

**FOR
INFORMATION**

RP/CP/17/3

April 18, 2017

To: Members of the Pension Committee

From: Calvin McDonald, Committee Secretary

Subject: **Annual Cost-of-Living Adjustment to U.S. Dollar Pensions Effective
May 1, 2017**

Committee Action: Committee Members **information**

Additional Distribution: Members of the Executive Board
Ms. Kochhar
Mr. Selassie
Ms. Choueiri
Ms. Rengarajan



Office Memorandum

To: Alternate Chair, Pension Committee

April 17, 2017

From: Chair, Administration Committee /s

Subject: **Annual Cost-of-Living Adjustment to U.S. Dollar Pensions Effective May 1, 2017**

The purpose of this memorandum is to inform you and the members of the Pension Committee of the cost-of-living adjustment to U.S. dollar pensions that will become effective as of May 1, 2017.

In accordance with Section 4.11 of the Staff Retirement Plan (see Attachment I), pensions being paid under the Plan are adjusted for increases in the cost-of-living on May 1 of each year. Pensions being paid in U.S. dollars are adjusted based on the March-to-March increase in the Consumer Price Index of All Urban Consumers (CPI-U) for the United States (Attachment II).¹ The Index increased by 2.4 percent this year. As a result, the May 1, 2017 adjustment for pensions paid in U.S. dollars will be 2.4 percent.

Attachments (2)

cc: The Managing Director
The Deputy Managing Directors
Mr. McDonald
Ms. Kochhar

Contributors: Debbi Marzouk and John-Su Zhang

¹Section 4.11(d) (i) of the Plan was amended to reflect the change from the Washington, D.C. Consumer Price Index to the U.S. National Consumer Price Index for All Urban Consumers (CPI-U) effective May 1, 1998. Pensions being paid in local currencies are normally adjusted in accordance with the latest available CPI data, as of May 1 each year, published or selected to be published in the *International Financial Statistics* for the country in question under the terms of Sections 4.11(d) (ii) and 16.3 of the Staff Retirement Plan.

- (i) when added to the participant's disability pension (calculated before any commutation of a portion thereof under Article 15), shall equal the participant's highest average gross remuneration; or
- (ii) when added to the pension of the participant's surviving spouse under Section 4.9 then regularly payable, shall equal 70 percent of the participant's highest average gross remuneration.

4.11 Pension Supplements

(a) Whenever the cost of living for a fiscal year beginning after April 30, 1977 increases, pensions shall be augmented by a pension supplement that, expressed in percentage terms, shall be equal to the increase in the cost of living for the fiscal year.

(b) The Employer, for good cause, shall have the right, not later than the commencement of the fiscal year in which the additional supplement is payable, to reduce prospectively the additional supplement to not less than 3 percent. In the case of an additional supplement calculated on the basis of (d)(ii) below, any such reduction shall be made applicable through uniform rules adopted by the Employer upon the recommendation of the Administration Committee.

(c) A pension supplement shall be payable in respect of any pension, as previously augmented by pension supplements paid directly from the Employer or from the Plan, that commenced prior to, or commences during, the fiscal year in which the supplement becomes effective, provided that a pension supplement that becomes effective during the fiscal year in which the pension commences and is payable in respect of a pension, other than a deferred pension, that commences during a fiscal year beginning after April 30, 1977, shall be reduced by one twelfth for each full calendar month between the beginning of the fiscal year and the effective date of the pension.

(d) For the purpose of subsections (a) and (b) above, an increase in the cost of living for a fiscal year shall be measured on the basis of either: (i) the most recent

U.S. Consumer Price Index for All Urban Consumers, either published or certified to be selected for publication by the U.S. Bureau of Labor Statistics; or, if applicable, (ii) the most recent consumer price index for a country either (1) published or certified to be selected for publication in *International Financial Statistics* or (2) in the absence of (1), another index determined to be suitable. The determination of which index under (ii) applies to an election made in accordance with Section 16.3 shall be made by the Administration Committee.

(e) Pension supplements pursuant to this Section 4.11 shall be paid in respect of normal and early retirement pensions, disability pensions, pensions under Section 4.5(b), and related pensions payable under Section 4.6 or Section 4.9, and children's benefits pursuant to Section 4.10, subject to the current minimum and maximum amounts, but shall not be paid in respect of supplementary pensions pursuant to paragraph 7 of Schedule B, or annuities pursuant to Section 4.4(b), or paragraph 10 of Schedule B. The minimum amount per child, maximum amount per child, and maximum amount per family applicable to children's benefits and allowances shall be changed by the same percentage (subject to rounding to the nearest \$10 for the benefits payable between May 1, 1974, and April 30, 1978) as a pension based on the U.S. Consumer Price Index for all Urban Consumers whenever it is changed. A survivor's pension under Section 4.6 shall reflect increases under this Section since the retired participant's pension became eligible for pension supplements.

(f) Any deferred pension on account of a participant to which Section 4.11(a) and (b) would apply, had the pension commenced, shall be augmented by a percentage equal to that determined under Section 4.11(a) and (b) with respect to any period of deferral after his contributory service ceased, and after the sum of his age in full months and of eligible service in months was at least 600, provided that a pension supplement that becomes effective during the fiscal year, beginning after April 30, 1977, in which this sum is attained shall be reduced by one twelfth for each full calendar month between the beginning of the fiscal year and that effective date.

(g) If a participant has elected an optional benefit under Section 4.6 that is in effect at the date of his death, or has elected to commute a stated portion of his pension under Section 15.1, there shall be included in charges against his accumulated contributions for the purpose of determining the amount thereof under Section 4.4(a)(ii) as of any date, payments that would have been made to him as cost of living increases in his pension if there had been no reduction in that pension pursuant to Section 4.6 or Section 15.1, and the percentage in that Section 4.4(a)(ii) shall apply to his pension without reduction under Section 4.6 or Section 15.1, adjusted in the same manner.

(h) If any change shall be made in the composition of any consumer price index referred to in this Section 4.11 that, in the judgment of the Employer, would change substantially the basis upon which this Section 4.11 was established, or if that index shall be abolished, the Employer may adopt, in its stead, such other actual or adjusted index as shall, in the judgment of the Employer, record as fairly as possible the change in the cost of living from year to year.

(i) Any amounts, payable under this Section shall, when added to any pension payable in accordance with Section 4.1 or Section 4.2, be subject to the provisions of Section 4.12.

4.12 Maximum Benefits

(a) The portion of a participant's pension provided by the participant's contributions shall be denoted the participant-derived annual pension and shall be equal to the participant's accumulated contributions as of the effective date of his pension multiplied by a conversion factor. For purposes of this subsection (a), a participant's accumulated contributions and applicable conversion factor are to be determined under applicable governmental regulations.

(b) The portion of a participant's pension provided by the Employer's contribution shall be denoted the Employer-derived annual pension and shall be equal to the

NEWS RELEASE

BUREAU OF LABOR STATISTICS

U. S. D E P A R T M E N T O F L A B O R

Attachment II



**Transmission of material in this release is embargoed until
8:30 a.m. (EDT) April 14, 2017**

USDL-17-0419

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CONSUMER PRICE INDEX – MARCH 2017

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.3 percent in March on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index rose 2.4 percent before seasonal adjustment.

The March decline was the first 1-month decrease in the seasonally adjusted all items index since February 2016. A decline in the gasoline index was the largest factor, with a decrease in the index for wireless telephone services also contributing.

The energy index declined 3.2 percent, with the gasoline index falling 6.2 percent, and other major energy component indexes decreasing as well. The food index rose 0.3 percent, with the index for food at home increasing 0.5 percent, its largest increase since May 2014.

The index for all items less food and energy fell 0.1 percent in March, its first decline since January 2010. The shelter index rose 0.1 percent, and the indexes for motor vehicle insurance, medical care, tobacco, airline fares, and alcoholic beverages also increased in March. These increases were more than offset by declines in several indexes, including those for wireless telephone services, used cars and trucks, new vehicles, and apparel.

The all items index rose 2.4 percent for the 12 months ending March, a smaller increase than the 2.7-percent rise for the period ending February. The index for all items less food and energy rose 2.0 percent over the last 12 months, the smallest 12-month increase since November 2015. The energy index rose 10.9 percent over the last year, while the food index increased 0.5 percent.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Mar. 2016 - Mar. 2017
Percent change

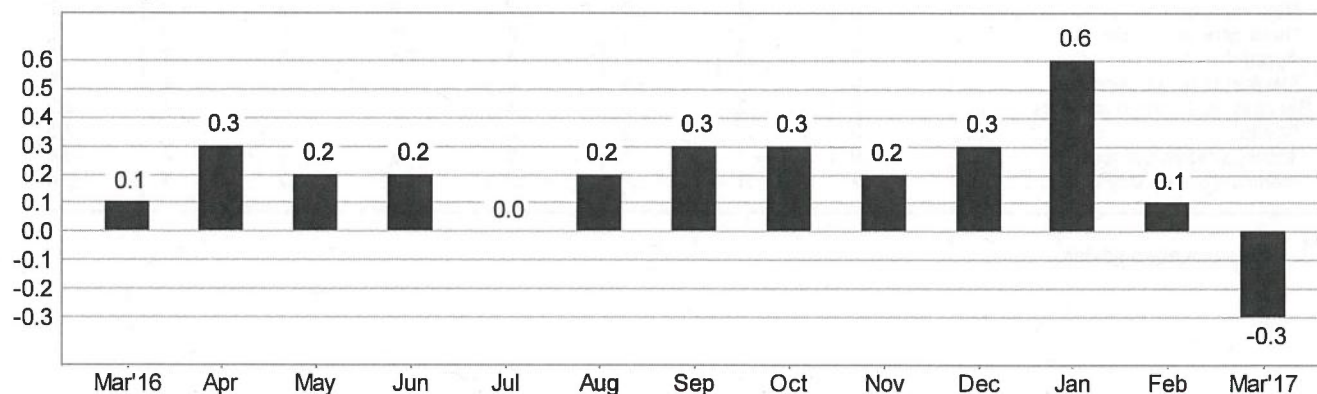


Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Mar. 2016 - Mar. 2017

Percent change

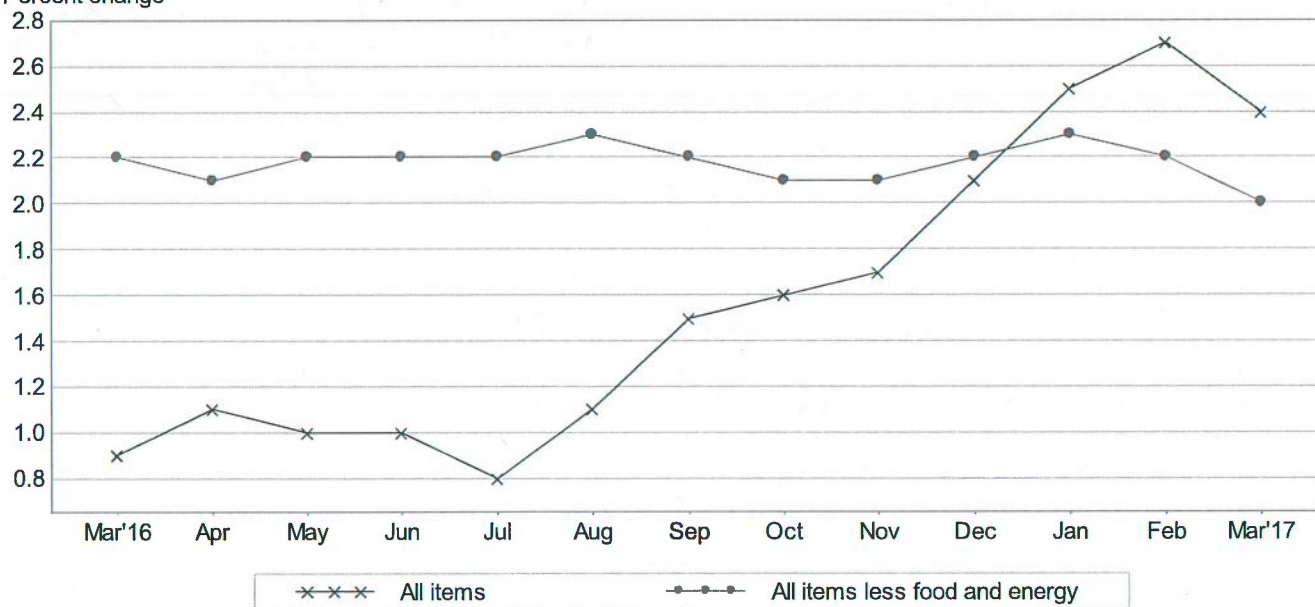


Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Mar. 2017
	Sep. 2016	Oct. 2016	Nov. 2016	Dec. 2016	Jan. 2017	Feb. 2017	Mar. 2017	
All items .....	.3	.3	.2	.3	.6	.1	-.3	2.4
Food .....	.0	.0	.0	.0	.1	.2	.3	.5
Food at home	-.2	-.2	-.1	-.2	.0	.3	.5	-.9
Food away from home ¹ .....	.2	.1	.1	.2	.4	.2	.2	2.4
Energy	2.4	2.5	1.0	1.2	4.0	-1.0	-3.2	10.9
Energy commodities	4.4	4.8	2.0	2.4	7.6	-2.8	-6.0	19.8
Gasoline (all types)	4.6	5.1	2.1	2.4	7.8	-3.0	-6.2	19.9
Fuel oil ¹	2.4	5.9	-1.2	6.0	3.5	-.4	-.8	24.9
Energy services .....	.6	.4	.0	.0	.3	1.0	-.3	3.4
Electricity .....	.5	.3	.0	.0	.0	.8	-.1	1.6
Utility (piped) gas service .....	.8	.9	.2	.1	1.5	1.5	-.8	10.3
All items less food and energy .....	.1	.1	.2	.2	.3	.2	-.1	2.0
Commodities less food and energy								
commodities	-.1	.0	-.2	.0	.4	.0	-.3	-.6
New vehicles .....	.0	.2	.0	.1	.9	-.2	-.3	.2
Used cars and trucks	-.2	-.1	.2	.2	-.4	-.6	-.9	-4.7
Apparel	-.5	.2	-.3	-.4	1.4	.6	-.7	.6
Medical care commodities .....	.6	.2	-.4	.5	.3	-.2	.2	3.9
Services less energy services .....	.2	.2	.3	.3	.3	.3	-.1	2.9
Shelter .....	.3	.3	.3	.3	.2	.3	.1	3.5
Transportation services .....	.0	-.1	.5	.5	.6	.7	.4	3.8
Medical care services .....	.1	.1	.2	.2	.2	.2	.1	3.4

¹ Not seasonally adjusted.