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PENSION AND RETIREMENT PROGRAM
A CONFIDENTIAL STUDY
PREPARED FOR
INTERAMERICAN INSTITUTE OF
AGRICULTURAL SCIENCES

Prepared By
WRIGHT & CO.
1001 Connecticut Avenue, N.W.
Washington, D.C. 20036
September 20, 1977

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September 20, 1977

Mr. Enrique Blair
Advisor for External
Coordination
InterAmerican Institute of
Agricultural Sciences
Direccion General
Apartado 10281
San Jose, Costa Rica

Dear Enrique:

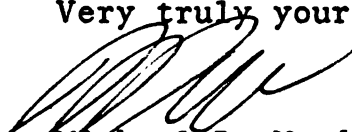
Here is a study on the retirement and pension fund that I promised you during my last trip to San Jose.

I hope you will find it in order.

After much deliberation, I am convinced that it is indeed feasible for IICA to pursue the establishment of its own retirement and pension fund. In the final analysis, I feel that we can devise a savings type of approach that would be consistent with the needs and desires of management and staff alike.

I have been honored to perform this task and will endeavor to undertake any future assignments that you may bestow upon me in order to complete the project.

Very truly yours,



Michael R. Ward
Vice President

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For: INTERAMERICAN INSTITUTE OF AGRICULTURAL SCIENCES

This report, authorized by Enrique Blair, Advisor for External Coordination and prepared by Wright & Co. was assigned for the purpose of studying and recommending on the feasibility of establishing a separate retirement and pension fund for the InterAmerican Institute of Agricultural Sciences.

Its scope and intent is not to recommend a fiduciary medium at this juncture but rather is to advise and educate management on the particulars in creating a separate retirement and pension system; the interworkings of available programs; and the procedural items needed in order to establish a program by the end of the current fiscal year.

It is the hope that this report will be used as a guideline for future decision making. If it is management's decision to proceed, the report should serve as a basic framework for future negotiations with carriers. If it should be the decision of management to maintain the status quo, then this report should serve as a tool through which the decision is made.



I. INTRODUCTION

The best retirement and pension program for any organization is normally the one which has been designed to reflect the individual circumstances and objectives of that organization. The organization's goals, philosophy, composition of employees, and preference of top management are all factors which have a bearing on plan design.

It is with this in mind that we attempt to analyze the feasibility of a separate retirement and pension plan for the InterAmerican Institute of Agricultural Sciences.

In contemplating this situation, three basic questions must be asked:

1. Is it beneficial?
2. Is it practical?
3. What are the alternatives?

Satisfactory answers to these three basic questions will determine as to whether a separate program is feasible.

Presently, the system in which you participate is in a state of flux. Studies are still continuing and, at this point, it appears that there is no certainty as to what the final outcome will be.

Initial basic answers, however, can be found in the "Preliminary Draft Statutes for the Staff Retirement and

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Pension Fund of the Organization of American States". A copy is included in the appendix for your perusal.

In an attempt to achieve parity with the United ^{Nations,} ~~States,~~ the OAS is formally adopting a defined benefit pension program. This form of plan provides a given benefit at retirement age in lieu of a lump sum cash payment. It provides little flexibility on behalf of the individual retiree.

It is typically the type of approach adopted by major organizations within the United States. Historically, this has burgeoned from complicated tax laws that penalized the individual collection of a lump sum cash payment at retirement.

Is this the type of retirement system that IICA desires?
Is it consistent with IICA's goals?

The apparent answer to this question is no.

IICA wants flexibility. It wants to provide a lump sum payment to retirees. At the same time, it wants to provide the option of a lifetime guaranteed pension if it is the desire of the individual retiree to do so. In short, it wants a savings fund with an individual nonmandatory alternative for purchasing a guaranteed lifetime income (an annuity). This is not possible (with certain exceptions) under the present system. Moreover, it will become **more impossible** in the future.

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Technically, the savings fund approach is called "defined contribution". The alternative of providing an annuity at retirement age is called "terminal funding".

The rest of this report will concentrate on these mechanisms and how they relate to our three basic questions -- is it practical, beneficial and what are the alternatives?

II. GENERAL DESCRIPTION -- A DEFINED CONTRIBUTION PENSION PROGRAM AS IT RELATES TO THE PRESENT SITUATION

The following pages will outline the basic provisions applicable to a defined contribution -- "money purchase" -- type of retirement program.

Under this approach, contributions are made to the plan on behalf of participants in accordance with a predetermined contribution formula. Individual recordkeeping accounts are established and maintained for each participant. Total employer and employee contributions applicable to each participant are credited to an individual employee's personal account. Additionally, a pro rata portion of all gains or losses arising from plan investment is created or charged to each participant's account.

At death, disability, retirement or other termination of employment, all or a portion of each participant's account



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value may be distributed to him in cash. Alternatively, he could purchase an annuity which would guarantee him a monthly income for life. Naturally, the amount of distribution or monthly income to which a participant may become entitled cannot be precisely determined in advance. Changes in compensation levels, plan contribution formulas, and investment return (just to name a few of the variables), may have a substantial effect upon the ultimate benefit amount.

Thus while each participant has the promise that a stipulated level of contribution is made to the plan on his behalf, his ultimate plan benefit is something that can be roughly estimated but not precisely determined in advance. Obviously, over the long run, this depends upon investment gains as they relate to the actual retirement date of any given individual employee.

This approach is exactly the opposite of the one that is presently in effect at the OAS.

The actual retirement benefit for staff members of affiliated entities are located in Chapter 10 Article 24 of the Preliminary Draft Statutes. Perusal of this text will show that as presently proposed, both employer and employee contributions are purchasing a defined benefit at retirement equal to 2% of the final average remuneration multiplied by



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the total number of years of an individual participation in the program. This is subject to a maximum of 30 years.

For example, an individual who has had 25 years of service and a final average remuneration of \$20,000 would receive a retirement benefit equal to \$10,000 per year.

There is a further provision under Subparagraph D, Subsection (i) that does allow a cash disbursement to the retiree equal to 1/3 of the actuarial equivalent of the benefit.

This is important.

The actual cash that would be received by the individual at retirement under this method has absolutely no relevance to the total amount of cash that might be attributable to his individual account. It is based upon the actual present value cost of the benefit.

Under a defined contribution plan, an individual retiree could withdraw all monies credited to his account including both contributions and investment gains.

Using the above example, it is safe to assume that the same individual could accumulate \$169,992 in his account.

This includes both contributions and interest earnings at 5 1/2%. In a defined contribution plan, this belongs entirely to the retiree. He could withdraw the sum, invest it at 6% and earn \$10,199 per year without ever touching principal. On

this is low might. we have been getting only 3%. This is low. It is possible to do him much more.



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the other hand, he could purchase an annuity at prevailing rates which would guarantee him anywhere between \$10,000 and \$15,000 per year; however, he would lose principal. Of course he could do a combination of the two in any varying amounts that he felt was beneficial.

Most insurance companies simultaneously establish two sets of books under a money purchase arrangement. These are called the "Experience Fund" and the "Guaranteed Fund" respectively. The Experience Fund reflects the company's actual earnings experience while the Guaranteed Fund reflects the values on the underlying guarantees. The value of the client's fund at any point in time is the larger of the two funds. Thus the cumulative results cannot be less than the guaranteed rate of interest but can be greater if favorable interest earnings emerge. While interest rate guarantees vary from insurer to insurer, most companies are guaranteeing anywhere between 6% and 9%. Actual investment experience, however, is running much better and has averaged close to 10%.

A full range of investment alternatives are normally offered to the organization including mixed portfolios of bonds, mortgages, commercial paper, short term securities, common stock, etc. The investment philosophy must be dedicated to long term real growth and safety of principal. It is not the intent of this report to analyze the various alternative portfolios of the many different insurers.

What would be the net interest yield if a permanent term deposit is established with - say - a 5% liquidity per year (to take care of terminations)



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This would be premature. It can be done only after a decision is made to proceed with the establishment of a separate plan.

Since a defined contribution approach is merely nothing more than a savings fund, actuarial deficits never occur. Deficits of this nature would only happen after it is determined that the amount of assets in the fund are not sufficient to cover the amount of liabilities (future benefits payable to retirees based upon a defined benefit).

Please refer to Article 19 of the Preliminary Draft Statutes. Under said Article, it states "In the event that two consecutive actuarial evaluations of the fund show that its assets may not be sufficient to meet its liabilities under these statutes, they shall be paid into the fund by each affiliated entity sum necessary to make good the unacceptable actuarial deficit". It further goes on to state Subparagraph (b) "Each affiliated entity shall...contribute to this sum an amount proportionate to the total contributions that each has paid in accordance with Article 11.a during the three years preceding the date of the second evaluation".

In the event that an actuarial deficit does occur, it would be incumbent upon IICA to make up said deficit based upon its contribution rate of 21%. Actuarial deficits most naturally occur when the investment performance falls below

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the investment assumption used when initially calculating future liabilities.

Once again, it is not the intent of this report to comment on the investment performance of the retirement and pension fund over the last 10 years. However, it is our understanding that actuarial deficits did occur due to poor investment performance and that this matter is still pending further study by the Retirement and Pension Committee.

Indeed, it does not seem logical for IICA to subject itself to a future commitment for the funding of actuarial deficits, when, in essence, it is not IICA's intention to provide a defined benefit plan. As stated, under a savings fund/defined contribution approach, IICA would not have to subject itself to future unknown liabilities due to actuarial deficits.

In summarizing this section, it appears evident that the establishment of a separate retirement system by IICA is indeed beneficial.

As established on a defined contribution basis, IICA can provide its employees with a much greater level of flexibility by allowing each of them to determine their own destiny. It also provides a guarantee of interest and safety of principal which further allows each employee to better plan for the future. It provides a system of credits given on higher

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interest earnings -- maximizing profits and minimizing risks. It eliminates the necessity of refunding for future unknown liabilities thereby stabilizing any future impact on organizational cash flow.

III. TECHNICAL ASPECTS FOR PLAN ESTABLISHMENT

In establishing a separate pension retirement fund, it appears that IICA is caught in the middle of the Internal Revenue Codes and the International Organizations Immunities Act of 1945. This anomaly comes about due to the taxing of pension fund investment income of insurance companies or other fiduciary mediums.

Under IRS Regulations, pension fund investment earnings can accumulate tax free provided that the said plan is qualified by the Internal Revenue Service and in accordance with the minimum standards set forth in the Employee Retirement Income Security Act of 1974. The earnings on a nonqualified plan would be subject to income tax which would therefore reduce the net yield and growth of the fund.

The Employee Retirement Income Security Act of 1974 was established for the purpose of providing minimum standards for the established Employee Welfare Plans. It includes minimum standards for eligibility, participation, investment and funding.

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The Internal Revenue Laws were also amended to say that all pension programs must meet the minimum requirements of ERISA in order to be qualified and eligible for tax advantages on investment earnings.

IICA is excluded from the Employee Retirement Income Security Act inasmuch as it is a tax exempt organization under the International Organization Immunities Act.

Moreover, Public Law 291 (International Organization Immunities Act) amends Section 116(c) to the Internal Revenue Code as follows: "The income of foreign governments or International Organizations received from investment in the United States in stocks, bonds or other municipal securities, owned by such foreign government or international organization or from interest on deposit in banks in the United States of monies belong to such foreign government or international organization or any other source within the United States...is excluded from gross income of income of international organizations".

Logically, it would seem that this precludes taxes on earnings of investment income of your pension plan.

Unfortunately, this is not the case. The problem relates basically to taxes levied against fiduciary groups as opposed to taxes levied against an organization directly. Individual accounts from a tax standpoint cannot be segregated by the



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fiduciary medium insofar as IRS is concerned. It is either a combination of all qualified or a combination of all non-qualified plans. The paradox there is this -- unless IICA meets the minimum requirements of the Employee Retirement Income Security Act, the plan would have to be considered nonqualified under present law. This is inconsistent with Section 116(c) of the Internal Revenue Code as amended by Public Law 291.

Be that as it may, however, we still have to live with the problem.

From a practical standpoint, nonqualification would mean a loss of $\frac{1}{2}\%$ to 1% on investment earnings depending upon internal company pension reserves.

Therefore, in order to reap the maximum benefit out of any separate plan, we feel that it would be necessary to liberalize the present eligibility and vesting requirements.

Minimum standards as established by ERISA say that a plan will not qualify if it requires that an employee has a period of service with the employer which extends beyond (a) one year of service or (b) the date the employee reaches age 25, whichever occurs later. However, a plan which provides from 100% vesting after three years of service can defer participation until an employee has put in three years of service.

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At this point, it must be mentioned that apparently the OAS has come to the same conclusion.

By referring to the transitory provisions under Article 8, it is interesting to note that the organization is considering reducing the participation requirement from four years to three years, two years and one year respectively. Obviously, this is an attempt to come in line with the ERISA requirements. Insofar as vesting is concerned, Chapter 9, Article 21 provides that an individual participant would have 100% vesting of his contribution if his participation in the plan is less than five years and a full 100% vesting of the institutional contribution after he has participated in the program for 15 years. This is perfectly within the minimum requirements established by ERISA and therefore there is no transitory provision to change this.

Obviously the OAS is planning to opt towards bringing the requirements in line with ERISA.

In establishing its own plan, IICA would have more flexibility as to its options.

Again it is not the intent of this report to detail the specifics. This can only be handled after a decision has been made to proceed and an internal pension committee has been established.

OK. But what would be the possible implications on the fund as a whole or the individual members!

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Suffice it to say for now that it is our opinion that the minimum requirement of ERISA must be met in order to maximize full and complete investment return under the program.

Establishing a separate plan does not happen overnight. Much forethought and work must go into the initial plan document that will serve as a basic text for the operation of the program. This document is submitted to the Internal Revenue Service in order to receive a determination of qualification. This ultimately decides whether investment monies accumulate tax free.

The plan document should be devised before any discussion with a carrier occurs. This document is a basic guarantee of pension rights and provisions and it is on such that an insurer would present his offer.

The plan document should be the final results of the combined efforts of management and staff to establish a program that is viable for all. Accordingly, a committee should be established in order to draft such a document.

Some of the issues that must be handled by such a committee would be as follows:

1. The purpose of the Retirement and Pension Fund
2. The management of the Fund
3. The participation, contributory service and contributions to the Fund



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4. Eligibility for the Plan
5. Vesting Rights
6. Discontinuation of participation in the Fund as it relates to death and disability
7. A decision as to whether a permanent retirement and pension committee should be appointed.

In the beginning, it is normally advisable that the committee consist of the Treasurer of the organization, a representative from the personnel department, the external liaison if any, and one staff member at large.

Once the plan is completed, it would be incumbent upon IICA to submit it along with other pertinent data to various carriers for a bid. Once the bids are collected, it would be up to the committee to award the management of the fund to the company that provided the best offer.

At that point in time, the plan document would be submitted to the Internal Revenue Service in order to receive a letter of qualification.

When summarizing this section, it seems that the establishment of a separate retirement system by IICA is practical only to the point that IICA wishes to adhere to those items enumerated in this section.

Liberalizing the vesting and eligibility requirements of the plan would not, in our judgement, jeopardize the financial



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stability of the organization. Besides, there would be a number of alternatives available in order to adjust to the situation. Moreover, based upon the transitory provisions of the Draft Statutes, it certainly appears the Organization of American States will liberalize the eligibility requirements downward to the minimum requirement of ERISA. Accordingly, it would then appear that IICA will be stuck with this contingency in any event without any alternative to subsequently liberalize or restrict its own vesting or participation requirements.

IV. ALTERNATIVE ACTIONS FOR TRANSFER OF FUNDS

Obviously, the larger the potential value of the fund, the better will be the offer from a financial organization.

This brings up the point as to the withdrawal of IICA's funds from the OAS Retirement and Pension Fund.

The Preliminary Draft Statutes provide for the withdrawal of a participant under Chapter 5 Article 7. It states "When an affiliated entity, on recommendation by the committee or on its own initiative, terminates its membership in the Fund, it shall be given, out of total assets of the Fund up to the date of termination the part it proportionately contributed to the formation of that total. This payment shall be for



Three lines of action

1. Jefferson:

- ✓ a) obtain lists of IICA Personnel participating in the fund, with indication of all the information (Pg. 19)
- ✓ b) Obtain report on cash value of the fund investment.
- ✓ c) Explore possibilities of negotiation with Administrative Committee.

2. Araujo: Director General

- a. Establish Pension and Retirement Committee supported by Mike (Pages 14 & 22) to accomplish what is being subjected in pages 14/15. Mike Ward would be requested to prepare a first draft of the Statute of the Fund.
- b. Curbside consultation with ERISA about eligibility and vesting requirements.
- c. Authorize exploration subjected in I.C. and also with the Board of Director.

3. Subject to Araujo's decision, ^{to} explore with member of Board of Director.

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the exclusive benefit of the members of its staff who are participants in the Fund on such date pursuant to an arrangement mutually agreed upon by the entity and the committee". It further states in Subparagraph (b) of said Article "The proportionate share and its amount shall be determined by the committee on the basis of an actuarial evaluation of the liabilities and assets of the Fund on the date of termination of the entity, it being understood that no part of the assets that are in excess of liabilities (actuarial surplus) shall be included in that share".

On one hand, Article 7 provides withdrawal of funds at the initiative of the entity. On the other hand, the payment is based upon an actuarial evaluation of both the liabilities and assets of the fund with no actuarial surplus going to the affiliated entity.

This could pose a problem.

As of July 30, 1977, IICA will have accumulated \$5,405,522 in the Retirement and Pension and Provident Funds respectively. How much of that will be returned to IICA is questionable as it depends upon the actuarial evaluation of the entire fund made at the time of termination.

Unfortunately, Article 7 is "wide open". Subparagraph (b) basically leaves it in the hands of the Committee. It is extremely possible that the "proportionate share" might not



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have any relevance whatsoever to the actual amounts of money accumulated in the fund. The proportionate share may well turn out to be the actuarial present dollar value of future liabilities of all IICA participants as it relates to the future liabilities of all participants as a whole.

It is unfortunate to say that this cannot be determined at the present time. It can only be determined at such time that IICA serves notice of its intention to withdraw from the retirement and pension fund.

The last thing that we want to do is to jeopardize benefits of present IICA participants.

It has already been determined in Section II of this report that a defined contribution fund is more beneficial as it is consistent with the goals and desires of the organization. However, the transitory articles under Article 24 provide that "at the request of an employee who was a participant in the fund before the date in which these statutes go into effect and who meets the conditions set forth in Article 24.a, the committee may replace the life pension by delivery of the personal credit, the office credit, and the interest earned on those credits up to the date of liquidation of the account, without his being entitled to a life pension".

In other words, at this point in time, present participants still have the advantage of a savings fund inasmuch as they can

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withdraw both the personal and office credits along with interest. It appears that this particular provision will only stay in effect for a certain period of time being terminated if and when the final statutes of the staff retirement and pension fund are approved by the permanent counsel.

This buys us some time.

It would be our judgement that we would need some time to evaluate the disposition of the retirement and pension fund as it relates to present participants. It would be beneficial and practical to request an actuarial evaluation of IICA's portion.

Simultaneously, IICA should request a separate account listing on all present participants. Not only would this provide practical information for individual accounts under a new plan, but it would also determine the manner under which the committee would evaluate present assets and liabilities.

A separate actuarial evaluation done by IICA would also be helpful. It would serve as a comparison base against any report prepared by the OAS's actuarial firm.

These steps should be followed before we would make any recommendation on a transfer of present funds.

On the other hand, none of this would preclude IICA from still moving forward in establishing its own program. Insurance companies could still bid on new deposits with the condition



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that the present fund would be forthcoming pending the outcome of the actuarial report. Funds could still be deposited in the fiscal year 1978 with a transfer of the other monies coming at some future time. Of course, IICA would still have the alternative of waiting for the outcome of the actuarial study before any transfer or deposits were made.

In summarizing the alternatives, it does not appear that there are too many. Basically, they are as follows:

1. A complete transfer of present funds with continuing deposits as of July 1, 1978.
2. A freezing of present funds pursuant to the outcome of an actuarial evaluation with new deposits going to an insurance carrier beginning July 1, 1978.
3. Maintenance of the status quo both on present funds and future deposits until an actuarial evaluation can be completed.

Alternative #1 is totally impractical and not beneficial to present participants. We already mentioned the necessity of determining the present status of IICA's proportionate share.

Alternative #2 and #3 are viable. The only difference between the two is the timing on the new deposits.

At this point, it would be premature to recommend any single alternative. It can only be done at the committee level and depends on such factors as the present evaluation of the



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fund, the final plan document, and insurance company offers -- just to name a few. Trying to predict these factors at this time would be idle speculation.

V. CONCLUSION AND SUMMARY

When we began this report, we mentioned that three questions should be answered concerning a separate pension program.

1. Is it beneficial?
2. Is it practical?
3. What are the alternatives?

We sincerely hope that these questions have been answered satisfactorily.

It has been determined that it is beneficial to establish a separate pension plan that meets the goals of management and staff. A defined contribution plan does just this. It is purely and simply a savings fund. It provides safety of principal and reasonable growth through interest guarantees. Moreover, it maximizes earnings through experience credits. It provides flexibility at retirement by providing alternatives of a lump sum cash payment, a guaranteed monthly income or a combination of the two.



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The establishment of a separate pension plan is practical provided that management wishes to perform the proper functions necessary in order to achieve it. A committee must be established for purposes of writing the plan document, following through on the actuarial evaluation, filing the necessary papers and overseeing management of the fund as a whole.

Frankly speaking, there are not too many alternatives open on the transfer of the funds. Present participants must be protected. Accordingly, an actuarial evaluation must be made. Alternatives may become more crystalized as further study is done.

All in all, it is our complete feeling that a separate pension plan should be pursued. It is indeed feasible.

Accordingly, we would recommend that a pension and retirement committee be established as soon as possible. The purpose of this committee would be to oversee all of the work necessary in providing for a separate program. A target date should be established for the completion of the committee's work. The committee should have full authorization from management to make the necessary decisions as the work progresses.

Wright & Co. would offer its services and act as consultant to the committee. We would assist in preparing the plan document, obtaining actuarial services, preparing specifications, analyzing various offers from insurance carriers

For:

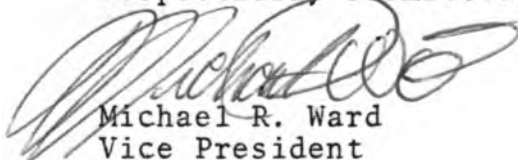
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and performing any other work that might be required by the committee.

Much work would have to be completed before the end of this fiscal year. We do not feel that this is an unreasonable deadline.

We look forward to working with you further if you decide to proceed. If not, it has been a pleasure to prepare this report and IICA should feel free to contact us at any time if we can be of any future assistance.

Respectfully submitted,



Michael R. Ward
Vice President



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APPENDIX

PERMANENT COUNCIL OF THE
ORGANIZATION OF AMERICAN STATES

COMMITTEE ON REGULATIONS AND PROCEDURE

Working Subgroup to study the Retirement
and Pension Plan and the Report of the
Retirement and Pension Committee on
implementation of the third stage of
parity

OEA/Ser.G
CP/CRP-221/75 rev. 9 corr. 2
5 February 1976
Original: Spanish

PRELIMINARY DRAFT STATUTES FOR THE STAFF RETIREMENT
AND PENSION FUND OF THE ORGANIZATION OF AMERICAN STATES

(Articles approved by the Working Subgroup)

PRELIMINARY DRAFT STATUTES FOR THE STAFF RETIREMENT
AND PENSION FUND OF THE ORGANIZATION OF AMERICAN STATES

CHAPTER I

PURPOSE OF THE RETIREMENT AND PENSION FUND

Article 1

The Staff Retirement and Pension Fund of the Organization of American States has been established in order to provide the benefits set forth in these statutes, not only to the staff members of the General Secretariat participating in the Fund but also to participating staff members of other affiliated organizations or entities, or to their beneficiaries or heirs.

CHAPTER II

RETIREMENT AND PENSION COMMITTEE

Article 2

1. The Retirement and Pension Committee is responsible for applying these statutes and is composed of five members, as follows:
 - a. A principal representative and an alternate representative of the Permanent Council, elected from among the representatives of the member states on that body;
 - b. A principal and an alternate representative of the General Secretariat, designated by the Secretary General from among the staff members thereof;

- c. A principal representative and an alternate representative of the other affiliated agencies, selected by common agreement among them, who may be staff members of the General Secretariat;
 - d. A principal representative and an alternate representative elected by the members of the staff of the General Secretariat.
 - e. A principal representative and an alternate representative of the staff members of the other affiliated agencies, who may be members of the staff of the General Secretariat.
2. The representative of the Permanent Council shall be Chairman of the Committee.
3. The alternate representatives shall serve in the absence of the corresponding principal representatives.

CHAPTER III

MANAGEMENT OF THE FUND

Article 3

- a. The Fund shall be managed in accordance with these statutes and with the administrative rules. The Retirement and Pension Committee shall inform all the participants of those rules.

The management of the Fund is the responsibility of the Retirement and Pension Committee, which shall, among other things, do the following:

- b. Serve as custodian of the assets of the Fund;
- c. Set the policy to be followed with regard to investments and endeavor to obtain advice, not only from firms of the host country of the General Secretariat, but also from those of

- other member states, with a view to geographic diversification and most advantageous investment of funds;
- d. Regarding investment of the resources of the Fund, the Committee shall try to obtain, at the very least, a positive, real interest rate that will cover inflation rates in the member states where the funds are invested;
 - e. Set the interest rate applicable to the transactions of the Fund as proposed in the pertinent article of these statutes; and declare the supplementary dividends made possible by the income of the Fund;
 - f. Approve the annual budget for the activities of the Fund;
 - g. Propose to the Secretary General the appointment of the Secretary-Treasurer of the Fund;
 - h. When necessary, decide upon the benefits to which participants in the Fund are entitled upon their retirement, in accordance with these statutes;
 - i. Provide for periodic actuarial studies in accordance with the provisions of these statutes;
 - j. Present an annual report to the Permanent Council and to the participants, which shall include a statement of the balance of accounts of the Fund, a report of the external auditors who have verified the accounts, statistics on persons pensioned, a list of the investments, and a report on other activities carried out by the Committee and the Secretary-Treasurer, including the latest actuarial study made. This report shall be presented no later than March 31 of each year;

- k. Adopt its internal rules of procedure and also the administrative rules of the Fund, which it shall prepare in accordance with these statutes. These administrative rules must be reported to the Permanent Council.
- l. The Secretary Treasurer shall inform the participants annually and whenever they so request as to the status of their individual accounts and as to any other matter related to their participation in the Fund.

Article 4

Actuarial Services

- a. The Committee shall engage a specialized firm to provide it with actuarial services.
- b. The Committee shall order an actuarial evaluation of the Fund to be made at least once every three years.
- c. The report on that evaluation must indicate the rate of interest, mortality tables, disability tables, and, in general, all bases for the calculation. The report must also describe the method of evaluation used, explain the results thereof, and, if appropriate, recommend measures it would be advisable to take.
- d. In the light of that report, the Committee, when it deems it necessary, shall recommend to the Permanent Council the measures it deems advisable. It shall also set the maximum rate of interest that may be applied in all calculations required in connection with these statutes. This rate may not be higher than that used as a basis in the actuarial study.

CHAPTER IV

SECRETARLAT AND TREASURY

Article 5

- a. On the recommendation of the Committee, the Secretary General shall appoint a full-time Secretary-Treasurer of the Fund, who shall hold no other position.
- b. The Secretary-Treasurer shall be the principal executive officer of the Fund, shall perform his functions under the authority of the Committee, and shall exercise the powers and functions of administration and management of the Fund, in accordance with the standards established by the Committee and these statutes.
- c. The financial responsibility of the Secretary-Treasurer shall be guaranteed by a bond, the amount of which shall be determined by the Committee.

CHAPTER V

AFFILIATED ENTITIES

Article 6

- a. The entities affiliated with the Fund on the date on which these statutes enter into force are the General Secretariat of the Organization of American States and, after approval on their part, the following:

The Inter-American Indian Institute
The Inter-American Institute of Agricultural Sciences
The Pan American Institute of Geography and History
The Inter-American Defense Board.

- b. Any other of the specialized organizations to which Article 130 of the Charter of the Organization of American States refers, and also any inter-American entity that has a system of salaries, allowances, and other conditions of employment equivalent to that of the General Secretariat of the Organization, may affiliate with the Fund.
- c. Admission to the Fund as an affiliated entity shall be by decision of the Permanent Council, on the affirmative recommendation of the Committee, after acceptance by the organization concerned of these statutes and agreement reached with the Committee as to the conditions that shall govern its admission and its possible disaffiliation.

Article 7

- a. When an affiliated entity, on recommendation by the Committee or on its own initiative, terminates its membership in the Fund, it shall be given, out of the total assets of the Fund at the date of termination, the part it proportionally contributed to the formation of that total. This payment shall be for the exclusive benefit of the members of its staff who were participants in the Fund on such date, pursuant to an arrangement mutually agreed upon by the entity and the Committee.
- b. The proportionate share and its amount shall be determined by the Committee on the basis of an actuarial evaluation of the liabilities and assets of the Fund on the date of termination of the affiliation of the entity, it being understood that no part of the assets that are in excess of the liabilities (actuarial surplus) shall be included in that share.

CHAPTER VI

PARTICIPATION, CONTRIBUTORY SERVICE, AND CONTRIBUTIONS

Article 8

Participation

- a. There shall be two types of participation: full participation in the Retirement and Pension Fund and limited participation in the Provident Fund.
- b. Every employee who provides services to any of the affiliated entities shall obligatorily participate in the Retirement and Pension Fund starting on the date of his permanent appointment or of his contract for a fixed term, provided he meets one of the following conditions:
 - i. That his permanent appointment is for a term of more than four years;
 - ii. That his fixed term contract is for a term of more than four years, or that he completes more than four years of service without interruption;
 - iii. That his temporary contract has been renewed, without interruption, during a period of more than four years;
- c. Participarion in the Retirement and Pension Fund shall be obligatory in the case of subparagraph (i); in the cases of subparagraphs (ii) and (iii), the employee shall participate in that Fund if at the time that he joins the staff of the affiliated agency he chooses to do so.

Transitory Provisions

1. With respect to the minimum number of years of service required for participation in the Retirement and Pension Fund, as provided in Article 8.b, the General Assembly, based on the detailed information that the Retirement and Pension Committee must present to the Preparatory Committee on the budget implications of the measure, shall consider, at its seventh, eighth, and ninth regular sessions, the possibility of reducing the requirement from four years to three years, two years, and one year, respectively.
2. At the time this Plan goes into effect, of those employees on fixed term or temporary contracts, only those who meet one of the following conditions may participate in the Retirement and Pension Fund.
 - i. They are no more than fifty years of age and have had more than four years of service without interruption, in the affiliated entity; and
 - ii. They are at least fifty years of age and began to work in the affiliated entity at least four years before reaching that age.
3. Only in this second case, the affiliated entity shall validate the period of service rendered after the employee reached fifty years of age, provided he pays to the Retirement and Pension Fund the corresponding personal contributions.

Article 9

Medical Examination

- a. Every participant in the Fund shall submit to the Committee, within the first month of his employment in an affiliated entity the results of a medical examination made by the affiliated entity that has employed him or by a medical authority recognized by the Fund, in the event that the affiliated entity does not provide the examination. The costs of this examination shall not be charged to the Fund.
- b. On the basis of that medical examination, the Committee may restrict the rights the participant may have to disability benefits during the first five years of his participation in the Fund.

Article 10

Contributory Service

- a. The period during which the Fund receives contributions shall be considered contributory service.
- b. Contributory service may accrue during leave without pay if contributions are received by the Fund in accordance with subparagraph (b) of Article 13.
- c. Additional contributory service may accrue to a participant if prior service is validated or restored in accordance with Article 13.

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Article 11

Contributions

- a. Contributions at the rate of 7 percent of his pensionable remuneration by the participant and at the rate of 14 percent of his pensionable remuneration by the employing affiliated entity shall be payable to the Fund concurrently.
- b. Pensionable remuneration shall mean the remuneration, or its equivalent in United States dollars, of a participant, upon which the calculation of the above contributions to the Fund is based, which shall be, for the period prior to July 1, 1972, his basic salary, or the amount, however it be called, upon which the calculation of his contribution and that of the employing affiliated entity were based; and, for time subsequent to that date, pensionable remuneration shall mean the basic salary of a participant plus an amount that shall be calculated in accordance with the formula used for this purpose by the United Nations Joint Staff Pension Fund, which is appended to these statutes, to be approved by the Permanent Council.
- c. Any change in the formula mentioned in subparagraph (b) for determining the pensionable remuneration must be approved by the Permanent Council, taking into account the resources that would be available for that purpose.
- d. Contributions may be paid for the purpose indicated in paragraph (c) of Article 12 with respect to a period of leave without pay provided that leave has not been granted for the performance of military service. The contribution of 21 percent of the

pensionable remuneration shall be payable in the form of 7 percent by the participant and 14 percent by the employing entity. These contributions may be paid during the leave without pay in the form indicated in (a) or, with the interest determined by the Committee within 12 months after the resumption of participation in pay status.

- e. Contributions for the purpose of validation of service during which contributions were not paid shall be paid in accordance with subparagraph (c) of Article 13.

Article 12

Renewed participation in the Fund

- a. A former participant who has ceased in his services without having been retired and who rejoins an affiliated entity may request re-validation of his prior contributory service within six months following his return.
- b. A participant in the Retirement and Pension Fund who is transferred for a fixed term or who temporarily renders services in an American intergovernmental entity or to the government of a member state of the OAS, at its express request, shall have the right to continue to pay his personal contributions and to have the office contributions paid. The time during which the participant renders services under those conditions shall be credited to him in the Retirement and Pension Fund. When such a period is more than one year, the Committee must specifically authorize the participant.

- c. For the purpose of having all his prior service credited, the former participant must reimburse to his account the amount he received from the Fund on account of his previous participation, plus the interest that it would have earned up to the date of reimbursement, in accordance with paragraph (d) of this article.
- d. The amount paid in accordance with paragraph (c) of this article may be paid at the time of rejoining the Fund, or with such additional interest as the Committee may determine, within twelve months following the resumption of participation or within such period as the Committee shall determine. Any part of the office contribution that the participant did not receive at the time of ceasing employment shall be credited to him by the Fund plus the interest it would have earned during the time he was not in service,
- e. For the purpose of the retirement of a former participant, the time of his separation shall not be computed under the conditions established in the preceding subparagraph.
- f. If a person who has been retired on account of disability is reemployed by an affiliated agency, the status he had before retirement shall be restored, with no credit given for service during the time his status was that of a retired employee.

Article 13

Validation of noncontributory service

- a. A participant may request, within one year of the commencement of his participation or of the date on which these Statutes become effective, to validate prior service during which he was not eligible under these Statutes for participation, provided that:
 - i. Participation succeeded the ending of such service within two years;
 - ii. The service was the most recent prior to his participation and had not been interrupted by a break of more than one year;
 - iii. Participation had not during such service been expressly excluded by terms of his appointment, except in the case of those who had participated in the Provident Fund;
 - iv. The totality of the period open to validation is elected.
- b. Validation shall be subject to receipt by the Fund of contributions.
- c. The contributions for validation referred to in this article must be paid, with interest, by the participant and by the entity in which he rendered service in the amounts that each one, respectively should have paid if the participant in the Fund had been participating during that period, in accordance with the percentages in effect during the period he desires to have validated.
- d. Except as provided in Article 12,f., no participant who has been retired may participate again in the Fund.

Article 14

Calculation of years of service and age

For the purpose of application of the provisions of these Statutes:

- i) A period of contributory service of less than six months shall be considered as one half year and a period of six months or more shall be considered as one year.
- ii) The age of a participant shall be calculated as of the first day of the month following that in which his birthday occurs.

CHAPTER VII

ASSETS AND INVESTMENTS

Article 15

Assets

The assets shall be the property of the Fund and shall be acquired, deposited, and held separately from the other funds of the Organization of American States, on behalf of the participants of the Fund and their beneficiaries.

Article 16

Assets of the Fund

The assets of the Fund shall be derived from:

- a. The contributions of the participants;
- b. The contributions of the affiliated entities;
- c. The yield from the investments of the Fund;
- d. Contributions and/or income received from any other source.

Article 17

Reserve

1. The Fund shall have a reserve account, into which the following resources should be entered:
 - a. The portion of the office credit to which a staff member who is not entitled in accordance with the provisions of these Statutes.
 - b. The balance of the account of any retiree who dies before receiving the total amount calculated for the payment of his pension, provided he has no legal heirs of the kind defined in Article 23.
 - c. Any income derived from the application of Article 19 of these Statutes;
 - d. The income derived from investment of the resources described in subparagraphs (a), (b), and (c) of this article.

2. The reserve fund shall be used:
 - a. To cover any differences that may occur when the credits in the account of a retiree are not sufficient to provide the benefits to which he has a right;
 - b. To reimburse office credit in cases of renewed participation
3. The administrative expenses incurred by the Committee in applying these Statutes and the operating costs of the Fund shall be paid by the Fund itself.
4. If the reserve account does not make it possible to meet the obligations indicated in paragraphs 2 and 3 above, the Committee shall immediately inform the Permanent Council, which shall take such measures as it may deem advisable.

Article 18

Except to compensate for any errors of calculation, no part of the contributions of the affiliated entities to the Retirement and Pension Fund or of the increment thereon shall revert to the general funds of those entities or be used for any other purpose than the exclusive benefit of the employees or their beneficiaries.

Article 19

Contributions to cover actuarial deficit

- a. In the event that two consecutive actuarial evaluations of the Fund show that its assets may not be sufficient to meet its liabilities under these Statutes, there shall be paid into the Fund by each affiliated entity the sum necessary to make good the unacceptable actuarial deficit.
- b. Each affiliated entity shall, subject to subparagraph (c) below, contribute to this sum an amount proportionate to the total contributions that each has paid in accordance with Article 11.a during the three years preceding the date of the second evaluation.
- c. The contributions of entities that have become affiliated less than three years prior to the date of the second evaluation shall be determined by the Committee.

CHAPTER VIII

ACCOUNTS OF THE PARTICIPANTS

Article 20

1. For the purposes of determining the benefits to which the participants in the Fund are entitled, the Secretariat thereof shall maintain individual accounts, to which the following shall be credited:
 - a. Personal credit, which shall include:
 - i. 7 percent deducted from the pensionable remuneration of the participant; and
 - ii. the semiannual interest earned on that credit;
 - b. Office credit, which shall include:
 - i. 14 percent of the pensionable remuneration of the participant, contributed by the affiliated entity; and
 - ii. The semiannual interest earned on that credit.
2. The interest credited to the participant's account shall be calculated as of June 30 and December 31 of each year on the average balance of each account during the half year. In the event of liquidation of the account, the interest shall be calculated up to the date of liquidation.

CHAPTER IX

Article 21

DISCONTINUATION OF PARTICIPATION PRIOR TO RETIREMENT

- a. A settlement on account of cessation of employment shall be paid to every participant who, when he is voluntarily separated from the service, is not entitled to a retirement benefit.
- b. The settlement shall consist in the following:
 - i. In the case of a participant whose period of participation is less than five years, the amount standing to his personal credit;
 - ii. In the event that the period of participation is of five years or more, the amount standing to his personal credit and 10 percent of that standing to his office credit for each year of participation following the fifth year, up to a maximum of 100 percent.

Article 22

When a participant is involuntarily separated from service before he has met the conditions required for retirement, he shall be entitled to the full amount of his personal and office credit, unless he has committed serious misconduct.

Article 23

In the event of the death of a participant while in service, the following persons, in the order established below, shall be

entitled to the total amount of the personal and office credits, plus the interest earned up to the date of liquidation of the account:

- a. The surviving spouse, according to the register of the Fund, or in the absence of a surviving spouse,
- b. The children, according to the register of the Fund, or in the absence of children,
- c. The other beneficiary or beneficiaries named by the deceased in the corresponding form used by the Fund for these purposes, or in the absence of such a beneficiary,
- d. The estate of the deceased.

CHAPTER X

Retirement Benefits

Article 24

- a. A life pension shall be paid to every participant who has ceased to serve at the age of sixty-five years and whose period of participation has been 15 years or more, or at an age of between 60 and 65 and whose period of participation has been 30 years or more.
- b. The annual amount of that life pension shall be calculated by multiplying 2 percent of the final average remuneration in the last five years of the retiree's participation in the Fund by the total number of years of his participation up to a ~~maximum~~ of 30 years.
- c. Final average remuneration shall mean the average annual pensionable remuneration.
- d. At the request of the participant, the Committee shall replace the life pension by:
 - i. One third of the actuarial equivalent of it in cash and the rest in a life pension;
 - ii. A life pension payable in accordance with the order established in Article 25; or
 - iii. A combination of the two preceding methods.

For the purposes of this subparagraph, the total value of the benefits granted should correspond to the actuarial equivalent of the life pension of the participant.

Transitory Articles

At the request of an employee who was a participant in the Fund before the date on which these Statutes go into effect and who meets the conditions set forth in Article 24.a, the Committee may replace the life pension by delivery of the personal credit, the office credit, and the interest earned on those credits up to the date of liquidation of the account, without his being entitled to a life pension.

Until the Committee determines, with actuarial advice, that the Fund is in a position to fulfill the obligation set forth in Article 24.b, a participant who meets the conditions established in Article 24.a and desires to have a life pension may commute the cash amount of his account into a life pension, which shall be calculated on the basis of the actuarial tables of life expectancy approved by the Committee.

Early Retirement

Article 25

1. When a participant has attained age 55 or more, he shall have the right to request and obtain advanced retirement if he has participated in the Fund for at least 15 years.
2. In this case, the retiree shall be entitled to a minimum life pension calculated in accordance with the provisions of paragraph b of Article 24, and adjusted to its equivalent actuarial value, according to the number of years by which his retirement is advanced. The Retirement and Pension Committee shall adopt the corresponding table, which shall be drawn up with the assistance of the necessary actuarial expertise. In adopting any changes in the table to determine advanced retirement, account shall be taken of the resources the Fund has available.

Article 26

Retirement on Account of Disability

1. Any participant unable to continue performing his duties because of an injury or illness that is, or is presumed to be, of a permanent nature or of long duration, shall be retired for disability, at his own request or that of the Secretary General, after the appropriate verification. The conditions required to be eligible for disability pension shall be set forth in the respective Rules of Procedure of the Fund.
2. The Committee may determine the circumstances under which the disability pension may be reduced, as well as the extent to which that may be done.
3. When a person retired for disability recovers his capacity and is not reemployed by an affiliated entity, he shall be entitled to a residual liquidation in accordance with Article 22, deducting the sums that have been paid to as a pension.
4. A disabled participant shall be entitled to the following benefits:
 - a. For service of less than five years, a single payment of the amount of his accumulated personal and office credits;
 - b. For service ranging from 5 to 15 years: a pension equal to a percentage of his highest average salary in the course of five consecutive years. This percentage shall be 30 percent plus 1 percent for each year of service in excess of two years and up to a maximum of five years, and 1/2 percent for each year of service in excess of 5 up to a maximum of 15. The pension shall be paid throughout the period of disability or for a period equal to the number of years of service, whichever is less.

- c. For 15 years or more of services, a pension of 38 percent plus 1 percent for each year of service in excess of 15 years, up to a maximum of 12 additional years, of the highest average salary in the course of five consecutive years, for the period of disability. The pension shall be paid during the period of disability.
- d. Minimum: the amount to which the employee would be entitled by converting the amount accumulated in his account to a normal life pension at the date of the disability.
- e. If the disability ends in death before the retiree reaches 65 years of age, the balance of the retirement account at the time of the beginning of the disability shall be paid, deducting the payments already made under the pension.

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