FOR AGENDA

05

EBAP/85/307
Supplement 1

January 15, 1986

To: Members of the Executive Board

From: The Secretary

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

There is attached the additional information requested by some Executive Directors at the discussion on January 3, 1986 of the paper on the treatment of staff whose positions have been downgraded as a result of the job grading in the Fund (EBAP/85/307, 12/13/85). The continuation of the discussion on this matter, together with the discussion of the "set-aside" amounts (EBAP/85/312, 12/17/85), which was to be brought to the agenda on January 6, 1986, has now been scheduled for Thursday, January 30, 1986.

Mr. Cutler (ext. 8207) or Ms. Anderson (ext. 8222) 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: Additional Information

Prepared by the Administration Department

Approved by Horst Struckmeyer

January 15, 1986

In the Executive Directors' discussion of EBAP/85/307 on January 3, 1986 a number of requests were made for additional factual information, particularly on costs, and for a more systematic presentation of some of the options that might be available. This memorandum responds to those requests.

1. Information on staff whose positions have been downgraded

The following table sets out the information provided by the Director of Administration in his opening statement on the relationship of the salaries of staff whose positions have been downgraded to their new salary ceilings in the interim salary structure at the time the exercise is implemented. The numbers are the latest available; they are likely to change marginally because there remain a few positions that have not yet been graded.

	Number of staff	Percent of total
Below new salary ceilings	135	41.0
Above new salary ceilings		
100-105 percent	61	18.5
106-110 percent	60	18.2
111-115 percent	35	10.6
over 115 percent 1/	38	11.7
	329	100.0

1/ The furthest extent to which a current salary exceeds the relevant ceiling in the interim salary structure is 34 percent: five staff have salaries more than 25 percent higher than the ceilings.

Of the 194 staff whose salaries are presently above their new ceilings, 43 are currently A-E staff, 106 are in ranges F-I, and 45 are in ranges J-L. The ages of the staff are also of interest: 51 staff members are 56 years of age or older; 62 are between 50 and 55 years of age; and 81 are less than 50 years old. Given the fact that participants in the Staff Retirement Plan can take early retirement and receive a pension at the age of 55, the retirement option might be attractive to about 30-40 percent of the staff involved whose current salaries are in excess of their new ceilings, although much would depend on the level of pension to which a staff member would be entitled. In this connection, it is intended to request Executive Board approval in the FY 1987 Administrative Budget for an expansion in the resources made available under the Termination Benefits Fund (TBF) to provide financial assistance to such staff who wish to retire or resign. In addition, as emphasized on pages 2 and 3 of EBAP/85/307, strong efforts would be made to promote those staff whose performance has demonstrated their ability to fill positions at a higher level.

2. "Grandfathering" options

The intention of EBAP/85/307 was not to set out the widest range of options for grandfathering that might be devised. In the light of the strong emphasis placed by Executive Directors on parallelism between the Bank and the Fund, the paper concentrated on a rather limited range of options. It should be stressed that the principal proposal in EBAP/85/307 was the adoption of the two-year grace period, during which downgraded staff would be allowed general and merit increases within the ceilings of their existing salary ranges. This proposal is directly in line with the decision taken in the Bank. The Bank's Board has also decided that salaries that are above the new ceilings at the end of the two-year grace period would be frozen. The options put forward in EBAP/85/307 were principally intended as possible alternative approaches to the Bank's decision to freeze salaries above the new ceilings at the end of the grace period. There were a number of reasons set out on pages 4 and 5 of EBAP/85/307 that suggested that the situation as regards downgrading in the Fund would justify consideration being given to these alternatives. The two main reasons were (i) downgrading in the Bank involved an appreciably lower proportion of staff than in the Fund (12 percent of staff compared with about 20 percent in the Fund); and (ii) the fact that the Bank has greater scope for reassigning downgraded staff than the Fund.

Set out below is a list of options, together with brief descriptions of their implications. It will be noted that different combinations of options would be possible, and some options could be implemented in different ways. However, in order to focus the discussion, the list has been limited, and some options include suggestions on the precise modalities.

(a) Reduction in salaries

One Executive Director mentioned the possibility of reducing salaries immediately. This possibility constitutes, in effect, no grandfathering at all, and it was not discussed in EBAP/85/307 because one of the main principles involved in grandfathering is the recognition of the concern and responsibility of the institution for the welfare of current staff members, who are not responsible for the "overgrading" of their present position and who have taken personal and career decisions, which are often difficult to reverse in the short run, on the basis of their existing salaries and their expectations for future salary progression. An alternative to an immediate reduction would be a reduction at the end of a reasonable period, during which salaries above the ceilings would be frozen. To reduce salaries, either immediately or after an agreed period, would be markedly harsher than the procedure adopted in the Bank and in comparable organizations and some civil services; it would damage the confidence that present and future staff members would have in the Fund as a responsible employer; and questions could be raised as to whether the action would run counter to the implicit contract between the Fund and an employee. The main advantage would be the saving of costs on salaries, and on salary-related benefits.

(b) Freezing of salaries above the ceilings

The new salary ranges could be put into effect immediately, and salaries above the new ceilings could be frozen forthwith. This would be a harsher procedure than that adopted in the Bank, and as explained under (a) it would run counter to the need to give staff members a reasonable period to adjust their financial situation to the changes in expectations, and to give the institution time, where possible, to identify alternative positions at higher grades for staff whose performance suggests they can be promoted. An alternative to an immediate freeze would be to follow the procedure decided by the Bank and to freeze those salaries that are above the new ceilings at the end of the proposed two-year grace period. For the staff members concerned, this would, of course, be preferable to an immediate freeze or a reduction in salaries; the institution would forgo the cost savings resulting from immediate reductions or an immediate freeze; and the frozen salaries of the staff members concerned would, over time, be brought within the new salary ceilings as general salary increases raise the salary ceilings. One disadvantage is that no financial incentive would be provided for good performance. As mentioned above, and explained in EBAP/85/307, there are a number of reasons why it was felt that some alternative to the Bank's decision to freeze salaries at the end of the grace period would be justified, particularly in relation to the rewarding of good performance.

(c) Indefinite continuation of general salary increases and merit increases

This option is supported by the SAC, and would be in line with practices in some European countries. It does not involve a grace period. Staff members whose positions are downgraded would continue to be administered indefinitely in their existing salary ranges until they are promoted to a position in a higher salary range or leave the Fund. As long as they continue to occupy their present positions, they would continue to receive the same general increases as all others in their range, and would also continue to be eligible for merit increases until they reach the range ceiling. This would be the most advantageous procedure for the affected staff; it would have the general effect of preserving their real incomes over time, on the assumption that movements in compensation in the comparator market kept pace with inflation; and it would permit real increases for those whose salaries still had room to rise to the ceilings through merit increases. It would also mean that staff who were not reassigned or did not leave the Fund would never be brought within the new salary ranges applicable to their positions. Of all the options now being considered, this would be the most expensive for the Fund. However, during the first two years of such a procedure, the costs would be the same as the recommendation in EBAP/85/307, namely that downgraded staff continue to be administered in their existing salary ranges for this period.

(d) Continuation of merit increases only

This could be introduced either immediately or after the recommended grace period. Under it, staff whose salaries were above their new ceilings would not receive general salary increases but would be eligible for discretionary merit increases linked to performance. This would mean that average performers would be likely to experience a reduction in their real incomes over time. Above-average performers could expect to hold their existing level in real terms to the extent that their merit increases would be the same as the general salary increases granted to other staff. Of course, the very strong performers among the group of staff with salaries in excess of their new ceilings would be likely candidates for promotion to positions in higher salary ranges, and thus the numbers receiving merit increases would be expected to diminish fairly quickly over time. In order to avoid anomalies arising between staff whose salaries are below the ceiling and those whose salaries are above, it would be necessary to limit individual merit increases to the level of the general increase.1/ The pool of resources for the merit increases could be set at one half of the general increases that would have been available to the group of staff whose salaries are in excess of their new ceilings, with actual merit increases awarded varying between zero and a maximum of the same percentage as the general salary increase for the very best performers.

(e) General salary increases at reduced rates

Either starting immediately, or at the end of a grace period, staff whose salaries are at or above their new ceilings would receive reduced general salary increases--say, 50 percent of such increases. This procedure would be the same as that adopted in the U.S. Civil Service for staff downgraded whose salaries do not exceed 150 percent of their ceilings. This would moderate the loss of real income for the affected staff members, and would provide some protection against a very swift decline in real income if the cost of living were to rise rapidly. As explained in EBAP/85/307 (page 7), a disadvantage of this option is that it would extend the period of time required to bring staff members' salaries within the ceilings of their new ranges. Moreover, as it would apply across the board to all staff over the range ceiling, it would make no provision for rewarding good performance. The savings would be less than with a freeze in salaries. The costs would be the same as a system of merit increases if these increases were based, as suggested in (d) above, on a pool of resources equal to half the general increase that would have been granted to the group of staff whose salaries are above the ceilings.

(f) Merit payments in "non pensionable" form

The Fund has normally recognized meritorious performance by increasing a staff member's base salary: the increase is pensionable and a number of other benefits to which staff are entitled are linked to the increases. Thus, the financial advantage to a staff member of an increase in base salary, and the cost to the Fund, go well beyond the increase itself. In EBAP/85/307, it was suggested that merit payments for staff whose salaries are above the new salary ceilings might be "in pensionable or nonpensionable form." The distinction drawn is between permanent increases in staff members' annual salaries, which in turn affect a number of other benefits that give rise to additional costs to the Fund, and bonus

1/ No individual staff member over the range ceiling could be awarded merit increments in excess of the general salary increases. Otherwise, they would be receiving salary adjustments in excess of those available to staff at the range ceiling, who are limited to only the general salary increase.

payments that would be decided upon each year and would have no effect on any other benefits. Unlike increases in salary, the only additional expense to the Fund of paying bonuses would be the tax allowances payable to U.S. staff members.

For this reason, some form of non pensionable bonus payments would have distinct advantages as regards costs to the Fund, given that the base salaries of the affected staff would not be moved further above the ceilings of their salary ranges. Accordingly, some of the options mentioned above could be combined with a system of nonpensionable bonuses for meritorious performance at relatively little cost to the Fund. Specifically, a system of bonuses could be combined with a freeze on salaries above the new ceilings or with general increases at a reduced level. In either case, the bonus resources available for distribution to staff whose salaries were above the ceilings would be defined as, say, half the general salary increase that would have been available to this group of staff. Individual bonuses could be paid up to a maximum of the general salary increase, and would be determined strictly on the basis of merit and performance. Nonpensionable bonuses would be less costly than the continuation of pensionable merit increases because the bonuses would not give rise to other salary-related costs except for the tax allowances paid to U.S. staff. Another advantage of bonuses is that they would not delay the period of adjustment required to bring all staff within the new salary ceilings, while at the same time they would provide some financial incentives for strong performance.

3. Costs of "grandfathering"

The job grading exercise was not undertaken with the aim of reducing salary costs: the primary intention was to establish proper internal pay relationships and to provide a firm basis for salary comparisons.1/ The need for such a basis has been emphasized in relation to the work of the Joint Bank/Fund Committee of Executive Directors on Staff Compensation.

One necessary implication of introducing the new grade structure is that additional payments must be made to some upgraded staff to bring their salaries up to the minima of their new ranges. The immediate costs of doing this are relatively small; retroactive salary adjustments to May 1, 1984 for these staff are likely to

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1/ An indication of the overall outcome of the job grading exercise is provided on p. 26 in EBAP/85/285 (11/21/85) Job Grading in the Fund: Grade Structure and Interim Salary Structure. It is explained that in very general terms the savings in salary costs might, over time, be about 0.4 percent of the total wage bill.

involve costs to the Fund of about $700,000 in FY 1986 and $450,000 annually thereafter: this compares with a budgeted amount of some $161 million in salaries and other personnel expenses in FY 1986 of which $97 million was for salaries.

The costs of the various grandfathering options are more difficult to define and to assess. If no staff positions were downgraded, the Fund would continue to incur the existing annual salary costs for the staff concerned and future increases in those costs would be incurred under the normal procedures for general and merit increases. Thus, from this purely theoretical standpoint (and setting aside the costs of ugrading), even the form of grandfathering advocated by the SAC would not involve additions to costs that would not have otherwise occurred in the absence of the job grading exercise. However, any procedure that aims to bring all individual salaries within the new range ceilings, either immediately or over time, will yield savings in costs. The shorter the time it takes to achieve this aim, the larger the savings that will result from the downgrading of positions. For this reason, an immediate reduction in salaries above the new ceilings (i.e., no "grandfathering" at all) would mean that the cost savings would be maximized, and no grandfathering costs would be incurred in relation to salary administration. With those options not involving an immediate reduction in salaries above the ceilings, those savings would be foregone, and the Fund would continue to pay salaries in excess of the new ceilings. An important factor in the costs of grandfathering would be the speed with which salaries above the ceilings were brought within those ceilings. Of course, the advantages of different options as regards savings and costs have to be weighed against the broader considerations as regards the treatment of staff that have been discussed in EBAP/85/307 and mentioned above.

Set out below are the approximate savings and costs of a number of options on "grandfathering." For illustrative purposes, it has been assumed that salary-related costs (e.g., pension contributions, dependency allowances, tax allowances, etc.) are 50 percent of salaries.

(i) Savings by immediate salary reductions

The total annual salaries of staff with salaries that exceed the new ceilings are $10.2 million. If all the staff affected were to be paid only at their new ceilings, the amount of the annual wage bill would be reduced by about $860,000; the total savings of salaries and related costs could be assumed to be about 50 percent higher at some $1.3 million annually. This represents 0.8 percent of the Fund's budgeted salary and salary-related costs of about $161 million in FY 1986.

(ii) An immediate freeze on salaries above new range salaries

The effects of an immediate freeze are more difficult to estimate. Obviously, the annual savings of $1.3 million associated with a reduction in salaries to the new ceilings would be foregone. Although staff with salaries above their ceilings would have their salaries frozen, these salaries would be brought into line over time as general increases brought the ceilings of the ranges up to the levels of the frozen salaries. How quickly that would occur would depend on the rate of general increases. For example, general increases averaging 1 percent would mean that it would take a long time for the salaries of "overpaid" staff to be brought into line, thus prolonging the period during which the Fund would carry the costs of overpayments, and the initial annual cost of paying salaries in excess of the new ceilings (about $1.3 million) would fall fairly slowly. By contrast, with annual increases averaging 4 percent, the annual costs of paying staff salaries in excess of their ceilings would be reduced from $1.3 million to about $900,000 after the first year, to about $700,000 after the second year, and would continue to fall thereafter at an increasing rate. At the same time, the Fund would save the general and merit increases that would have taken place in the absence of the freeze; illustrative indications of these increases are shown in (iii) below.

(iii) Continuation of general and merit increases based on existing salary ranges for a two-year grace period

This option is the procedure adopted in the Bank and recommended in EBAP/85/307. Staff whose positions are downgraded would continue to be administered in their current salary ranges for two years and be eligible for general and merit increases within those ranges to the same extent as other staff. Again, the initial annual cost saving of $1.3 million associated with a reduction of salaries would be foregone. In addition, it is estimated that over the two-year grace period the increases in salaries plus salary-related costs for staff whose salaries are above the maximum would be as follows, using for illustrative purposes general salary increases of 2 percent and 4 percent and merit increases at the normal rate of 2.4 percent:

		(In millions of U.S. dollars) General Increase	
		2 percent	4 percent
Year 1:	general	0.30	0.60
	merit	0.21	0.21
Year 2:	general	0.32	0.64
	merit	0.21	0.21
	Total	1.04	1.66

It should be noted that the amounts by which salaries would be in excess of the ceilings would only increase by the amounts of the merit increases; this is because the ceilings would rise by the same amounts as the general increases. At the end of the recommended two-year grace period, the total of salaries in excess of the new ceilings would have risen from about $860,000 to about $1.3 million and total costs from $1.3 million to about $1.9 million. These costs would be less to the extent the number of staff in the group is reduced by reassignments, retirements, and resignations. It was noted in EBAP/85/307 that about one third of downgraded staff might be promoted, or have retired, or resigned by the end of the grace period. It would be reasonable, therefore, to expect these costs to be lower than indicated above.

(iv) Options at the end of a two-year grace period

If there were a freeze at the end of the two-year grace period (the Bank's approach), no additional annual costs would arise thereafter. The annual costs of "grandfathering" would diminish as general increases raised the ceilings of the salary ranges; the rate of reduction would depend on the rate of general increases, which would in turn depend on movements in compensation in the comparator market. As within an immediate freeze, salaries would be brought back within the ceilings at a rate that would depend on the level of general increases: the higher the increases, the more rapidly the ceilings would catch up with salaries in excess of those ceilings.

Further increases in annual salary costs would only arise if it was decided to adopt one of the options described above that made provision for further salary increases for staff above the range ceilings. It is estimated that assuming no promotions, retirements, or resignations, there would be approximately 215 staff with salaries above the new ceilings after a two-year grace period as described in (iii). 1/ Their total salaries would be in the range of $12.4-$12.8 million, assuming general increases in the 2-4 percent range and merit increases averaging 2.4 percent. The total costs to the Fund of salaries being paid in excess of the new ceilings would be about $1.8 million. For each 1 percent of salary increase that might be awarded thereafter under any of the options where the increases were pensionable, total salaries would increase by about $130,000 and the total cost to the Fund would be approximately $190,000 annually. If the group were awarded some form of nonpensionable bonus payments equivalent on average to 1 percent of salary,

1/ The number of staff would rise from the 194 staff mentioned in the statistics given in paragraph 1 of this paper, because merit increases during the two-year grace period would increase the salaries of some staff from below to above their new ceilings.

the cost would be limited to about $130,000 annually. These costs, which would be less to the extent there were promotions or separations, would diminish in each subsequent year, as additional staff are brought within the new range ceiling, retire, resign, or are promoted.

4. Conclusion and recommendations

In Section IV of EBAP/85/307 it was mentioned that a major uncertainty in deciding grandfathering procedures at the present time lay in the possible results of the work of the Joint Committee on Staff Compensation, which may have an important impact on the salary structures and the administration of salaries in the Bank and Fund. In addition, it was pointed out that much would depend on the extent of promotions, retirements, and resignations. The conclusion was drawn 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."

Subsequently, stress has been placed by the SAC and by some Executive Directors on the need to resolve uncertainty and to settle the matter of grandfathering as definitively as possible. In the light of that objective, it is recommended that the Executive Board decide that, as in the Bank, 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 in their salaries to the same extent as all other staff in those salary ranges.

In addition, for the reasons explained in EBAP/85/307, the Executive Board may wish to focus on approving one of the following options, which would be put into effect at the end of the two-year period:

(i) Reduced general salary increases plus merit increases

On the occasions of general salary increases, all staff whose salaries are in excess of their new ceilings would be eligible for only one-half of the rate of general salary increase. In addition, pensionable merit increases would be paid to staff within this group on a selective basis for meritorious performance. No individual merit increase would exceed half of the full general increase. This would mean that the maximum increase that any staff member could receive through general and merit increases would be equivalent to the full general increase given to other staff. As a result, no staff member's salary in excess of his or her new ceiling would move further above that ceiling.

(ii) Reduced general salary increases plus nonpensionable merit bonuses

Half of general increases would be paid as in (i) above, but instead of merit increases, the selected staff would receive nonpensionable bonuses which in no case would exceed half the full general increase. This would cost less than (i) because the nonpensionable element would not give rise to any other salary-related expenses.

(iii) Merit increases only

On the occasions of general salary increases, one half of the salary increases that would have been available to the group of staff whose salaries are above their ceilings would constitute a pool of resources from which merit increases would be paid to staff on a selective basis. No individual merit increase would exceed the full general increase, and only the most meritorious performers--chosen on the basis of very careful selection--would receive an increase equivalent to the full general increase.

(iv) Freeze on salaries plus nonpensionable merit bonuses

Salaries in excess of ceilings would be frozen. Instead of merit increases as in (iii), the selected staff would receive nonpensionable bonuses; no bonus would exceed the full general increase.

These options may be considered in the light of three main criteria: (1) costs; (2) the speed with which salaries will be brought within the ceilings (which, in turn, affects costs); and (3) the rewarding of good performance. This last criterion is particularly important, and the intention would be that merit or bonus payments would have to be very carefully controlled and based only on genuinely meritorious performance.

As regards costs, the order in which the options are listed is from the most expensive to the least expensive. Salaries would be brought back within the ceilings most rapidly under (iv) and progressively slower under (iii), (ii), and (i). As an incentive for performance, the preferred option would be (iii), which would earmark half the amount available for general increases for pensionable merit increases, with the maximum merit increase being equivalent to the full general increase. The most reasonable balance that would be maintained among the three criteria would also be provided by (iii). It is not an expensive option; it would provide the best reward for merit and an incentive for the best performers to remain with the

Fund; and although it would prevent the salaries of the most meritorious staff from being brought closer to the new ceilings, the numbers of staff concerned would diminish as they are promoted to positions in higher ranges, and the salaries of other staff would be brought within their new ceilings as quickly as possible, depending on the rates of general increases.