IMMEDIATE ATTENTION

RP/CP/11/1

April 4, 2011

To: Members of the Pension Committee
(Mr. Lipsky, Acting Chairman; Mr. Fayolle, Mr. Kiekens,
Mr. Shaalan, Ms. Vongpradhip, Ms. Alonso-Gamo, Mr. Ghosh)

From: Effie Psalida, Acting Committee Secretary

Subject: **The Fund's Contribution to the Staff Retirement Plan in FY 2012**

Attached for the Pension Committee's review and approval is a paper on the recommended contributions to the Staff Retirement Plan for FY 2012.

The actuarially determined contribution for FY 2011 is 0 percent of pensionable gross remuneration (PGR). In accordance with the existing funding framework, 14 percent would be contributed from the Administrative Budget to the SRP reserves.

In the absence of a request from a member of the Pension Committee by **the close of business on Monday, April 18, 2011,** that the matter be taken up by the Committee, the Acting Chair will inform the Executive Board that the Fund's contribution rate for FY 2012 will be 14 percent, with approximately $84 million payable from the Administrative Budget to the SRP reserves.

Questions may be referred to Mr. Clarke (ext. 34086) and Ms. Marzouk (ext. 39522) in HRD.

Att: (1)

Other Distribution:
Members of the Executive Board
Ms. Siegel
Mr. Rodlauer
Mr. Schiff
Mr. Cerisola

INTERNATIONAL MONETARY FUND

The Fund's Contribution to the Staff Retirement Plan in FY 2012

Prepared by the Human Resources Department

In consultation with the Finance and Legal Departments
and the Office of Budget and Planning

Approved by Shirley Siegel

April 1, 2011

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EXECUTIVE SUMMARY

Under the funding framework for the Staff Retirement Plan, the Fund's annual contribution from the Administrative Budget is set at 14 percent of pensionable gross remuneration.[1] If the actuarially determined contribution is less than 14 percent of pensionable gross remuneration, the excess contribution serves to replenish SRP reserves; if the actuarially determined contribution is greater than 14 percent, the balance is drawn from SRP reserves.

The Actuary has indicated that the contribution rate for FY 2012 is 0 percent. Therefore, 14 percent of pensionable gross remuneration would be contributed to the SRP reserves to help fund future contributions in excess of the 14 percent norm.

Accordingly, this paper seeks the Pension Committee's endorsement of a contribution of 14 percent of pensionable gross remuneration for FY 2012.[2]

[1] The pensionable gross remuneration reflects the application of a tax grossing-up formula applied to staff net salaries. It is then used to determine both the Fund's and participants' SRP contributions.

[2] The FY 2012 contribution of 14 percent of PGR is projected to result in a contribution of about $84 million, based on the projected PGR for FY 2012.

I. Determining and Funding the Staff Retirement Plan Contribution

1. The Pension Committee and the Executive Board have established a funding methodology that is designed to ensure the sound financial position of the Staff Retirement Plan (SRP) 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 the IMF's contributions to the SRP.[3] 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.[4] 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 when 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. A "corridor test" is applied to the actuarial value of Plan assets to ensure it remains within 10 percent of the market value of Plan assets. If the actuarial value of Plan assets is either more than 110 percent or less than 90 percent of the market value of Plan assets, the actuarial value is reduced or increased, respectively, to be at the corridor's limit.

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 impact the Plan's liabilities. The assumptions include the interest rate for discounting Plan

[3] 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 receive contributions and to pay benefits in excess of limits set by U.S. tax law for "qualified" pension plans, such as the SRP.

[4] The actuarial methods were adopted in 1986 and the asset valuation method was slightly modified in 2006 (*Staff Retirement Plan—Review of Actuarial Assumptions and Methods* (RP/CP/06/11, 10/12/06)). The actuarial methods were reaffirmed in 2010 (*Staff Retirement Plan—Review of Actuarial Assumptions and Methods (RP/CP/10/8, 11/23/10)).*

liabilities, the rates of salary growth and inflation, and the rates at which Plan participants are expected to separate, retire, become disabled, or die. To the extent that Plan participation and experience differ from the assumptions, actuarial gains and losses will occur.[5]

6. The Pension Committee is responsible for establishing the methods and assumptions used in the annual valuation of the Plan. A summary of the current assumptions, approved by the Pension Committee in 2006, and subsequently in 2008, is provided in Table 1.[6] The Pension Committee adopted changes to the assumptions, effective with the April 30, 2011 actuarial valuation and for the following five years, as a result of the regular five-year review of the SRP actuarial methods and assumptions.[7]

B. Funding Framework

7. 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 contributes 14 percent of PGR annually from the Administrative Budget.[8] In years when the Actuary recommends a contribution rate of less than 14 percent, the Fund contributes 14 percent, with the amount in excess of the Actuary's recommendation replenishing the SRP reserves.[9] In years when the Actuary recommends a contribution rate exceeding 14 percent, the balance is drawn from SRP reserves, accumulated from voluntary (prepaid) contributions made by the Fund in earlier years. If the reserves are exhausted, the Fund would meet the full actuarially indicated contribution from the Administrative Budget.

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

[6] The retirement rate assumptions were revised for the 2008 actuarial valuation to reflect the amendment to the Plan for the Rule of Age 50. *Staff Paper on Reform of the Staff Retirement Plan* (RP/CP/08/05, 1/22/08 and Cor. 1, 1/25/08).

[7] *Staff Retirement Plan—Review of Actuarial Assumptions and Methods (RP/CP/10/8, 11/23/10).*

[8] The 14 percent rate reflects the long-standing 2:1 contribution ratio for the Fund and participants, where the latter contribute 7 percent of PGR, based on the actual long-term average Fund contribution. *The Fund's FY 2005 Contribution to the Staff Retirement Plan* (EBAP/04/31, 3/25/04).

[9] The Fund's voluntary contributions constitute a part of the Plan's assets; they are not available to the Fund for other purposes, nor do they constitute a separate account.

Table 1. Key Actuarial Assumptions used in April 30, 2010 Actuarial Valuation		
Actuarial Assumption	**Annual Rate**	
Interest rate	7.5 percent	
Salary growth	10.8 percent at age 21, gradually 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	5.0	
55	20.0	
60	25.0	
62	25.0	
64	55.0	
Disability	Up to 0.03 percent until age 30, increasing to 0.38 percent (males)/0.55 percent (females) at age 64	
Death	Up to 0.12 percent at age 45 and younger, increasing to 0.65 percent (for males) and 0.34 percent (for females) at age 60, and 0.98 percent (for males) and 0.53 percent (for females) at age 64	

8. The Fund's voluntary contributions and the resulting SRP reserves through FY 2011 are shown in Table 2. In FY 2011, the reserves were drawn down by 5.29 percent because the actuarially indicated contribution rate was 19.29 percent. During the period FY 2008 through FY 2010, the reserves were replenished when the actuarially indicated contribution was less than 14 percent. At the end of FY 2011, the reserves are projected to be almost $241 million.

Table 2. Voluntary Fund Contributions and Use of the Accumulated Reserves FY 1998 to FY 2011

(In U.S. dollars, unless otherwise indicated)

Financial Year	Annual Contributions/ Charges	Percent of PGR	Cumulative Contributions
1998	14,784,946	5.0	14,784,946
1999	15,873,558	5.0	30,658,503
2000	23,178,117	7.0	53,836,620
2001	18,874,109	5.0	72,710,729
2002	22,141,080	5.0	94,851,809
2003	24,259,747	5.0	119,111,556
2004	-18,270,873	-3.8	100,840,683
2005	-8,587,094	-1.2	92,253,589
2006	-21,650,230	-3.6	70,603,359
2007	-33,338,454	-6.1	37,264,905
2008	60,085,258	10.2	97,350,163
2009 1/	92,893,307	16.0	190,243,470
2010	82,909,551	14.0	273,153,019
2011 (est.)	-32,300,000	-5.3	240,853,019

1/ Includes a supplementary contribution of $12 million. *Supplementary Contributions to the Staff Retirement Plan (SRP) and Retired Staff Benefits Investment Account (RSBIA) within the Approved FY 2009 Budget Envelope* (EBAP/09/72, 5/14/09).

C. Approval Procedures

9. The decision on the annual contribution rate rests with the Executive Board on the recommendation of the Pension Committee.[10] The contribution rate calculated by the Actuary for the Plan on the basis of the established valuation methodology is put into effect automatically, unless the Pension Committee recommends, and the Executive Board approves, a different rate.[11]

[10] Executive Board Decision No. 8557–(87/52), adopted March 20, 1987, as amended by Decision No. 8804–(88/30), adopted March 3, 1988.

[11] The intent of this largely automatic procedure is to recognize the special nature of the Fund's obligation to finance the Plan.

10. The authority to determine when, and in what amounts, the accumulated voluntary contributions (also known as prepayments) are applied to reduce the Fund's required (actuarially determined) contribution rate rests with the Executive Board.[12]

II. Valuation Results

11. The Actuary's *Report on the Actuarial Valuation of the Staff Retirement Plan as of April 30, 2010* shows that a contribution rate of 0.0 percent is required for FY 2012.[13] A contribution is required when the present value of future benefit liabilities exceeds the Plan's actuarial value of assets (including the present value of future employee contributions). The actuarial valuation as of April 30, 2010 indicates that no contribution is required in FY 2012, because the assets exceeded the present value of future benefit liabilities by about $176.9 million, as of April 30, 2010 (Table 3).

Table 3. Staff Retirement Plan Assets, Liabilities, and Contribution Rates FY 2011 and FY 2012

(In thousands of U.S. dollars, unless otherwise indicated)

	April 30, 2009 Valuation Results For FY 2011 Contribution	April 30, 2010 Valuation Results For FY 2012 Contribution
A. Plan liabilities	6,681,131	6,927,784
B. Actuarial value of assets	5,478,662	6,714,575
C. Employee contributions (present value)	363,731	390,123
D. Total assets (B+C)	5,842,393	7,104,698
Asset surplus (deficit) (D-A)	(838,738)	176,914
Contribution rate (in percent)	19.29	0.0

12. The Plan's overall experience for the year ended April 30, 2010 was more favorable than expected, based on the actuarial assumptions in effect that year. The required contribution rate decreased from 19.29 percent to 0.0 percent, primarily due to higher than expected asset returns. Other notable favorable experience during FY 2011 included lower than expected salary increases (which reduced the value of benefits expected to be paid in the future), and lower than expected cost-of-living increases to pensions.

[12] With respect to the use of the prepayments, Section 6.2 (a) of the Plan, as amended in 1998, provides that "[a]ny prepaid contributions (excluding any investment income, gains or losses thereon) may, as directed by the Employer, be used to reduce or eliminate any required contribution for a subsequent Plan year. The amount of the Employer's prepaid contributions shall be reduced to the extent that such prepaid contributions are used to reduce the Employer's funding requirements."

[13] There is a one-year difference between the contribution rate produced by a valuation and the financial year in which the rate is applied.

13. The market value of Plan assets increased from $5.1 billion as of April 30, 2009 to $6.6 billion as of April 30, 2010. The actual return on the market value of assets in FY 2011 was 30.35 percent, as compared to the 7.5 percent assumed rate of return. However, only a portion of each year's return is reflected in the smoothed actuarial asset value. For the purpose of FY 2012 SRP contributions, the return on the actuarial asset value during the prior year was 25.66 percent, or 18.16 percentage points higher than the assumed rate of 7.5 percent; this produced an actuarial asset gain of about $981 million.

III. Changes Impacting Future Contributions

14. **Five-Year Review of Actuarial Methods and Assumptions.** In FY 2011, the Pension Committee engaged the Actuary for the Plan to conduct the regular five-year review of the SRP's actuarial methods and assumptions. The Actuary recommended several changes to the actuarial assumptions: a reduction in the assumed rates of inflation and return on investments; a decrease in the career average rate of salary increase; an increase in the separation rates at selected ages; and updates to the mortality rates reflecting the 2007 UN fully generational mortality table. [14] The Pension Committee adopted the recommended changes, which will be employed in the five annual valuations of the Plan beginning with the April 30, 2011 actuarial valuation.

15. **Pension Reform.** The SRP reforms endorsed by the Pension Committee and approved by the Executive Board in 2010 will take effect on May 1, 2011.[15] The key reforms include a new set of lower grossing-up formulas, an improved withdrawal benefit formula, and new commutation and annuity factors based on the 2007 UN mortality table.

16. The impact of the changes in actuarial assumptions and reforms on future contributions is shown in the Appendix (*Staff Retirement Plan—Review of Actuarial Assumptions and Methods* (RP/CP/10/8, 11/23/10)). The normalized contribution rate is projected to remain 14 percent for the next 20 years.

IV. Administration Committee's Views

17. The Administration Committee continues to support the current system in which the Fund's contributions are at least equal to the actuarially determined amount, and the existing procedure for their implementation. The Administration Committee considers that a contribution to the voluntary reserves of 14 percent of PGR, in light of the contribution recommended by the Actuary of 0 percent, is consistent with the funding framework and, therefore, appropriate.

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[14] *Staff Retirement Plan—Review of Actuarial Assumptions and Methods* (RP/CP/10/8, 11/23/10).

[15] *Reforms to the IMF's Retirement Benefits Program* (EBAP/10/27, 3/30/10), and *Proposed Amendments to the Staff Retirement Plan* (EBAP/10/120, 12/22/2010).

V. CONCLUSIONS AND RECOMMENDATIONS

18. The actuarially determined contribution rate for FY 2012 of 0 percent of PGR will become effective automatically unless the Pension Committee concludes that it should recommend a contribution rate different from the rate calculated by the Actuary, and the Executive Board agrees.

19. It is proposed that, in line with the funding framework, the Pension Committee recommend that the equivalent of 14 percent of PGR be contributed from the Administrative Budget to the SRP reserves in FY 2012.[16]

20. The chairman of the Pension Committee will inform the Executive Board of these recommendations unless the Pension Committee recommends a different contribution rate. The Executive Board's approval of the proposed funding and the allocation of the contribution to the SRP reserves will be encompassed within the Board's decision to adopt the Administrative Budget for FY 2012.

Budgetary impact

21. As noted, in accordance with the funding framework, the 14 percent contribution rate of PGR for FY 2012 would be payable to the SRP reserves in FY 2012.[17] The 14 percent contribution would be paid to the Plan's assets from the Administrative Budget as salaries and separation leave are paid.

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[16] The estimated contribution for FY 2012 is based on projected PGR, using the actual year-to-date PGR for FY 2011, adjusted for projected salary increases, turnover, and other factors as needed for the remainder of FY 2011 and for FY 2012, and applying the new grossing-up formulas effective May 1, 2011.

[17] The 14 percent contribution rate of PGR for FY 2012 is estimated to be about $84 million, which would bring the projected reserves to about $325 million by April 30, 2012.

Appendix

Excerpt from *Staff Retirement Plan—Review of Actuarial Assumptions and Methods*

Table 5: Projected Actuarially Required and Normalized Contribution Rates Based on Current and Proposed Assumptions

	Assets as of 4/30/2009 1/		Assets as of 4/30/2010			
			Current Assumptions		Proposed Assumptions 2/	
Financial Year	Actuarially Required Contribution Rate	Normalized Contribution Rate	Actuarially Required Contribution Rate	Normalized Contribution Rate	Actuarially Required Contribution Rate	Normalized Contribution Rate
2011	19.29	14.00	19.29	14.00	19.29	14.00
2012	3.43	14.00	0.00	14.00	0.00	14.00
2013	8.08	14.00	0.00	14.00	4.73	14.00
2014	17.61	14.00	6.69	14.00	12.48	14.00
2015	23.90	14.00	14.00	14.00	19.10	14.00
2016	22.18	14.00	10.74	14.00	14.48	14.00
2017	20.19	14.00	11.60	14.00	13.87	14.00
2018	19.48	14.00	12.70	14.00	14.10	14.00
2019	19.19	14.00	13.92	14.00	14.94	14.00
2020	18.88	14.00	14.83	14.00	16.89	14.00
2021	18.66	16.37	15.29	14.00	18.04	14.00
2022	18.79	18.79	15.80	14.00	18.14	14.00
2023	19.32	19.32	18.03	14.00	18.48	14.00
2024	19.95	19.95	18.41	14.00	18.88	14.00
2025	20.47	20.47	18.64	14.00	18.95	14.00
2026	21.10	21.10	18.84	14.00	17.05	14.00
2027	21.83	21.83	18.89	14.00	17.30	14.00
2028	21.98	21.98	17.12	14.00	17.64	14.00
2029	22.20	22.20	17.20	14.00	17.68	14.00
2030	22.66	22.66	17.28	14.00	17.68	14.00
2031	...	...	17.47	14.00	17.80	14.00
2032	...	...	17.87	14.00	18.01	17.49
2033	...	...	17.74	14.00	18.02	18.02
2034	...	...	17.80	15.68	18.47	18.47
2035	...	...	17.99	17.99	19.10	19.10
2036	...	...	18.41	18.41	19.87	19.87
2037	...	...	18.99	18.99	20.03	20.03
2038	...	...	19.48	19.48	20.33	20.33
2039	...	...	20.03	20.03	20.78	20.78
2040	...	...	20.62	20.62	21.16	21.16

1/ *Reforms to the IMF's Retirement Benefits Program* (EBAP/10/27, 3/30/10), Exhibit 2, Appendix J.

2/ Proposed assumption changes include rates of: inflation (3 percent), investment return (6.5 percent), salary increases (average 5.0 percent), mortality (UN fully generational tables), and separation (slightly higher rates).