

**SRP LOCAL CURRENCY PAYMENT BENEFIT ALTERNATIVES
FOR CONSULTATIONS WITH RETIREES
PREPARED AT THE REQUEST OF
THE ADMINISTRATION COMMITTEE**

Introduction

Retirees residing in several Bank member countries, outside the United States, have asked the Bank to consider creating a new system for payment of the U.S. dollar pensions in the local currency of the country in which they reside. The Administration Committee of the Staff Retirement Plan (SRP) is considering the concerns expressed by the Retirees. As part of this process, representatives of the Retirees Association, with the assistance of the Secretariat of the SRP, are consulting Retirees residing outside the United States to further understand their concerns and to get their reactions to various options for a local currency payment system. For the purposes of this document, “Retirees” means anyone receiving a pension from the Staff Retirement Plan, including survivors. The objective of these consultations is to assist the Bank’s Administration in assessing the feasibility of proposing a new system that would be useful to Retirees, and at the same time be practicable to administer, protect the Plan’s assets for the payment of pensions and benefits currently provided for, and satisfactorily address financial and other considerations applicable to the Plan.

The purpose of this document is to inform the Retirees of the SRP who reside outside the United States of the considerations being undertaken by the Administration Committee regarding the possibility of proposing a local currency payment option. It is currently understood that, if approved, such an option would involve an election by each Retiree of whether to receive a part or the totality of his/her pension in the local currency of his/her country of residence. The document also describes certain procedures and principles on which a local currency option might be based, to provide Retirees with a better understanding of how such an option might affect them.

The Retirees Association will follow up at a later date regarding the collection of the feedback.

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Principles That Would Apply to the Local Payment Benefit Alternatives

The following principles were observed in constructing the alternatives described in this document; different and additional principles may form the basis of any final proposal.

1. **Initial Election.** When the Retiree elects the local currency payment, the amount of the pension designated by the Retiree will be exchanged from U.S. dollars into local currency at the market or “spot” rate at the time the Retiree elects to receive payments in local currency. The source of the exchange rate would be the IFS statistics published by the IMF. The amount of the local currency payment would then be fixed, subject to any adjustments due to a floor, or ceiling, as described further in the alternatives detailed below.
2. **Timing of Benefit Election.** The Retiree may initially elect the local currency payment option when the pension first becomes available or anytime thereafter.
3. **Ability to take all or a portion of the Pension in local currency.** It is anticipated that the Retiree may elect to have all or a portion of the pension converted to local currency.
4. **Adjustments for inflation.** The pension or the portion paid in local currency would be adjusted to reflect local inflation. The source of the index for the inflation adjustment would be the IFS statistics as published by the IMF. The extent of these adjustments may be limited by a floor, or ceiling, as described further in the alternatives detailed below. The portion paid in U.S.-dollars, if applicable, would continue to be adjusted by the U.S. CPI as provided for by the Staff Retirement Plan regulations.
5. **Proof of Residency.** The benefit would be available only to Retirees providing proof of residency in the country of the chosen currency, in a form acceptable to the Bank.
6. **Option to change local currency upon change of residence.** Under any of the alternatives, it is anticipated that the Retiree could change the local currency if he/she changed the country of residence.

The Three Alternatives:

The following alternatives for a local currency payment option are presented for consideration by Retirees as possibilities. The concepts of ceilings and floors as applied to the alternatives refer to a limit, upward or downward, to which the pension in local currency can be adjusted or depreciated due to the strengthening/weakening of the local

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currency as compared to the U.S. dollar. When applicable in the alternatives discussed below, the local currency payment could not fall below a minimum value (floor), or rise above a maximum value (ceiling), even when the applicable exchange rates fluctuate to an extent that a resulting pension payment would otherwise be below the floor, or above the ceiling.

1. Irrevocable Election of Local Currency Payment Benefit with no ceiling or floor

The Retiree's election of the local currency option is irrevocable.

- a. As an example, the Retiree elects the local currency pension when the spot currency rate is 4 pesos per U.S. dollar. His \$50,000 pension is converted to 200,000 pesos. Then, the peso *weakens* to 5 pesos per U.S. dollar. The Retiree is still receiving a 200,000 peso pension, now worth "\$40,000", at the current spot exchange rate.
- b. Assume, instead, that the peso *strengthens* to 3.2 pesos per U.S. dollar. The Retiree is still receiving a 200,000 peso pension, now worth "\$62,500", at the current spot exchange rate.

2. Irrevocable Election with an 80% floor and 125% ceiling on the pension payment

The Retiree's election of the local currency option is irrevocable, but there is a floor and ceiling to protect both the Retiree and the Plan from extreme currency events. An example is given below.

- a. The Retiree elects the local currency pension when the spot currency rate is 4 pesos per U.S. dollar. His \$50,000 pension is converted to 200,000 pesos. Then, the peso weakens to 5 pesos per U.S. dollar. The Retiree is still receiving a 200,000 peso pension, but it is now "worth" \$40,000, or 80% of the U.S. dollar pension. The program would not allow any further depreciation in the pension. For example, if the peso then weakens further to, say, 5.5 per U.S. dollar, the Retiree's pension would be worth \$36,364. The program would adjust the Retiree's currency rate so that his local currency pension is equal to at least 80% of the equivalent U.S. dollar pension; thus, the Retiree's currency exchange rate would have to be temporarily adjusted from 4 per U.S. dollar to 4.4 per U.S. dollar.¹ This would result in a new pension of 220,000 pesos, which, when converted at the then current spot exchange rate

¹ In practice the adjustment may be lagged due to the timing of administrative procedures.

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of 5.5, is worth \$40,000, thus meeting the 80% floor protection for the Retiree.

- b. Assuming the same initial conditions of 2.a. above, and that the peso strengthens to 3.2 pesos per U.S. dollar. The Retiree's local currency pension of 200,000 pesos would now be worth \$62,500, which is 25% higher than the U.S. dollar pension the Retiree would have received. This time the program would not allow any further appreciation in the pension. If the peso strengthened further to, say, 3.0 per U.S. dollar, the Retiree's pension would be worth \$66,667. The program would adjust the Retiree's currency rate so that his local currency pension is equal to no more than 125% of the equivalent U.S. dollar pension, thus the Retiree's currency exchange rate would be temporarily adjusted from 4 per U.S. dollar to 3.75 per dollar. This would result in a new pension of 187,500 pesos, which, when converted at the current spot rate of 3.0 is worth \$62,500, thus meeting the 25% ceiling.
3. **One-Time Election to Revoke the Local Currency Payment Permitted for Retiree, with a 125% ceiling (and no floor)**

For this Alternative, instead of having a floor on the benefit as indicated in Alternative Number 2 above, the Retiree is granted the option to return to the U.S.-dollar pension, i.e., the amount in U.S. dollars at the date the Retiree chose the currency option, adjusted by the corresponding SRP Cost-of-Living adjustment (U.S. CPI) for that period, at any time without change of residence. The 125% ceiling works as described in Alternative Number 2 above.

The principles and the three local currency benefit alternatives outlined above are presently only under consideration by the Administration Committee of the Plan, and the Retirees should understand that no commitment has been made with regard to the proposal or approval of any alternative.

The feasibility of any proposal to pay US-dollar pensions in local currencies is subject to the review of the Bank's Administration Committee, the Pension Committee, and other Bank authorities responsible for matters concerning the Plan's administration, and the final approval of the Bank's Board of Executive Directors. This consultation does not mean that any of the options described in this paper are endorsed by the Administration Committee, or any other Bank authority. This consultation does not mean that amendments to the Plan's regulations will be proposed by the Administration or, if proposed, adopted by the Board of Executive Directors.