

**REVIEW COMMITTEE OF THE
LIFE AND MEDICAL INSURANCE PROGRAMS
Inter-American Development Bank and
Inter-American Investment Corporation**

2008 ANNUAL REPORT

**I. COMMITTEE FUNCTIONS
AND ACTIVITIES**

1. The Review Committee of the Life and Medical Insurance Programs (the Committee) is pleased to present the affiliates its report on activities for the year 2008. This report also includes the financial statements of the Medical Insurance Benefits Account prepared by the Bank's Management and the Review Report issued by the firm of independent auditors, Ernst & Young, L.L.P., as of December 31, 2008.

2. The Committee was established in 1995 as an advisory entity for administration of the Life and Medical Insurance Plans and assigned to review the plans, ensure the efficiency thereof, recommend an adjustment in the premium each year to the Bank, and make recommendations to improve the functioning of the mechanism of the Life and Medical Insurance Plans. The Committee has tripartite representation: two representatives for active employees and one representative for retirees—with their respective alternates—elected by the participants of each group, and three officials designated by the Bank. The Chief of the Bank's Compensation and Benefits Division (HRD/COB) assumes the role of Committee Secretary. The

Committee also has the support of members of the well-being and medical benefits team of the Compensation and Benefits Division (HRD/COB). The Committee elects one of its members to serve as chairman. It normally issues recommendations by consensus.

3. During 2008, the Committee carried-out the following work program:

a) It followed up on the premium restructuring project presented to the Bank's Management in November 2007, which proposes a change in the financial matrix of the Medical Insurance Plan whereby the Bank's contribution would increase from two thirds to three quarters of the total cost. In addition, the costs associated with the contract for administrating the plan and the reinsurance policy for catastrophic claims would be covered by the Plan. The proposal also included the merging of premium tables for active employees and for retirees. The restructuring proposal was the result of studies conducted at the request of the Committee by the Bank's Management, with the support of the specialized firm Watson Wyatt and Associates, and consultations with members of the Bank's Management. The proposed changes would bring the financial structure of the Plan in line with

the structure in place at the International Monetary Fund and the World Bank, while promoting greater equity between the participants. Over the course of the year, the Committee met with staff from the Office of the Manager of the Bank's Human Resources Department (HRD) to discuss the restructuring project. As of December 31, 2008, the Bank's Management had not issued a decision.

b) It conducted technical studies with the support of the consulting firm Watson Wyatt and Associates in relation to medical insurance premiums for 2009 and decided to recommend a marginal increase of 1% for the two segments, i.e. active employees and retirees. This recommendation was referred to the Bank's Management, which adopted it.

c) Consultations were held with participants in the Medical Insurance Plan, especially those residing abroad, in regard to the administrative procedures used by the plan administrator for reimbursing medical expenses. During the consultations, the participants aired a number of other concerns, which the Committee has been discussing with the Bank's Management.

d) Meetings were also held with new staff of the HRD Manager's Office to inform them about the functions of the Committee as the entity responsible for ensuring the financial soundness and wise administration of the Plan and to hear their points of view regarding the Plan.

e) In order to hold elections in 2009, a Nomination Committee was appointed to initiate the search for qualified candidates among active employees and retirees.

4. The Committee adopted an agenda for 2009-2010 that includes the following activities:

a) Initiate studies for an update of the structure of premiums applied to active employees and retirees, which was established over 10 years ago. The purpose of these studies is to ensure that the premium structure is consistent with the principles of equity. It also decided to review the issue of premium caps for low-income participants.

b) Hold elections for representatives of active employees and retirees, which will entail appointing an Election Committee, tallying the final results, and seating the elected representatives.

c) Conduct the studies on medical insurance premiums for 2010 and their impact, based on the analyses and scenarios presented by the consulting firm, and make recommendations to the Bank's Management.

d) Study the impact of Medicare Parts A and D on the Plan policy and especially on participant premiums.

e) Evaluate the procedures for reimbursing retirees for Medicare Part B premiums given the fundamental change that has been made to these premiums, namely the verification of income.

f) Evaluate CIGNA's performance as the Plan administrator and initiate the process of preparing terms of reference for a possible call for proposals to administer the Plan.

g) Continue to evaluate the payment system for participants residing abroad and study the existing alternative options, in order to include the findings of these studies in the call for proposals.

h) As part of its permanent mandate, the Committee will continue to closely monitor the financial position of the Plan, in order to ensure its financial soundness and maintain and improve the quality of Plan services.

5. In 2008, the Committee operated without the full complement of representatives of active employees, owing to the departure from the Bank, at various points during the year, of André Medici, the representative of active employees and the Committee Chairman, and Tomás Engler and Mirtha Ruiz, alternate representatives of active employees. This situation will be remedied when the 2009 elections for new representatives to the Committee are held. Committee membership as of the beginning of 2008 is presented in Table 1. In the course of the year, Mr. Medici was replaced as Chairman by Mr. Sixto Aquino.

**TABLE 1
COMMITTEE MEMBERSHIP IN 2008**

Committee Chairman		Committee Secretary, Chief of the Compensation and Benefits Division (HRD/COB)
André Medici	1/	Helmuth Carl
<i>Representatives of active participants</i>		<i>Representatives of Management</i>
Mirtha Ruiz	1/	Jesús Lapera
Tomás Engler	1/	Alberto Suria
André Medici	1/	
Sixto Aquino		
<i>Representatives of retirees</i>		<i>Committee Secretariat</i>
Isabel Larson		Michael Gagnon
Roberto López-Porras		Lidia de Pareja

1/ Left the Bank and the Committee prior to the end of their elected term.

II. DEMOGRAPHIC ANALYSIS

1. General data: As of December 31, 2008, the Medical Insurance Plan covered 9,187 persons, of whom 5,538 (60%) were active employees and their dependents, 89 (1%) were employees on special leave and 3,560 (39%) were retirees and their dependents. Of the total number of them, 1,883 were active contributing employees and 1,642 were contributing retirees. See Table 2.

2. Place of residence: Nearly two thirds (62%) of the individuals covered by the Plan resided in the United States, and the remainder (38%) resided abroad. Of retirees and their dependents, 52% resided in the United States and 48% resided abroad. Of active employees and their dependents, 68% resided in the United States, and the

remainder (32%) resided in other countries.

3. Demographic ratios. For the Plan as a whole, as of late 2008 there were 1.15 active employees for every retiree. This ratio has been falling in recent years, which reflects trends in the United States labor market, but also reveals changes in the Bank's hiring policy.

Furthermore, in 2008 there were 1.58 dependents for every contributing participant. On average, there were 1.94 dependents for every participating active employee: 1.88 for those residing in the United States and 2.09 for those residing abroad.

In the case of retirees, there were 1.17 dependents for every participating retiree: 0.84 dependents for every retiree residing in the United States and 1.71 for every retiree residing abroad.

TABLE 2
DEMOGRAPHIC DATA FOR THE MEDICAL INSURANCE PLAN
AS OF DECEMBER 31, 2008

<u>Type of participants</u>	<u>Residents of</u>				<u>Total</u>	
	<u>United States</u>		<u>Other countries</u>		<u>No.</u>	<u>%</u>
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
<u>I. Active employees and their dependents</u>	<u>3,763</u>	<u>66</u>	<u>1,775</u>	<u>51</u>	<u>5,538</u>	<u>60</u>
<u>Active employees</u>	1,308	23	575	16	1,883	20
<u>Dependents</u>	2,455	43	1,200	35	3,655	40
<u>II. Employees on special leave</u>	<u>80</u>	<u>1</u>	<u>9</u>	<u>0</u>	<u>89</u>	<u>1</u>
<u>III. Retirees and their dependents</u>	<u>1,867</u>	<u>33</u>	<u>1,693</u>	<u>49</u>	<u>3,560</u>	<u>39</u>
<u>Retirees</u>	1,017	18	625	18	1,642	18
<u>Dependents</u>	850	15	1,068	31	1,918	21
<u>IV. Total population covered</u>	<u>5,710</u>	<u>100</u>	<u>3,477</u>	<u>100</u>	<u>9,187</u>	<u>100</u>

Source: Bank records

III. FINANCIAL ANALYSIS

1. Ernst & Young, the Bank's independent auditors, reviewed the financial statements of the Bank's Medical Insurance Benefits Account as of 31 December 2008 and concluded that in its opinion no significant changes were needed to bring the financial statements in line with generally accepted accounting principles in the United States.

2. In 2008, Bank and participant contributions to the Medical Insurance

Plan grew 5.2% with respect to 2007, from US\$43 million to US\$45.2 million. Benefit payments climbed 13.8%, from US\$36.8 million to US\$41.8 million. There were two significant factors—one positive and one negative—that affected the financial performance of the Plan in 2008. The first was the US\$515,000 Medicare Part D subsidy that the Plan received at the Bank's request for eligible retirees who were not enrolled in Medicare's prescription drug plan. The subsidy helped bolster the Plan's

finances. On a negative note, the Plan experienced investment losses totaling US\$947,000, most of which were unrealized, as a result of adverse conditions in the financial markets where the Bank invests its own resources and Plan resources. The final balance was a US\$2.3 million surplus, which when added to the accumulated reserves from previous years, brought total reserves as of 31 December 2008, to US\$18.7 million, an acceptable and commendable level for a health plan such as ours, which is subject to unpredictable cyclical risks. The purpose of the reserves is to serve as a guarantee fund to absorb unforeseen increases in the cost of services, cover extraordinary increases in claims, improve Plan coverage, keep premiums down for all participants, and provide the Plan with basic financial security. This explains why the Committee places continued importance on maintaining a reserve level consistent with potential extraordinary risks. Total accumulated reserves as of end-2008 are equivalent to five months of Plan operations, based on the average annual claims paid over

the last three years. In summary, the Plan's financial position can be characterized as sound and solid.

3. The Plan's reserves are invested through an investment pool managed by the Bank using the same investment policies it applies to its own resources. Investments include high-quality government, agency, corporate, and bank obligations, and asset-backed and mortgage-backed securities. The financial crisis that began in mid-2007 continued and worsened in 2008, impairing the value of the securities in the investment pool and resulting in the aforesaid unrealized losses. The Bank continues to closely monitor the quality of the investment portfolio, including the analysis and assessment of the fundamental value of its investment securities.

4. Table 3 summarizes the financial performance of the Plan in the 2004-2008 period.

TABLE 3
FINANCIAL PERFORMANCE OF THE PLAN
FOR THE YEARS ENDED DECEMBER 31, 2004-2008
(IN THOUSANDS OF U.S. DOLLARS)

<u>Contributions</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Participants	5,933	6,546	7,867	8,193	8,134
Employer	11,535	12,691	15,193	15,902	15,775
Total contributions for active employees	17,468	19,237	23,060	24,095	23,909
Retirees	3,838	4,414	5,490	6,298	7,101
Employer	7,675	8,828	10,981	12,596	14,213
Total contributions for retirees	11,513	13,242	16,471	18,894	21,314
I. Total contributions	28,981	32,479	39,531	42,989	45,223
 <u>Benefits</u>					
Active employees	19,086	19,748	21,523	20,769	21,010
Retirees	12,867	13,511	15,274	16,009	20,825
II. Total benefits	31,953	33,259	36,797	36,778	41,835
 III. Operating surplus-(deficit)					
Active employees	(2,972)	(780)	2,734	6,211	3,388
Retirees	(1,618)	(511)	1,537	3,326	2,899
Retirees	(1,354)	(269)	1,197	2,885	489
 IV. Other					
Insurance recoveries	626	-	345	31	20
Active employees	25	-	169	31	20
Retirees	601	-	176	-	-
V. Medicare Plan D subsidy	-	-	-	-	515
 VI. Decrease (Increase) in claims incurred but not yet reported					
Active employees	(722)	(178)	(538)	5	(758)
Active employees	(363)	-	(270)	116	(30)
Retirees	(359)	(178)	(268)	(111)	(728)
 VII. Contributions over (below) claims paid and other items					
Active employees	(3,068)	(958)	2,541	6,247	3,165
Active employees	(1,956)	(511)	1,436	3,473	2,889
Retirees	(1,112)	(447)	1,105	2,774	276
 VIII. Investment income (losses)					
	246	410	852	808	(882)
 IX. Increase (decrease) in net assets of the Plan					
	(2,822)	(548)	3,393	7,055	2,283
 X. Net assets available for benefits					
	6,484	5,936	9,329	16,384	18,667

Source: Compensation and Benefits Division (HRD/COB)

IV. PLAN SAVINGS

1. Access to the CIGNA PPO network with negotiated rates and use of Medicare by retirees generated savings equivalent to US\$17.3 million in 2008, representing 29.2% of the total potential

costs of the Plan. As a result, adjustments to the premiums paid by the Bank and participants have been moderate, compared to similar medical insurance plans.

TABLE 4
ANNUAL PLAN SAVINGS, 2004-2008
(IN U.S. DOLLARS)

Year	Total cost of the Plan (1) = (2) + (5)	Costs paid by the Plan (2)	Medicare (3)	Savings PPO discount (4)	Total savings (5)	Savings as a percentage of the total cost of the Plan (5)/(1) (%)
2004	45,833,021	31,952,768	5,225,343	8,654,910	13,880,253	30.3
2005	47,373,221	33,258,401	3,909,914	10,204,906	14,114,820	29.8
2006	52,471,806	36,797,193	3,644,081	12,030,532	15,674,613	29.9
2007	51,948,459	36,777,245	3,461,807	11,709,407	15,171,214	29.2
2008	59,093,131	41,834,760	4,504,627	12,753,744	17,258,371	29.2

Source: CIGNA reports

V. MEDICAL AND HOSPITAL SERVICES

1. Medical and hospital services, including out-patient services, accounted for 68% of the Plan's total costs in 2008. The remainder corresponded to dental care (9%) and drugs (23%).

2. Claims paid for hospitalization services (in- and out-patient services) increased 15% over 2007. Overall, they represented 25% of the Plan's total costs, in both years.

3. The number of cases that required care outside the Plan's hospital network continued to be quite low, owing to the Plan's high level of network coverage, which extends to virtually every hospital in the Washington, D.C., metropolitan area, where most of the participants reside.

4. Claims paid for out-patient services, which include physician fees, laboratory services, and diagnostic imaging procedures such as radiology, tomography, and magnetic resonance imaging, remained relatively stable, accounting for 46% of total costs in both years.

5. In 2008, there were 12 special cases for which total benefits of US\$1,958,186 were paid, with an average disbursement of US\$163,182 per case, compared to 13 special cases in 2007, which totaled US\$2,129,273 and averaged US\$163,790 per case. The Plan defines high-cost cases as those costing between US\$100,000 and US\$350,000. Catastrophic cases are defined as those costing more than US\$350,000 and are covered by the Plan's reinsurance

policy, which covers cases costing more than US\$350,000, up to US\$1,650,000.

VI. DRUGS

1. In 2008, Plan reimbursements for pharmaceutical drugs totaled \$9.6 million, corresponding to 78,393 prescriptions. These reimbursements accounted for 23% of total Plan expenditures, down from 23.2% in 2007.

2. Of the total prescriptions, 33,132 (42.3%) were for active employees and their dependents, and 45,261 (57.7%) were for retirees and their dependents.

3. The use of generic drugs increased over the previous year. In 2008, generic drugs were used 47.3% of the time, compared to 42.4% in 2007. This indicates that use of generic drugs is on the rise and confidence in them is growing, which has generated significant savings for the Plan and for the participants, whose copayment is 50% lower than the copayment charged for brand-name drugs in the pharmacy network under the Plan. However, participants have the option of ordering their drugs by mail using the CIGNA Tel-Drug service, in which case their cost is zero.

VII. DENTAL CARE

1. Claims paid for dental care totaled US\$3.9 million in 2008, up 7% from the previous year. The largest increase occurred among retirees and their dependents, for whom reimbursements climbed 27%, whereas reimbursements for dental care for active employees and their dependents fell 3%. Claims paid for dental care accounted for 9.3% of all claims paid by the Plan in 2008, compared to 9.8% in 2007.

VIII. LIFE INSURANCE

1. In 2008, participation among active employees in voluntary supplemental life insurance plans was as follows: As of December 31, 2008, 413 participants had additional life insurance coverage, 203 had life insurance coverage for their

spouses, and 540 had accidental death and dismemberment coverage. These levels of participation are high for a group such as ours and help to keep the plans cost-effective, providing high levels of coverage for participants.

ANNEX I

**HEALTH INSURANCE BENEFIT ACCOUNT
PROGRAM CONTRIBUTIONS AND BENEFITS TO PARTICIPANTS
FOR THE YEARS 2004 THROUGH 2008
(Amounts in Thousands of United States Dollars)**

	2004			2005			2006			2007			2008		
	Total	Active	Retiree	Total	Active	Retiree	Total	Active	Retiree	Total	Active	Retiree	Total	Active	Retiree
Contributions															
Employer.....	\$19,210	\$11,535	\$7,675	\$21,519	\$12,691	\$8,828	\$26,174	\$15,193	\$10,981	\$28,498	\$15,902	\$12,596	\$29,988	\$15,775	\$14,213
Active participants.....	9,605	5,767	3,838	10,760	6,346	4,414	13,086	7,596	5,490	14,249	7,951	6,298	14,988	7,887	7,101
Participants on leave-without-pay.....	166	166	-	200	200	-	271	271	-	242	242	-	247	247	-
	28,981	17,468	11,513	32,479	19,237	13,242	39,531	23,060	16,471	42,989	24,095	18,894	45,223	23,909	21,314
Claims Paid to Participants															
Medical.....	22,577	14,101	8,476	23,029	14,512	8,517	26,082	16,062	10,020	24,619	14,691	9,928	28,344	14,996	13,348
Dental.....	3,161	2,169	992	3,208	2,147	1,061	3,475	2,303	1,172	3,618	2,360	1,258	3,878	2,284	1,594
Medicines.....	6,215	2,816	3,399	7,022	3,089	3,933	7,240	3,158	4,082	8,541	3,718	4,823	9,613	3,730	5,883
	31,953	19,068	12,867	33,259	19,748	13,511	36,797	21,523	15,274	36,778	20,769	16,009	41,835	21,010	20,825
Other Items															
Insurance recoveries.....	626	25	601	-	-	-	345	169	176	31	31	-	20	20	-
(Increase) decrease in claims incurred but not reported.....	(722)	(363)	(359)	(178)	-	(178)	(538)	(270)	(268)	5	116	(111)	(758)	(30)	(728)
Medicare Part D Subsidy															
	(96)	(338)	242	(178)	-	(178)	(193)	(101)	(92)	36	147	(111)	(223)	(10)	(213)
Contributions in excess (lower than) claims paid and other items	\$ (3,068)	\$ (1,956)	\$ (1,112)	\$ (958)	\$ (511)	\$ (447)	\$2,541	\$1,436	\$1,105	\$6,247	\$3,473	\$2,774	\$3,165	\$2,889	\$276
Number of Participants	9,095	9,632	2,463	8,614	6,165	2,449	8,499	5,947	2,552	8,439	5,588	2,851	9,187	5,538	3,649

Source: Prepared by the Finance Department based on the Program's Financial Statements.

1 Does not include prescriptions paid by Cigna International

ANNEX II

Claims Incurred By Type of Service, 2004 - 2008
(In thousands of United States Dollars)

	2004	% of Total (1)	2005	% of Total (1)	2006	% of Total (1)	2007	% of Total (1)	2008	% of Total (1)
In-Patient Facility	5,554,742	17,38%	6,005,780	18,16%	6,707,092	18,08%	5,182,443	14,09%	6,019,619	14,39%
Out-Patient Facility	3,893,404	12,18%	3,247,464	9,82%	3,980,750	10,73%	4,051,365	11,02%	4,610,803	11,02%
In-Patient Professional	2,075,643	6,5%	1,761,351	5,33%	2,408,484	6,49%	2,531,874	6,88%	2,398,529	5,73%
Out-Patient Professional	10,092,900	31,59%	11,342,732	34,31%	11,974,215	32,28%	12,852,839	34,95%	15,314,202	36,71%
Dental	3,369,110	10,54%	2,935,763	8,88%	3,436,705	9,27%	3,617,918	9,84%	3,878,547	9,27%
Prescription Medication	6,967,160	21,8%	7,770,797	23,5%	8,581,968	23,14%	8,541,106	23,22%	9,613,060	22,98%
Total	31,952,959	100%	33,063,887	100%	37,089,214	100%	36,777,545	100%	41,834,760	100%

(1) Data rounding and Rx-Prime & Tel-Drug Program credits may not add up to totals listed elsewhere.

ANNEX III

**RX-Prime & Tel-Drug Data
For The Years 2006 To 2008
(Amounts in Thousands Of United States Dollars)**

	<u>2006</u>				<u>2007</u>				<u>2008</u>			
	<u>\$ Total (1)</u>	<u>\$ Paid by Program (1)</u>	<u>\$ Paid by Member (1)</u>	<u>\$ Paid by Member (1)</u>	<u>\$Total (1)</u>	<u>\$ Paid by Program (1)</u>	<u>\$ Paid by Member (1)</u>	<u>\$ Paid by Member (1)</u>	<u>\$Total (1)</u>	<u>\$ Paid by Program (1)</u>	<u>\$ Paid by Member (1)</u>	<u>\$ Paid by Member (1)</u>
Mail Order												
Brand	4,052,398	4,045,343	7,055	0,2%	4,448,967	4,443,405	5,562	0,1%	4,686,270	4,682,141	4,129	0,1%
Generic	505,707	505,707	0	0%	741,911	741,911	0	0%	857,859	857,859	0	0%
Other	48,836	48,836	0	0%	57,124	57,124	0	0%	60,802	60,802	0	0%
Total	\$4,606,941	\$4,599,886	\$7,055	0,2%	\$5,248,003	\$5,242,440	\$5,562	0,1%	\$5,604,931.00	\$5,600,802	\$4,129	0,1%
Retail Pharmacy												
Brand	2,917,151	2,621,080	296,071	10,1%	3,325,394	3,029,659	295,735	8,9%	4,094,915	3,823,254	271,661	6,6%
Generic	434,903	326,805	108,098	24,9%	695,289	462,157	233,133	33,5%	529,151	393,686	135,466	25,6%
Other	30,384	24,678	5,705	18,8%	30,046	24,998	5,048	16,8%	31,166	26,352	4,814	15,4%
Total	\$3,382,438	\$2,972,563	\$409,874	12,1%	\$4,050,729	\$3,516,814	\$533,916	13,2%	\$4,655,233	\$4,243,291	\$411,941	8,8%
Out-Of-Network												
Brand	150	75	75	50%	90	45	45	50%	23	11	11	50%
Generic	160	80	80	50%	47	24	24	50%	53	27	27	50%
Other	1,199	600	600	50%	926	463	463	50%	808	404	404	50%
Total	\$1,509	\$755	\$755	50%	1063	\$532	\$532	50%	\$884	\$442	\$442	50%
Card Program Mail & Retail												
Brand	6,969,698	6,666,498	303,201	4,4%	7,774,451	7,473,109	301,342	3,9%	8,781,209	8,505,406	275,802	3,1%
Generic	940,77	832,592	108,178	11,5%	1,437,247	1,204,091	233,156	16,2%	1,387,063	1,251,571	135,492	9,8%
Other	80,419	74,114	6,305	7,8%	88,096	82,585	5,511	6,3%	92,776	87,558	5,218	5,6%
Total	\$7,990,887	\$7,573,204	\$417,684.000	5,2%	\$9,299,794	\$8,759,785	540009	5,8%	\$10,261,048	\$9,844,535	\$416,512	4,1%
2008 RX Rebate										(231,475.00)		
Total 2008 Less Rebate										\$9,613,060		
Rebaja												

(1) Data rounding and Rx-Prime & Tel-Drug Program credits may not add up to totals listed elsewhere.