FOR AGENDA

EBAP/85/307

December 13, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Job Grading in the Fund - Treatment of Staff Whose Positions Have Been Downgraded

The attached paper on the treatment of staff whose positions have been downgraded as a result of the job grading in the Fund is being brought to the agenda for discussion on Friday, January 3, 1986.

Mr. Cutler (ext. 8207) or Mr. Goltz (ext. 7387) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

Job Grading in the Fund: Treatment of Staff Whose Positions Have Been Downgraded

Prepared by the Administration Department
(in consultation with other departments)

Approved by Graeme F. Rea

December 12, 1985

I. Introduction

This is the second of three papers in connection with Job Grading in the Fund. The first was "Job Grading in the Fund: Grade Structure and Interim Salary Structure" (EBAP/85/284, 11/25/85), which dealt with the background to the job grading exercise, the establishment of a new grade structure and interim salary structure, and the expected results of job grading. As explained in that paper, one major result of the job grading exercise is that approximately 20 percent of Fund staff occupy positions assigned to grades which, in the interim salary structure, have a lower maximum salary than that of the present salary range applicable to the position, i.e., positions which will be "downgraded." 1/ When the paper was discussed by the Executive Board on December 11, 1985, many Executive Directors stressed the importance of establishing special procedures to mitigate the effects of job grading on this group of staff members. This topic, which is loosely referred to as "grandfathering," is the subject of this present paper. 2/

One preliminary point about the identification of the individuals who may need this special treatment should be noted. Work is proceeding on the finalisation of the initial job grading decisions, and it is expected that these decisions will have been made for nearly all staff positions by the end of this month. However, a procedure for the review of grading decisions and for appeals will be established, which will come into operation once staff have been notified of their new grades. Under this procedure, each staff member will be provided with explanations and counselling as to the reasons for and implications of the grading of his or her position. Staff members who are not satisfied that their position has been appropriately graded will then have the right to ask for a formal administrative review of the grading decision. Following such a review, staff members who still have reasonable grounds for questioning the correctness of the decision will be entitled to appeal to a specially constituted committee, with an outside chairman, which will reach an independent and objective

1/ It should be stressed that throughout this paper the phrase "downgraded staff", and similar references, refer to staff who occupy such positions. These references do not carry any implications whatsoever as to the performance of the staff members concerned.

2/ A "grandfather clause" can be defined as one that creates an exemption to a newly introduced rule or law based on circumstances previously existing.

view on the matter. This process may lead to changes in the initial grading decision in individual cases, and a conclusive determination of which particular staff members are downgraded cannot therefore be made until the time prescribed for reviews and appeals has elapsed.

The effects of job grading, and the perceptions that staff will have of their short- and long-term prospects for career progression, will vary considerably from individual to individual. Some of the staff defined as downgraded will have salaries above the maximum salary for their new grades at the time of implementation; others will have salaries falling within the new grades. Both groups, however, will experience in varying degrees an adverse impact on their expectations for future salary increases. In addition, the present and prospective career situations of individual staff members occupying downgraded positions will have an important bearing on the longer-term impact of their initial job grading. Many staff correctly view their present grades as temporary, and they can expect to move to higher ranges through the normal course of promotion. To the extent these expectations are realized, neither the new salary maximum nor any grandfathering mechanism that might be adopted will be very important. By contrast, those who perceive themselves to be at their career ceiling, with very limited prospects for promotion, will attach a great deal of importance to the effects of downgrading on their future levels of real income and to any grandfathering arrangements.

Although this paper discusses a number of possible grandfathering procedures that are specifically related to salary administration, assistance to downgraded staff will not be confined to these procedures. The Administration Department intends to initiate a range of administrative actions in order to alleviate the impact of downgrading on staff members. In some cases, consistent with the principles applicable to job evaluation and grading in the Fund, it may be possible to reorganize work in such a way that the job content of a downgraded position can be enhanced, for example, by the inclusion of additional responsibilities. As positions at a higher level become vacant, consideration will be given to the promotion of downgraded staff members into these positions; other things being equal, priority will be given to the selection of downgraded staff. Particular attention can also be given to increasing the mobility opportunities for those staff members to whom the annual mobility exercises do not normally apply. The process of reassignment and promotion might be assisted in some cases by special training. It is very difficult at this stage to estimate what proportion of downgraded staff might be assisted in these ways. At present, the best tentative estimate is that, over the next two years, of the approximately 20 percent of Fund staff occupying downgraded positions perhaps one quarter to one third can potentially be promoted back to at least their present salary ranges.

Apart from these internal actions, special efforts will be made to assist downgraded staff members who might wish to take early retirement or seek positions outside the Fund. The Termination Benefits Fund (TBF) provides the possibility for some financial assistance to these staff members,1/ and an increase in the amounts available will be proposed in the Administrative Budget for FY 1987; in this connection, it will be necessary to examine a number of possibilities for defining more clearly the access of downgraded staff to termination benefits. In addition, it is intended to explore the possibilities for "out-placement" services, under which the Fund would seek to provide more active assistance to staff members in finding jobs outside the Fund through counseling, the maintenance of job network information, and the possible provision of transportation to a staff member's home country for job search purposes.

II. Grandfathering Practices Inside and Outside the Fund

Within the Fund, it has been the usual practice to establish some form of grandfathering provision or transition period when new policies are implemented that adversely affect the compensation, benefits, or careers of staff members.2/ The arguments in favor of such action derive from the social concern of the institution for the welfare of current staff members who take personal and career decisions on the basis of existing benefits and salary scales that are often difficult to reverse in the short run. These procedures are particularly important for internationally recruited staff whose decisions on leaving their home countries and making a career in the Fund are influenced to an important degree by compensation and benefits, and these staff can face significant difficulties in seeking other employment. Staff members can be expected to have organized their financial affairs in light of reasonable expectations of career progression and movement through the salary ranges, and the institution clearly has an implicit obligation not to make abrupt or major changes in compensation and benefits without finding ways to temper the impact of such changes on staff members. It is in recognition of that obligation that the commitment to staff has been made that no salary will be reduced in nominal terms. At the same time, however, when changes are being introduced to correct distortions in salary administration, the question

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1/ Under the Termination Benefits Fund, the Director of Administration may approve payments of up to 1 1/4 months' salary per year of service (maximum of 22 1/2 months' salary) for staff members whose separation is deemed to be in the interest of the Fund (EBAP/72/32 and Supplement) and (EBAP 79/355 and Supplement). Historically, the TBF budget has been set at approximately 0.6 percent of wage bill, and it is estimated that roughly three quarters of the cost of TBF is offset, over time, through salary recovery (i.e., replacing separated staff members with new staff members at lower salary levels).

2/ Examples of such arrangements include the transitional provisions for implementing the new tax allowance scheme introduced in January 1980, under which the new average deduction tax allowance system was phased in over a period of five years for U.S. nationals on board prior to January 1, 1980, while the new procedures applied immediately to all new U.S. recruits joining the organization on or after January 1, 1980. A more recent example is the decision to allow all expatriate staff holding permanent resident visas to be grandfathered vis-a-vis expatriate benefits, whereas those expatriate staff joining the institution after January 28, 1985 holding U.S. permanent resident visas are ineligible for such benefits.

arises as to how long the institution can reasonably allow some staff members to earn substantially more than others for jobs with comparable content, and how long it should continue to pay individuals at levels that are well above the comparator market.

Outside the Fund, grandfathering procedures are common in both private industry and civil services that have implemented major reclassification programs. Private corporations vary considerably in their approach to introducing a new salary scale, and the reclassification of existing staff on that scale. At one extreme, some have applied the revised salary structure only to new staff, leaving existing staff on the old scale until all staff have been brought onto the new scales through normal attrition. Such cases are rather exceptional in North America and tend to be limited in application only to support staff or to unionized employees; they are, however, somewhat more common in Europe. At the other extreme, some corporations will move all existing staff to the new salary scale at the outset, freezing salaries immediately or, in rare instances, even reducing salaries in the process.

One specific example of how this issue is handled outside the Fund is provided by the U.S. Civil Service. Under the U.S. Civil Service Reform Act adopted in 1978, individual civil servants whose positions are downgraded are allowed to maintain their current salary ranges for two years, and during this period they are eligible to receive both general and merit increases. After two years, if the individual's salary is above the ceiling of the new range, the staff member continues to be paid the lesser of his current salary or a salary equivalent to 150 percent of the ceiling of the new range, and continues to receive one half of any general salary adjustment until the new salary range catches up to actual pay.

In the World Bank, the principle of grandfathering was examined in 1983 by the Executive Board Advisory Committee on Staff Compensation Issues, which recommended that reasonable measures be adopted to alleviate the adverse effects on staff members whose positions were downgraded. In accordance with this recommendation, in early August 1985 the Bank's Executive Board approved grandfathering procedures that required the individual salaries of staff members whose positions had been downgraded to be administered within their current ranges for a period of two years, during which time these staff members would be eligible for both merit and general salary increases. At the end of the two-year period, if a staff member's salary exceeds the maximum of the new salary range, the salary will be frozen until the range ceiling catches up with actual pay as a result of general salary increases.

III. Possible Grandfathering Procedures to be Adopted in the Fund

This section sets out a number of possible grandfathering procedures that might be adopted in the Fund.

Given the importance that Executive Directors in the Fund and the Bank attach to parallelism in matters of compensation, consideration must clearly be given to adopting the same approach in the Fund as in the Bank.

However, it can reasonably be argued that circumstances in the Fund justify some additional grandfathering measures over and above those adopted in the Bank. The Bank initiated its job classification exercise much earlier than the Fund, and since 1982 has already implemented components of the regrading process to which grandfathering procedures have been applied. This is one reason why the proportion of staff downgraded in Bank as a result of the job grading implemented on October 1, 1985 (about 12 per cent) is appreciably less than downgrading in the Fund, which is likely to involve about 20 percent of staff. 1/ A second factor is the larger size of the Bank's staff, and the wider spectrum of jobs available at the Bank; this means that it is likely to prove somewhat easier for Bank staff whose positions have been downgraded to obtain reassignments to positions graded at higher levels than for their counterparts at the Fund. A third factor arises from the Executive Board's decisions in 1984 and 1985 to "set aside" a proportion of the general salary increases to be distributed on completion of the job grading exercise. Although the modalities of distributing these amounts have been left for a further decision by the Executive Board, and a separate paper is being issued on this question, it is clear from the background to the decisions that it was not intended that staff members deemed to be overpaid would receive any part of the amounts set aside; this category of staff will be limited to those who are downgraded (although, of course, not all downgraded staff are necessarily overpaid). Assuming that the Board agrees to a distribution which excludes this group, therefore, a form of adverse salary action will already have been taken in relation to a proportion of downgraded staff, for which no parallel exists in the Bank. For these reasons, it is considered that the grandfathering procedure adopted in the Bank should not necessarily be regarded as a satisfactory or sufficient model for the Fund.

1. "Permanent" grandfathering

The most generous approach to grandfathering, which is strongly advocated by the Fund's Staff Association Committee (SAC), would be to continue to administer the salaries of downgraded staff in their existing grades for the rest of their Fund careers or until they are promoted; the maxima of these grades would rise with general increases. This has obvious advantages for the staff concerned, and it has some support in the practice in Europe. It would, however, run counter to one of the central aims of the job grading exercise--namely, to eliminate internal distortions in compensation. Simply continuing to administer downgraded staff in their existing grades, and increasing the maxima of those grades by the full amounts of general increases, would perpetuate these distortions for those downgraded staff who are not promoted out of their present grades.

1/ In part, this results from the fact that the Bank is currently moving from a 21-salary grade structure to a 20-grade structure with somewhat less differentiation required at this time. In the case of the Fund, the change in salary structure is from 13 to 19 grades, i.e., to greater rather than less differentiation.

2. Other grandfathering mechanisms

Assuming that downgraded staff are not to be permanently grandfathered in their existing ranges, two sets of questions need to be addressed. One is whether to institute a "grace" period during which these staff members would continue to be administered in their present salary ranges before beginning the process of adjustment, and if so how long this grace period should be. The other is whether, at the end of any such grace period, to freeze the salaries of staff members who are above the ceiling of their new ranges, or to begin a process under which their overall level of compensation would be adjusted more gradually to the new situation. This latter objective can be achieved in a number of ways, which can be considered separately or in combination with each other.

a. The need for a grace period

The establishment of a grace period before the implementation of adverse changes in salary administration provides the opportunity for individual staff members to reassess their career and financial prospects and to make whatever decisions they need to take in the light of the new situation. A grace period also provides the institution with necessary time to absorb the initial impact of the grading process, and to take steps to overcome the initial difficulties and anomalies which inevitably arise at the time a new system is first introduced. Accordingly, it is considered that a grace period during which downgraded staff will continue to be administered in their present salary ranges is essential for the Fund.

A more difficult question is how long this period should be. The Bank has decided that the period applicable to its downgraded staff should be two years. This follows the practice of the U.S. Civil Service. However, the comparison is not exact because the Civil Service is more generous than the Bank in allowing partial general salary increases after the end of the two-year period. As explained above, in comparison with the Bank, there are likely to be somewhat more limited possibilities for promotion and mobility in the Fund, and the process of reassigning staff can be expected to take longer. Consideration could therefore be given to having a grace period in the Fund which is somewhat longer than two years. On the other hand, this would postpone the commencement of the adjustment process, and increase the scale of the adjustment which is necessary. On balance, therefore, it seems preferable to limit the grace period to two years, as the Bank has done, so that the necessary adjustment can begin without undue delay.

b. Alternatives to freezing salaries

The question then arises whether the Fund should allow some limited salary increases to take place following the chosen grace period, rather than freezing salaries that are above the maxima of the staff members' new grades. These limited increases could be applied to all such staff, or could be designed to provide financial incentives to staff for good performance, or both. After the end of a two-year grace period, it is estimated that about two thirds of staff occupying downgraded positions will still be in those positions and a significant proportion of them will have salaries above the maxima of their new grades. The group will include many staff members who are making important contributions to the Fund's work, and whose performance will continue to be highly regarded. It seems essential, as a minimum, to be able to provide continued financial incentives for these staff members.

The approach of the Bank in deciding to freeze salaries is more severe than the approach of the U.S. Civil Service. Although actual salaries can be cut back under the U.S. Civil Service rules to 150 percent of grade maxima, the individuals concerned continue to receive increases at one-half the rate of general increases. Consideration might, therefore, be given to leaving salaries unfrozen after the end of the grace period and permitting the individuals to receive a proportion of general increases. During periods of relatively low inflation, this provision would not be very significant. However, should a period of relatively high inflation be experienced, this proposal would provide some insurance against a sudden sharp loss in real income. This measure would extend the period of time required to bring staff members within the new salary structure; the additional time required cannot be predicted, but it would be a function of the proportion of the general salary increase that was distributed.1/

However, the receipt of a reduced proportion of general increases would not provide staff with a continued incentive for good performance. Even if salaries are frozen, or a system of reduced general increases is introduced, some form of financial incentive should continue to be given as a reward for merit. Merit payments, whether they are combined with a system of reduced general increases or introduced as an alternative to such a system, might take the form of pensionable salary increases, the resources for which might be derived from the amounts of general increases that would have been paid to staff with frozen salaries. Merit payments could also take the form of nonpensionable bonuses, which would increase the take-home pay of the staff members without increasing their salaries.

IV. Recommended Action

The Bank has adopted a grandfathering mechanism for staff occupying positions that have been downgraded, and the details have been announced to the Bank staff. The Fund's Executive Board has not yet had the opportunity to discuss the implementation of job grading in the Fund; nevertheless, it is apparent that significant difficulties would arise if the Fund were to adopt grandfathering procedures that were any less generous than the Bank's. In recognition of this, the Fund Management has already provided the staff with an assurance that it would not propose procedures less generous than those adopted by the Bank.

1/ For example, if staff with salaries above the maximum of their new grades at the end of the transition period were granted half the general salary increase, the time needed to bring all staff members' salaries within their new grades would be doubled. Of course, in judging what was a reasonable period to achieve the desired adjustment, the aim would have to be related to adjusting the major proportion of salaries that were out-of-line and not the small minority that are the furthest away from the maxima of the new grades.

The main question that arises, therefore, is whether the Fund might reasonably adopt a system which is less severe in its impact on downgraded staff than that adopted by the Bank. In this connection, it seems relevant to note that the downgradings in the Fund seem likely to have more widespread impact than in the Bank; the scope is likely to be greater in the Bank for reassigning and promoting staff whose positions are downgraded; and the Fund's decision to set-aside amounts of the general salary increases in 1984 and 1985 already constitutes salary action that is most likely to affect adversely a major proportion of downgraded staff.

The Fund's Staff Association favors allowing staff whose positions have been downgraded to remain in their existing ranges, and to receive general and merit increases in those ranges, until they are promoted or leave the Fund. The main defect of this approach is that it would prolong the distortions in compensation for an unreasonably long period. There is a need for a grace period during which the staff affected would be administered in their existing salary ranges; but on balance--for the reasons outlined above--it is not felt that the period should be longer than two years. However, a number of alternatives to freezing salaries at the end of the grace period deserve consideration. In particular, it is considered that staff with salaries above the maxima of their new grades at the end of the chosen grace period should continue to be eligible for merit payments, which could be provided in a pensionable or nonpensionable form. It may also be appropriate to combine these with some form of general salary increases at a reduced rate in comparison with those granted to other staff.

It is difficult to draw a firm conclusion on which of these approaches would strike the most reasonable balance between the interests of downgraded staff and those of the Fund. It should also be stressed that choosing an appropriate grandfathering mechanism at this time is particularly difficult because of the uncertainties involved. If, for example, the next several years saw a resurgence of severe inflation, downgraded staff members with frozen salaries would suffer a very rapid erosion of real income, and the continuation of general salary increases at a reduced rate would be more advantageous for staff than if general increases were very small over the same period. Much will also depend on the extent to which staff now being downgraded can subsequently be reassigned or promoted, and the assistance provided to staff wishing to take early retirement or seek positions outside the Fund. In addition, a major uncertainty lies in the possible results of the work of the Joint Committee on Staff Compensation, whose work is by no means complete, and its report and recommendations will need to be discussed and decided on by the Executive Boards of the Fund and the Bank. Nevertheless, its recommendations and the subsequent decisions of the two Executive Boards are likely to have an important impact on the salary structures in the two institutions; on the administration of salaries (for example, the weight given to merit increases); and on the relationship of salaries to the market.

All these uncertainties suggest that it may be preferable not to specify a fully-elaborated grandfathering mechanism at this time, but rather to wait and review the situation at a later date when at least some of these uncertainties have been resolved. On the other hand, it is also important to be able to provide to downgraded staff some appropriate assurances regarding the basic features of grandfathering arrangements, so that they have a firmer basis on which to take decisions on their careers and to make adjustments in their financial situations. This would be achieved if the Executive Board were to give formal endorsement now to a number of principles which could be made known to staff, and which would form the basis for further decisions by the Board in due course. A statement of the principles which the Executive Board might consider adopting at this time is set out below. The alternatives in square brackets in paragraph (iii) would either leave open the possibility of a system of reduced general increases or commit the Board in principle to the adoption of such a system.

(i) Staff in downgraded positions would continue to be administered in their present salary ranges for two years from January 1, 1986, and would be eligible for general and merit increases during that period.

(ii) At the end of that period, measures would be put into effect so that the salaries of staff above the maxima of their new salary grades would over time be brought within those maxima, but in no event would any staff member's salary be reduced.

(iii) The Executive Board would take decisions on the measures to be adopted under (ii) not later than six months before the end of the two-year period. These measures shall include the provision of financial incentives for good performance (which may be in pensionable or nonpensionable form) and [may] [shall] also include a system of reduced general increases.