(c) as modified herein, shall be entitled to receive an amount equal to one and two-thirds percent of highest average gross remuneration multiplied by months of eligible service up to 120 months. In no case shall the total amount exceed 200 percent of highest average gross remuneration. The first clause of Section 4.5(c) shall be modified to substitute "fiftieth anniversary of his birth" where it reads "fifty-fifth anniversary of his birth."

2. Commutation factors. The commutation factors in paragraph 4 of Schedule D of the SRP shall be replaced by commutation factors that adopt the 2007 United Nations Mortality Tables.

3. Grossing-up formulae. The grossing-up formulae in paragraph 1 of Schedule A of the SRP shall be replaced by formulae that adopt an average reduction of seven percent.

4. Transition provisions concerning grossing-up formulae. For participants with service both before and on or after May 1, 2011:

a) The change to the grossing-up formulae adopted in this Decision shall be applied on a prorated basis consistent with the provisions of paragraph 15 of Schedule B of the SRP concerning prorated application of the 1990 change to the grossing-up formula for participants with service both before and on or after May 1, 1990;

b) No such participant, and no spouse, domestic partner or other beneficiary of such participant, shall (i) receive a pension or benefit payable under the SRP that is less than would have been payable under the SRP as amended through April 30, 2011, had the participant's gross remuneration as of April 30, 2011 remained unchanged, or (ii) receive a withdrawal benefit under Section 4.5 that is less than would have been payable under the SRP as amended through April 30, 2011 based on the participant's actual contributions.

5. The changes to the SRP adopted in this Decision shall not apply to participants who separate from the Fund under the approved restructuring budget for FY2009-FY2011.

6. The staff shall prepare as expeditiously as possible the amendments necessary to incorporate in the text of the SRP the modifications made by this Decision. (EBAP/10/27, 3/30/10)

Adopted April 12, 2010

APPROVAL: July 26, 2010

SIDDHARTH TIWARI
Secretary