Workshop for Newer Participants

# Everything you always wanted to know about the OAS Retirement and Pension Fund but were afraid to ask and more…


Organization of American States Retirement and Pension Fund

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May 2006

Washington, DC

## Topics:

- History
- Participation
- Why a Retirement Plan?
- The Fund, the Plan, and the Committee
- The OAS Retirement and Pension Committee
- Plan Overview and Benefits
- Health of the Fund
- Contributions and Vesting Rights
- The OAS R&P Plan vs. the 401(m) Plan
- Contact Information

# History

## History

- The Organization of American States (OAS) is the oldest political international organization of the world
  - Created as the International Union of American Republics in 1889

Delegates to the First International Americas Conference - 1889

## Affiliated Institutions

- Institutions of the Inter-American System affiliated to the Fund since its creation:
  - Organization of American States
  - Inter-American Institute for Cooperation on Agriculture
  - Inter-American Court on Human Rights
  - Pan-American Institute of Geography and History
  - Inter-American Defense Board
  - Inter-American Indian Institute
  - CATIE Tropical Agricultural Research and Higher Education Center

## History (continued)

- In 1956 a Provident Plan was included to provide for those participants that would remain in the Organization for a short period of time; operates along the lines of a Defined Contribution Plan
- In 1980 the Secretary General extended participation in the OAS Retirement and Pension Plan to all long fixed term staff employees
- In 1981, the General Assembly strengthened the social security characteristics of the Plan by including additional benefits for disability (mental and physical) and surviving beneficiaries (spouse and children)

## History (continued)

- Up to 1985 positions of trust participated of the Provident Plan. That year, the Secretary General allowed them to participate in the OAS Retirement and Pension Plan to allow them to acquire more benefits than they could when participating in the Provident Plan
- Also in 1985, short fixed term contracts that accumulated a year of participation were allowed to move from the Provident Plan to the OAS Retirement and Pension Plan

## History (continued)

- In 1990, by recommendation of the Committee, the General Assembly shortened the vesting period from 15 to 7 years to acquire full rights on the institutional contributions accumulated
- In the late 90s the Fund incorporated in its policy instruments to further protect the spouse of a participant in case of divorce
- In 2003 the policies and procedures of the Fund were adjusted to allow more benefits for participants who entered the Plan after December 31, 1981

# Participation

## Participation

- The Plan has participants from all 35 member countries of the OAS
- This provides a very rich multicultural environment and different ways to think about retirement benefits
- There are participants that because of their background, culture or social condition trust the social security concept and favor the idea of getting a pension (some examples are: the Caribbean countries, Canada, Costa Rica, Chile and Uruguay)

## Participation (continued)

- There are participants that are not very inspired by their own countries experiences in social security and prefer to retire a lump sum cash payment and invest it to secure their future
- There are those who prefer to combine these alternatives
- The Plan provides options in such a way that the participants can accommodate their preferences

## Why a Retirement Plan?

## Why a Retirement Plan?

**Because you need to PLAN for YOUR RETIREMENT!!!**

## Why a Retirement Plan?

**But why do I need to plan?** → **Because there is a very good probability that you will live until retirement and many years more during retirement**

- During retirement you will face financial requirements
- Inflation will affect your financial situation
- Financial well-being has a substantial effect on quality of life
- You will probably want to be self-sufficient
- Deteriorating health may increase your medical costs
- Poor health will probably make you expend money to have things done (home maintenance for example)

## The Fund, the Plan and the Committee

## The Fund, the Plan, and the Committee

The Plan

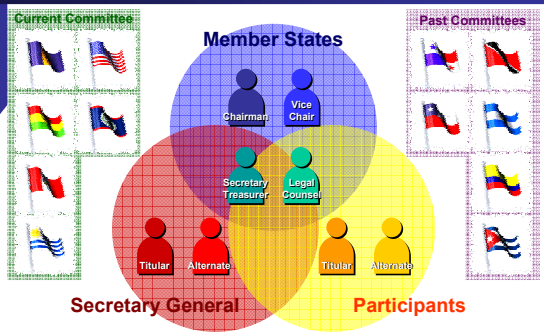
The OAS Retiremen on Fund works as a trust and is the gr s used to finance the expenses inc mittee during the Plan's admin sed of initial funds, institut ributions and intere ments

The Committee

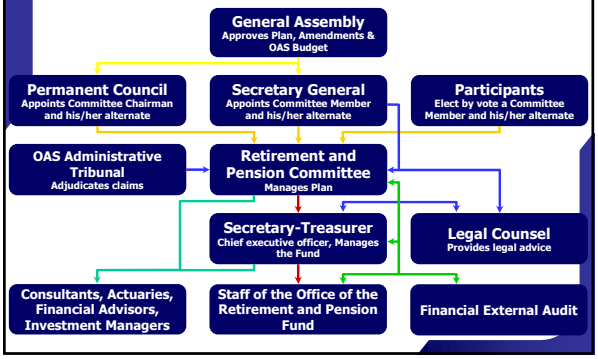
The Fund

## The OAS Retirement and Pension Fund Committee

## Retirement & Pension Committee




## Organizational Chart




## Characteristics of the Committee

- Composed of 3 trustees. The SG is one of them. Normally appoints a representative
- Chaired by the Representative of the Member States
- Meets minimum twice a year for accreditations. But generally every 1 or 2 months
- Quorum is 3 members (titular or alternate)
- Vote is by majority
- The Secretary-Treasurer is its Technical Secretary and also participates the Legal Advisor

## Functions of the Committee

- Manages the Plan and acts as the Fund's trustee
- Approves the administrative budget
- Gives guidelines to the Secretary-Treasurer, recommends his/her appointment, evaluates his/her performance
- Adopts Plan's policies and procedures
- Decides semi-annual accreditations
- Decides on Cost-of-Living Adjustments (when required)
- Establishes investment policies satisfying the actuarial requirements

## Functions of the Committee (continued)

- Hires, evaluates and fires consultants, financial advisors, auditors, actuaries, and the Fund's portfolio managers
- Answers participants' requests
- Decides on legal claims
- Recommends Plan Amendments
- Produces annual reports to constituents
- Designates sub-committees and working groups to study and report on pension related issues

## Fiduciary Responsibility

**The basic duty of a fiduciary is to act solely in the interest of the participants of the Plan and their beneficiaries and to provide benefits for them**

## Fiduciary Responsibility (continued)

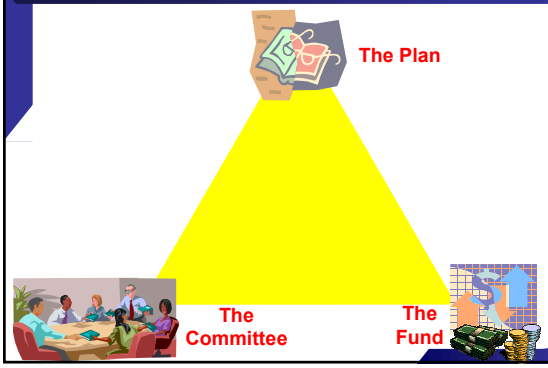
- The Retirement and Pension Fund Committee is a tripartite committee
- Each part has its own interests and they have to be balanced
- The main responsibilities are:
  - To preserve the health and integrity of the Fund
  - To provide the best level of benefits to the participants and pensioners
  - To do so in the most effective way from the social and financial standpoints
  - To keep the Fund qualified under the Internal Revenue Code to maintain tax advantages
  - To cover present and future liabilities

## Fiduciary Responsibility (continued)

- Although the main responsibilities mentioned in the previous slide are shared by the three interests represented in the Committee, not all the trustees place the same weight on them
- For example:
  - The member states are ultimately responsible for covering a funding deficit, so their interest is mostly focused in an efficient management of the Plan and to keep the Fund in a healthy funding status
  - The participants, on the other hand, have their interest more focused in obtaining large accreditations that will increase the value of their accounts

# Plan Overview and Benefits

## The Fund, the Plan, and the Committee



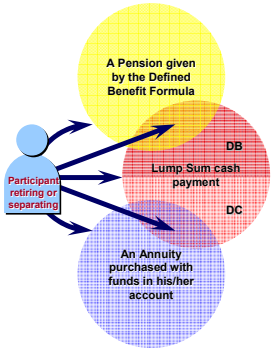

## Definitions

- Defined Benefit (DB) Plans
  - In DB Plans the sponsor promises to pay the participant a pre-determined amount of money (generally in the form of a pension) based normally in the number of years of participation and the remuneration during the last years of participation. Contributions may change over time and the benefit is not dependant on the market performance
- Defined Contribution (DC)
  - In DC Plans the contributions are fixed. Each participant has his/her account and what he/she gets at the end will depend on investment performance

## Plan Overview

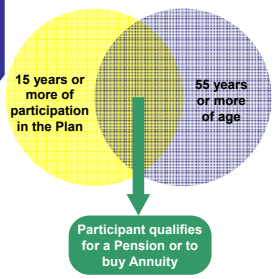
- The OAS Retirement and Pension Plan (Plan) is a defined benefit (DB) plan with certain defined contribution (DC) characteristics
- It provides the following types of benefits:
  - Pension or lump sum at age of retirement or separation
  - Disability pension or benefits
  - Survivorship pension or benefits for remaining spouse and children
  - Voluntary retirement
  - Minimum alternate pension for low-income participants
  - Reduced vesting period
  - Cost of Living Adjustments (COLAs)

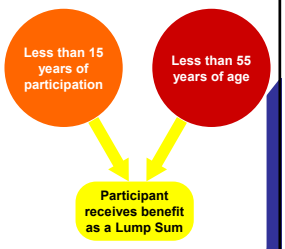
## Plan Overview (continued)




**The participant has the best of two worlds because the risk of market performance is taken by the Fund, but the accounts do not decrease with adverse markets**

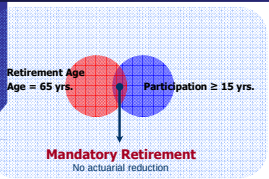
## To qualify for a pension or annuity

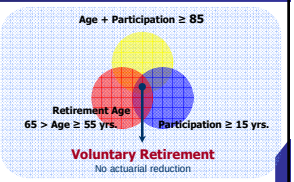


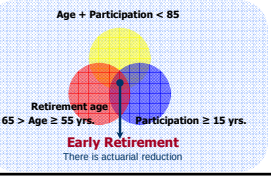



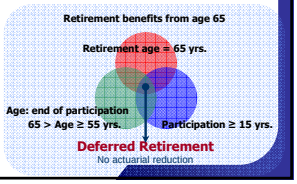

## Benefits

Defined Benefit: depending on the situation it could be pension, lump sum or combination



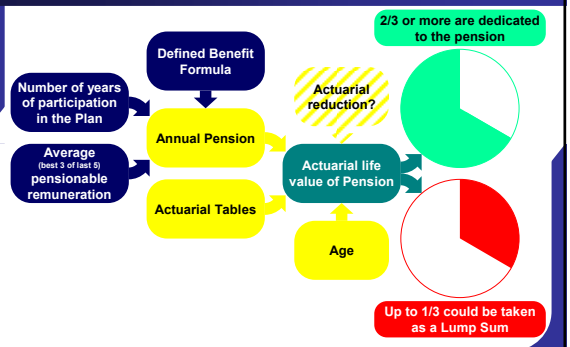



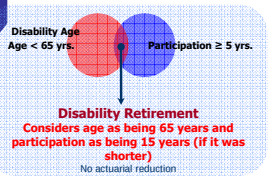

## Benefits

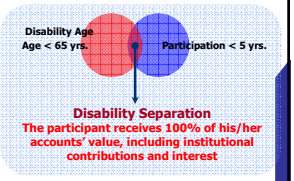
Defined Benefit: depending on the situation it could be pension, lump sum or combination



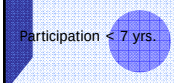

## Disability Benefits

Depending on the situation it could be pension or lump sum

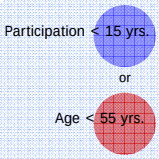



## Separation




If the employee's participation is shorter than 7 years, his/her account will be liquidated according to the vesting scale (presented later in this presentation). This separation is not considered retirement.




If his/her participation is between 7 and 15 years or if his/her age is less than 55, his/her account will be liquidated with 100% vesting. However, this participant cannot retire because he/she does not comply with the minimum retirement requirements.

## Benefits

Defined Benefit: Computation of Pension under the 2% Formula

- It is a life-time pension
- It is based on the number of years of participation
- Considers the Average Pensionable Remuneration during the best period of 36 consecutive months during the last 5 of participation (ξ)
- It is 2% of ξ times the number of years of participation up to a maximum of 30 years. If the employee participated more than 30 years, adds 1⅔% of ξ for each additional year on the next 10 until a total participation of 40 years (years 31 through 40)
- A participant with 40 or more years of participation will receive a maximum pension of 76.67% of ξ

## Benefits

Defined Benefit: Example of Computation of Pension under the 2% Formula

| year 31 | year 32 | year 33 | year 34 | year 35 |
|---|---|---|---|---|
| 3500 | 3600 | 3900 | 4200 | 3800 |
| 3500 | 3600 | 3900 | 4200 | 3800 |
| 3500 | 3600 | 3900 | 4200 | 3800 |
| 3500 | 3600 | 3900 | 4200 | 3800 |
| 3500 | 3600 | 3900 | 4200 | 3800 |
| 3500 | 3600 | 3900 | 4200 | 3800 |
| 3600 | 3900 | 4000 | 4200 | 3500 |
| 3600 | 3900 | 4000 | 4200 | 3500 |
| 3600 | 3900 | 4000 | 4200 | 3500 |
| 3600 | 3900 | 4000 | 4200 | 3500 |
| 3600 | 3900 | 4000 | 4200 | 3500 |
| 3600 | 3900 | 4000 | 4200 | 3500 |

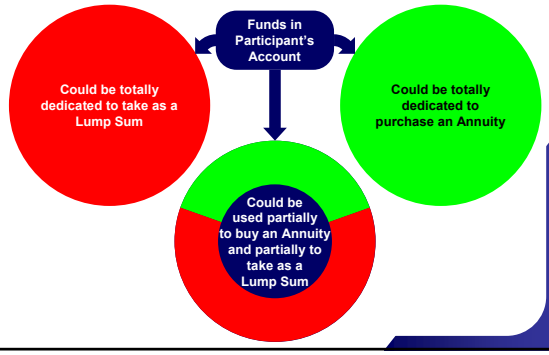
**ξ = (3900*12+4000*6+4200*12+3800*6)/36 = 4000**

**Pension = 4000*0.02*30 + 4000*0.0166667*5 = 2733.33**

**Actuarial reduction factors will be applied if age is below 65 and the participant does not comply with the 85 rule**

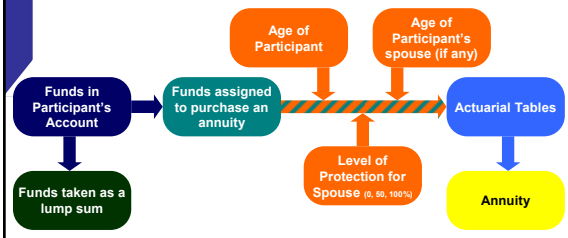
## Benefits

Defined Contribution: depending on the situation it could be annuity, lump sum or combination



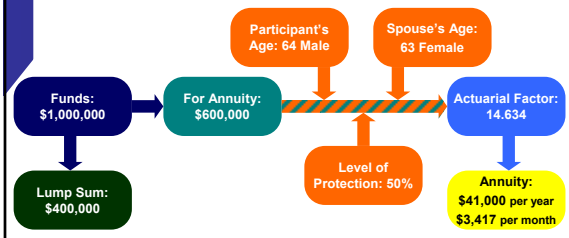

## Benefits

Defined Contribution: Determination of Annuity



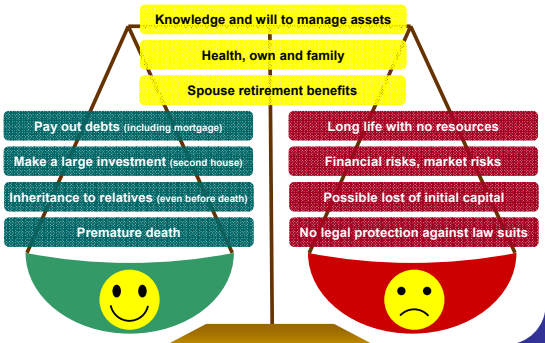

## Benefits

Defined Contribution: Example of Determination of Annuity




## Benefits

LUMP SUM: Plus, Cons and Considerations



## Plan Overview (continued)

- Although the Plan is mainly a Defined Benefit one, the contributions do not change over time (a Defined Contribution feature)
- The plan defines benefits in terms of age, years of participation, and the average pensionable salary during the last few years of participation
- This is the **Defined Benefit** window of the RPP that attempts to provide long term protection

## Plan Overview (continued)

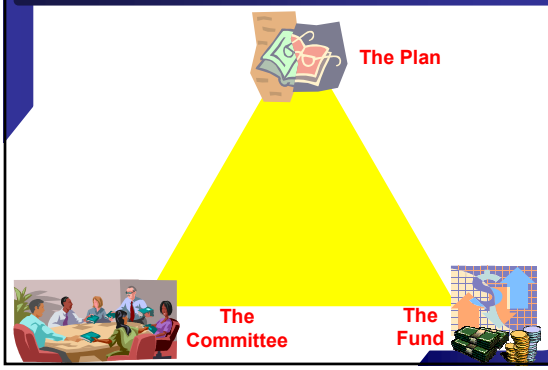
- An account is maintained for each participant
- But they will not decrease with adverse markets (as it may happen in most DC plans)
- Both the personal and the institutional contributions are credited to this account
- Interest is also credited periodically (regardless of market performance)
- This is the **Defined Contribution** part of the Plan
- Participants build credit over a short period of time in case they separate or they are terminated before they qualify for retirement benefits

## Plan Overview (continued)

- The combination of Defined Benefit and Defined Contribution characteristics has provided for considerable flexibility for our participants
- However, the mandatory accreditation feature presents interesting challenges for the managing of our Plan
- The accreditation policy evolved with time to confront these challenges and maintain a healthy and funded status

## Health of the Fund

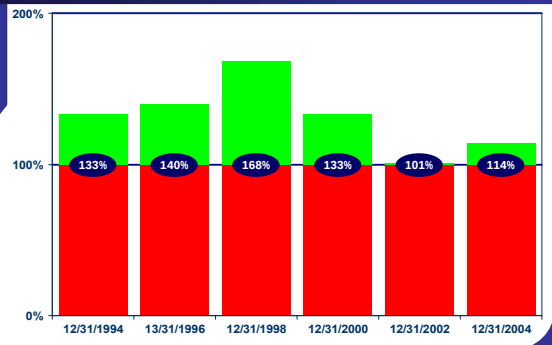
## The Fund, the Plan, and the Committee




## Health of the Fund

- Monitored periodically through actuarial valuations
- Last done as of December 2004. 114% funded
- Next will be done in December 2006
- Also, from November 2001, Asset/Liability studies are performed
- Last done as of July 2005 allowed the Committee to adjust the accreditation policy to ensure the actuarial and financial health of the Fund

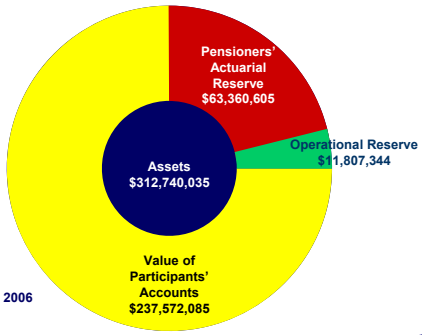
## Level of Funding




## Tools for Pension Policy Definition


- Actuarial studies are performed in even years
  - They provide a clear view of the long term liabilities of the Fund, and its funding status
- Asset/Liability studies are performed in odd years
  - They provide scenarios for the short and medium term liabilities, and tools to adapt the accreditation and investment policies

## Health of the Fund (continued)

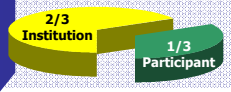



As of April 30, 2006

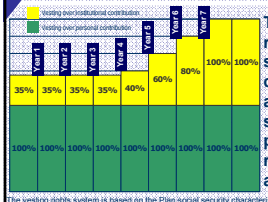
## Contributions and Vesting Rights

## Contributions and Vesting Rights

**For the OAS RETIREMENT AND PENSION PLAN**




Participant and institution contribute 7% & 14% respectively from the participant's pensionable remuneration to the participant's Plan account.

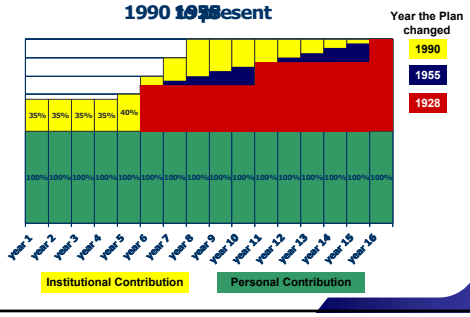



The participant's contribution and its respective interests are 100% vested since the start. The institutional contribution and its respective interests are vested according to the schedule shown in the chart*. After 7 years the participant acquires 100% vesting rights on the institutional contribution and interests.

The vesting rights system is based on the Plan social security characteristics as pension benefits, disability and survivor pensions, etc.

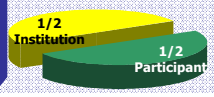
## Contributions and Vesting Rights

**ACCELERATED VESTING SCHEME**
**EVOLUTION OF VESTING SCHEMES**



## Contributions and Vesting Rights

For the PROVIDENT PLAN




Participant and institution contribute 5% & 5% respectively from the participant's pensionable remuneration to the participant's account.

The participant's contribution and its respective interests are 100% vested since the start. The institutional contribution and its respective interests are also vested 100% since the beginning. Participants are seldom maintained in this plan for more than 1 or 2 years depending the affiliated institution.

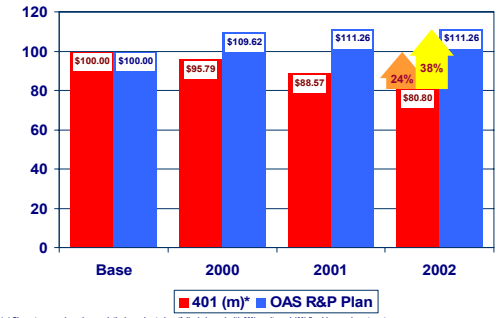
The OAS Retirement and Pension Plan and the Provident Plan have very different objectives. Despite that, and for practical reasons, since the Provident Fund represents a very small portion of all assets invested, both funds are managed together.

## The OAS R&P Plan vs the 401(m) Plan

## The OAS R&P Plan vs. the 401(m) Plan

| Features | OAS R&P Plan | 401(m) Plan |
|---|---|---|
| Vesting | 7 years to full benefits | Immediate |
| Risk of Loss of Initial Capital | NO | YES |
| Taxes for G-4 Visa holders | NO | YES |
| Social Security Charact. Pension | YES | NO |
| Disability & Survivorship Pension | YES | NO |
| Professional Management | YES | ?????? |
| Very Low Management Fees (scale economies) | YES | NO |
| Guaranty for Loans at the Credit Union | YES | NO |

## The OAS R&P Plan vs. the 401(m) Plan




*The 401 (m) Plan returns are based on a relatively moderated portfolio, balanced with 60% equity and 40% fixed-income investments

## Contact Information

## Contact Information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