FOR AGENDA

EBAP/85/312

December 17, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Job Grading in the Fund - Use of the Amounts Set Aside in Connection with the 1984 and 1985 Compensation Reviews

The attached paper on the use of the amounts set aside in connection with the 1984 and 1985 compensation reviews is being brought to the agenda for discussion on Monday, January 6, 1986. A proposed decision appears on page 10.

Ms. D. Anderson (ext. 8222) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Job Grading in the Fund: Use of the Amounts Set Aside in Connection with the 1984 and 1985 Compensation Reviews

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

Approved by Graeme F. Rea

December 16, 1985

I. Introduction

On December 11, 1985, the Executive Board discussed the adoption of a new grade structure and an interim salary structure as set out in EBAP/85/284 dated November 21, 1985 on "Job Grading in the Fund: Grade Structure and Interim Salary Structure." Two other issues are important in relation to the implementation of job grading: (i) the treatment of staff who are downgraded ("grandfathering"), which is scheduled for discussion by the Executive Board on January 3, 1986, and (ii) the distribution of the amounts "set aside" at the time of the 1984 and 1985 compensation reviews. This present paper deals with the question of the amounts set aside.

II. Background to the Amounts Set-Aside

1. 1984 Compensation Review

The 1984 Compensation Survey showed that on average Fund salaries for F-J staff were 5.6 percent behind the comparator market and A-E staff salaries were 1.7 percent behind the market.1/ However, these comparisons also indicated that some groups of staff in ranges F-J were paid almost 15 percent above the comparator market, while others were as much as 16.4 percent below the market. Thus, although the logic of the comparator system pointed to a need to increase salaries and the Fund's salary structure by 5.6 percent for F-J staff and 1.7 percent for A-E staff in order to keep overall salaries in line with the market, there was overpayment and underpayment within the structure. In the circumstances, stress was placed by Executive Directors on the need to complete the career streams exercise in order to provide a basis for correcting the internal inconsistencies.

1/ For F-J staff, the survey compared direct compensation of all Fund positions in Ranges F-J with the comparator market, that is, 50 percent public sector/50 percent private sector, with a 10 percent quality premium. For A-E staff, the survey compared midpoints of salary ranges for secretarial positions only; the comparison included a 10 percent quality premium and an adjustment to the U.S. Civil Service data (PATC) based on the lag of civil service pay behind its own private sector comparators.

The outcome of the discussion of the Executive Board was a decision to split the recommended increase of 5.6 percent for F-M staff. A 4 percent general increase was granted with effect from May 1, 1984, and an amount of 1.6 percent of the April 30, 1984 wage bill was set-aside to be used as necessary for salary adjustments in connection with the results of the career streams exercise. For A-E staff, a similar split was made, with a general increase of 1.2 percent and 0.5 percent being set aside.1/ The general increases were the same as those granted in the World Bank. However, the survey results for F-J staff were different in the two institutions, and the Bank did not set aside any amounts.

2. 1985 Compensation Review

The 1985 survey indicated that salaries in the comparator market had increased by 5.5 percent over the prior year. After deducting the average merit increase in the Fund of 2.4 percent, this meant that increases of 3.1 percent in the salaries of both F-J staff and A-E staff were needed in order to maintain average salaries in line with the comparators.

The discussions in the Executive Board involved two stages. Initially, the Board decided on a general increase of 2.0 percent for all staff, with a corresponding increase in the salary structure, and set-aside an amount of 1.1 percent. The Board also agreed on the principles that would govern the distribution of the full amounts set-aside in both 1984 and 1985. Specifically, the Executive Board decided that, once the job grading exercise was complete, the full amount set-aside in 1984 and the amount set-aside in 1985 should be used first to permit adjustments in salary levels for selected positions or entire career streams which would be necessary as a result of the Job Evaluation Exercise, with the remainder being distributed to staff who were found not to be overpaid. The decision dealing with the set-aside amount authorized the Fund to:

> 2. [set aside] an amount equal to 1.1 percent of the April 30, 1985 salary bill to be used for any adjustments in salary levels for selected positions or entire career streams which would be necessary

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1/ The paragraph relevant to the amounts set-aside reads as follows: "2. An amount equal to 1.6 percent of the April 30, 1984 wage bill for Ranges F-M will be set aside. In the event that the results of the current career streams exercise point to a need for adjustments for selected positions or for entire career streams, as much as required of the amount set aside will be made available for that purpose. For Ranges A-E staff, an amount equal to 0.5 percent of their April 30, 1984 wage bill will be similarly set aside to be used as necessary for adjustments in connection with the findings of the career stream exercise. Any portion of the 1.6 percent for Ranges F-M or the 0.5 percent for Ranges A-E which may be used as a result of the career streams exercise will be granted with effect from May 1, 1984."

> as a result of the Job Evaluation Exercise, and with any balance not needed for that purpose being distributed to staff not deemed to be overpaid;
>
> 3. [distribute] the amount set aside in 1984 in the same manner as in 2. above."

However, the Bank's Executive Board subsequently decided to grant a general increase of 2.6 percent and set aside an amount of 0.5 percent for use in connection with the implementation of the results of job grading in the Bank. This led to a reconsideration by the Fund's Executive Board of its initial decision and to the adoption of a new decision at EBM/85/91 (6/7/85), which left open the modalities of distributing the amounts set-aside in the two years. The relevant text reads as follows.

> "2. An amount equal to 0.5 percent of the salary bill as of April 30, 1985 will be set aside for use in connection with the implementation of the Job Evaluation Exercise. The modalities of the distribution of this amount as well as the amount set aside in 1984 will be decided in light of the consideration by the Executive Board of the results of the Job Evaluation Exercise. The distribution will apply retroactively from May 1, 1984 for the amount set aside in 1984 and from May 1, 1985 for the amount set aside in 1985."

In accordance with their 1985 decision, the Executive Board of the Bank has subsequently approved the distribution of the amount set aside to bring the salaries of those staff whose positions have been upgraded to the minimum of their new salary ranges; the increases granted to these staff covered any period between May 1, 1984 and October 1, 1985 when the staff member's actual salary was lower than the minimum of the appropriate salary range.

3. Amounts set aside

Under the decisions mentioned above, the following amounts were set aside:

		Amount	Percent of Salaries
A-E	1984	$80,000	0.5
	1985	84,000	0.5
		$164,000	
F-M	1984	$850,000	1.6
	1985	285,000	0.5
		$1,135,000	

Now that the job grading exercise has been substantially completed, a decision is required on the modalities of distributing these amounts. It is important not to defer implementation of the matter any longer than necessary, because the retroactive aspects of the distribution are already causing difficulties, and these difficulties can only increase the longer the distribution is delayed.

III. Methods of Distributing the Amounts Set Aside

1. What staff should receive the amounts set aside?

There are two main ways of approaching the question as to which staff should receive the amounts set-aside. The first, which would follow from the concerns of Executive Directors in 1984, would be to use these amounts to achieve a better relationship with the comparator market; this is because the 1984 Compensation Survey pointed to different categories of Fund staff being over and underpaid in relation to that market. The other approach is to focus on internal relativities in salaries, so as to identify those categories of staff who, as a result of job grading, are found to be over and underpaid in relation to other staff. The wording of the 1984 decision, which explicitly linked use of the set-aside amounts with the job grading results, certainly suggests that those results were to be at least a key factor in determining the distribution of the amounts set-aside. It is true that the 1984 Compensation Survey gave rise to doubts whether the Fund's pay-line was correctly pitched against the comparator market. Because the Joint Committee is currently reviewing the comparator market, however, it would be very difficult to use the 1984 Survey data at the various levels to determine precisely which categories of staff should receive what part of the set-aside amounts. Now that the Executive Board has decided that the job grading results should be initially implemented in the context of an interim salary structure that retains the main features of the 1984 relationship to the market, it seems that the only practical approach to distributing the set-aside amounts is to base that distribution on the internal relativities as shown by the job grading results, and on the interim salary structure within which those results will be implemented.

Following this approach, and based on the earlier discussions in the Executive Board, two categories of staff can be readily identified as potential recipients of the amounts set aside. The wording of the 1984 decision, and the initial decision taken in 1985, expressed the intention that the first use of the amounts would be for staff for which the job grading exercise indicated the need for upward adjustments. The second category of staff was defined in the initial decision in 1985 as "staff not deemed to be overpaid," which would necessarily also include those in the first category. By implication, therefore, there is a third category, namely, "staff who are deemed to be overpaid."

In considering the modalities of distribution, the first question is what staff are shown by the job grading exercise to require upward adjustment in the context of the interim salary structure. This category must encompass staff whose current salaries are below the minima of their new interim salary ranges, and they should receive a salary increase sufficient (at least) to bring them to their new range minima. It will be noted that the group as so defined would not encompass all staff who are upgraded, because it excludes staff being upgraded whose salaries are already at or above the minima of their new ranges. A salary increase for this broader group of upgraded staff may well be justified, but it cannot be regarded as strictly needed to give effect to the results of job grading.

The second category of staff mentioned in earlier discussions are those deemed "not to be overpaid." This group should encompass all staff whose salaries are below the maxima of their new interim ranges. This would include all staff whose positions are neither up nor downgraded; all staff whose positions have been downgraded but whose salaries are within the maxima of their new ranges; and all staff who have been upgraded.

The remaining category of staff would consist of staff whose salaries are above the maxima of their new interim salary ranges. In the context of internal relativities, these staff must be regarded as "overpaid," even though at certain levels a number of them might actually be underpaid when compared with the 1984 comparator market. Thus, in the context of the interim salary structure, these staff would be excluded from sharing in a distribution of the amounts set-aside.

2. <u>How much should be distributed?</u>

a. <u>Full or partial distribution</u>. The purpose of the Fund's compensation policy is to maintain the relationship of Fund salaries to the comparator market in accordance with the formula adopted for this purpose (the Kafka formula). The formula, and its application in the future, are currently under review, but no decision has been taken to change the formula, nor is it envisaged that any change would be retroactive. When the Fund compares its salaries to the market, as it did in the 1984 Survey, the comparisons are based on average pay for <u>all</u> jobs, including underpaid, overpaid, and correctly paid positions.1/ It is true that the Executive Board decided not to distribute the full amounts indicated by the surveys in 1984 and 1985, pending the results of the job evaluation exercise, and this was because there was an understandable reluctance to permit a general increase that would apply equally to all those groups of staff. However, it is important to recognize that, because the 4 percent general increase granted to F-M staff on May 1, 1984 fell short of the increase indicated by the market,

1/ One exception was the comparison of A-E positions in 1984, which was based on secretarial midpoints rather than on average pay for all jobs.

only a full distribution of the remaining 1.6 percent would restore the relationship of Fund salaries to the market required under the Fund's current compensation policy. Similarly, in 1985, when the market pay levels increased by 5.5 percent, the Fund increases of 2.4 percent merit and 2.6 percent across the board were 0.5 percent behind the market, and again the full amount would need to be distributed to keep Fund salaries in line with the market.

b. Initial Distribution to Upgraded Staff. It seems appropriate that the amounts set-aside should first be applied to increase the salaries of staff whose current salaries are below the minima of their new salary ranges. This would be in line with earlier discussions of the Fund's Executive Board and would parallel the recent decision of the Bank to raise the salaries of these staff. If the initial distribution were made to these staff members in the amounts needed to raise their salaries to the minima of their new grades, the results would be as follows.

(i) For staff upgraded in grades A1-8 of the new structure, which corresponds broadly to the current A-E classification, the distribution would account for approximately $110,000 of the amounts set aside. In other words, the entire amount of the wage bill of A-E staff set aside in 1984, and part of the 0.5 percent of the April 30, 1985 wage bill for staff in these grades, would be required to bring the salaries of these upgraded staff to the range minima.

(ii) For staff upgraded into grades A9-B5, the allocation would account for approximately $160,000 of the amounts set aside. In other words, it would use only a very small proportion of the amount of the wage bill for F-M staff set aside in 1984. It would leave undistributed a balance of 1.3 percent of the April 30, 1984 wage bill for F-M staff and the whole amount of the F-M staff wage bill set-aside in 1985.

The dollar amounts left over, as shown in the Appendix, would be about $54,000 from the A-E wage bill and $975,000 from the F-M wage bill.

c. Which staff should receive the balance? The next question to be considered is whether this balance should be used only to give increases to upgraded staff (including those who have been brought to their grade minima under b.), or whether it should be distributed generally to all staff deemed not to be overpaid. An argument for using the balance to provide larger increases for upgraded staff is that, had their positions been correctly graded in the past, the incumbents would probably have been moving up through the applicable salary ranges, in the period since they were appointed to those positions, at much the same rate as they moved up through the (lower) range at which the position was previously graded. If so, a case could be made for placing them now at the percentile of their new range which corresponds to their present level in their former range. However, to adjust the salaries of these staff so that they are set at the same percentile in the new grades would require more than the balance of the amounts set-aside in 1984 and 1985, and the Executive Board would have to decide on a further appropriation if it wished to implement that approach. Moreover, staff who are upgraded can in any event expect that merit increases will be larger in the future because their salaries will be at the lower end of their grades, and their expectations for salary increases have been considerably enhanced. In addition, some substantial internal inequities would certainly arise if staff members are upgraded and their salaries are raised to the same percentiles in their new grades; this is because in a significant number of cases they would exceed the salaries of staff already in those grades who have been appropriately graded over the whole period.

It would be preferable, therefore, to adopt the principle initially endorsed by the Executive Board earlier this year, and distribute the balance to all staff not deemed to be overpaid. This would avoid the inequity that would otherwise arise if staff who have been shown by the grading exercise to be in appropriate salary ranges throughout the whole period were denied the increase indicated by the comparator market simply because other staff happened to be in jobs that were shown by the grading exercise to have been overgraded or undergraded.

d. <u>Modalities for Distribution to Staff "deemed not to be overpaid"</u>. For the reasons outlined above, it is considered that the balance of the set-aside amounts remaining after bringing all upgraded staff to the minima of their new salary ranges should be used to give those staff who are not above the maxima of their new ranges (i.e., who are not "overpaid") the same percentage increase that they should have received had the 1984 and 1985 survey results been applied in full, in accordance with the Fund's established policy. The undistributed amounts of the F-M wage bill set aside in 1984 and 1985 are sufficient to allow all staff in grades A9-B5 whose salaries are within the appropriate range in the interim salary structure to have retroactive salary increases of 1.6 percent from May 1, 1984 and 0.5 percent from May 1, 1985. After these adjustments for A9-B5 staff, a small balance would still remain. That amount could be added to the remaining balance of the A-E set-aside amounts, to provide a comparable across-the-board increase for all A1-8 staff whose salaries are within their correct ranges in the interim structure, i.e., an increase of 0.5 percent from May 1, 1984, and of 0.5 percent from May 1, 1985. After both these distributions, a balance of $136,000 of the total amounts set aside would still remain undistributed. This would provide a margin for salary action for downgraded staff who might successfully appeal their grading and thereby also be brought into the category of staff not overpaid.

e. <u>Raising the salary structure</u>. The calculations of amounts required for distribution to staff set out in d. assume that the distribution would occur within the range ceilings in the interim salary structure endorsed by the Executive Board at its meeting on December 11, 1985. This means, however, that staff whose current salaries are at the maxima of their appropriate salary ranges in the interim structure would not benefit at all from the distribution, while those close to the maxima would receive less than the full percentage granted to other staff. To avoid inequities of this kind, the usual practice of the Fund when making a general salary increase is to adjust the salary ranges upward by a corresponding percentage. If this practice were followed in this case, so that all staff other than those whose salaries are above the (increased) ceilings would receive the full increases indicated by the 1984 and 1985 surveys, the amounts required would be about $13,000 more than the amounts set aside. The set-aside decisions taken in 1984 and 1985 did not explicitly deal with this structural issue, although some Executive Directors indicated that they were not in favor of adjusting the structure. This is a question that needs to be addressed before a final decision on distribution is taken.

3. Parallelism with the Bank

Any distribution other than one that brings upgraded staff to the minima of their new salary ranges will involve a decision different to that taken in the Bank, and this raises the question of parallelism. However, in 1984 the survey of comparators indicated different increases for Ranges F-M (Bank J-Q) in the two institutions, and the Executive Boards of the Fund and the Bank took different compensation decisions; the Fund's Board approved a partial general increase of 4 percent and set aside 1.6 percent, while the Bank's Board approved only a general increase of 4 percent. Moreover, although the Bank did set aside 0.5 percent of the wage bill in 1985, this amount was specifically chosen as being the amount required to raise the salaries of upgraded staff to the minima of their new ranges; no comparable rationale could be given for this amount in the Fund. By contrast, in adopting the same decision as the Bank in 1985, the Fund's Executive Board left open the modalities of the distribution of the amounts set aside, and a variety of views were expressed on how this might be done.

In summary, the differences in the survey results and in the decisions in the two institutions in 1984 and 1985 indicate that parallelism provides no guidance for, or limitation on, the scope for the Fund to decide how to distribute the balance of the amounts set aside by the Fund after upgraded staff have been brought to the minima of their new ranges. A distribution to all staff who are within the ceilings of the interim ranges would certainly result in a commensurate change in average salary levels as between the two institutions as they exist at present. On the other hand, there is no basis for assuming that the existing relationship between average salaries in the two institutions at any given level has any special validity that should be preserved; the amount of change resulting from a distribution would be very modest; and there is a strong feeling on the part of Fund staff, which is understandable in the circumstances, that now that the grading exercise is completed and "overpaid" staff have been identified the rest of the staff is entitled to receive the amounts withheld in 1984 and 1985. The principle of parallelism may, however, assume greater weight in the context of the structural question discussed above, i.e., whether to adjust the interim salary ranges themselves before making the distribution. It was noted during the Board discussion on December 11, 1985 that there are some minor differences between the interim salary structures of the Bank and the Fund, reflecting differences in the preceding structures. An upward adjustment in the Fund's interim ranges would facilitate a more equitable distribution of the set-aside amounts as among Fund staff; but it would also modestly increase the differences between the Bank's interim structure and that of the Fund. Executive Directors will need to consider which of these considerations should take precedence.

Conclusions and Recommended Decision

With the implementation of the results of the job grading exercise, a decision is now needed on the modalities of the distribution of the amounts set-aside in 1984 and 1985. The logic of the existing system is that the full amounts set-aside should be distributed in order that Fund salaries are kept in line with the agreed market. The existing system, although currently under review, has not been changed and should be implemented until such time as the relevant decisions are changed.

The decision on the modalities of distributing the amounts set aside has to take into account a number of factors, and judgements can differ as to the weight to be attached to each. The concerns of Executive Directors, which prompted the original decision to set aside these amounts, were focussed on staff seen as overpaid and underpaid in relation to the market. Ideally, the results of the job grading exercise should be used in combination with a new survey of comparators to establish very precisely which staff are overpaid and underpaid in relation to the market, but this is not a practical approach at a time when the comparator market is being re-examined and the results of the job grading exercise are, therefore, being implemented in the context of an interim salary structure that retains the main features of the present structure.

In these circumstances, the most practical way to proceed is to decide on the recipients of the amounts set-aside in relation to the results of the job grading exercise. Clearly, it is necessary to increase immediately the salaries of those staff whose current salaries are below the minima of their new interim ranges, and the set-aside amounts can appropriately be used for this purpose. Given the reasons why the Board decided to set aside these amounts in the first place, it also seems clear that staff whose current salaries are above the maxima of their new interim ranges should not be eligible to receive any of the amounts set aside. As regards the staff that fall between these two categories, it would seem reasonable and appropriate that they should benefit from the distribution of the amounts; otherwise they would be penalized as a result of decisions that were prompted by the existence of the first two categories of staff.

The initial decision of the Fund's Executive Board on the 1985 Compensation Review provided for the full distribution, retroactively to the relevant dates, of the amounts set-aside; first, to staff deemed underpaid, and, second, to staff not deemed to be overpaid. It is recommended that the Executive Board again endorse the approach of this decision by approving the following modalities for the distribution of the amounts set aside in 1984 and 1985.

(i) All staff who are allocated to ranges in the interim salary structure with a minimum salary higher than the staff member's present salary will have their salaries increased to the minima of their new ranges with effect from May 1, 1984, or from the date they were appointed to their present position, whichever is later.

(ii) All staff, allocated to ranges A9 to B5 in the interim scale whose salaries are below the maxima of their new ranges (including those receiving increases under (i) above) will have their salaries increased by 1.6 percent with effect from May 1, 1984. Staff allocated to ranges A-1 to A-8 whose salaries are below the maxima of their new ranges, including those receiving increases under (i), will have their salaries increased by 0.5 percent with effect from the same date.

(iii) All staff included in (ii) above will have their salaries further increased by 0.5 percent, with effect from May 1, 1985.

(iv) [These increases will be subject to the range maxima contained in the interim salary structure.] [The range minima and maxima specified in the interim salary structure approved by the Executive Board on December 11, 1985 will be increased by percentages corresponding to those specified in (ii) and (iii) above, prior to implementation of these increases.]

If the interim salary structure is not raised, the estimated total cost of the retroactive salary increases specified above, including associated other personnel expenses, would be $3,356,000 for FY 1986. Thereafter, the annual total cost would amount to $1,959,000. If the structure were to be raised, this would add about $430,000 to the amount needed in FY 1986 and $250,000 to the annual cost thereafter. The FY 1986 Administrative Budget makes no provision for these salary adjustments, although preliminary indications are that total administrative expenditures in FY 1986 are likely to be about $3 million below the approved budget (see EBAP/85/297: 12/6/85). Accordingly, a request for appropriation for the implementation of the distribution would be submitted after the Executive Board has taken a decision on the modalities for distributing the set-aside amounts.

Distribution of Amounts Set Aside

1. The dollar amounts set aside in accordance with the 1984 and 1985 decisions of the Executive Board are as follows:

		Amount	Percent of Salaries
A-E	1984	$80,000	0.5
	1985	84,000	0.5
		$164,000	
F-M	1984	$850,000	1.6
	1985	285,000	0.5
		$1,135,000	

2. For the purpose of reviewing how much of these amounts would be used by different distributive methods, the following assumptions were made:

First, it was assumed that proposed new grades A1-A8 correspond to the present ranges A-E. A discussion of the relationship between A1 to A-8 and A-E is included in the paper on the grade and salary structure (EBAP/85/284, 11/25/85). The rationale for the relationships includes: (i) A8 is viewed as an extension of the support staff ladder; (ii) overtime is currently paid for ranges A-E and it is proposed that it be paid for ranges A1-A8; (iii) it is proposed that the break between locally and internationally recruited staff be set between grades A8 and A9; and (iv) the local market survey data on which the A-E set asides were determined included positions up to 340 Hay points (346 Hay points is the median for proposed grade A8).

The second assumption is that the grades A9-B5 correspond to the present ranges F-M. The logic is the same as outlined above for A-E staff.

The third assumption for the purpose of determining costs is that any distribution would be made on the basis of the current salary in relation to the grading of the current position of each staff member, and intervening career moves, either promotions or transfers that have occurred between May 1, 1984 and the present have been ignored. Retroactive payments are assumed to be made with effect from May 1, 1984, or from the date on which the staff member attained his or her current grade if that date is more recent.

The fourth assumption is that staff who are paid within the range for their position under the interim salary structure would receive retroactive increases that would be limited by grade maxima.

3. The estimated use of the set-aside amounts under the distributive methods outlined in Section II are:

a. Bring the salaries of staff to the proposed minima in the interim salary structure.

		Amount	Percent of Salaries
Ranges A1-A8		$110,000	0.7
Ranges A9-B5		$160,000	0.3
	TOTAL	$270,000	

This leaves a balance of $54,000 (0.3 percent) for Ranges A1-A8 and a balance of $975,000 (1.8 percent) for Ranges A9-B5.

b. Apply the balance in the form of general increases of the same percentages as the amounts set aside to all staff deemed to be not overpaid within the grade maxima of the interim salary structure.

		Percent Increase to Eligible Staff	Amount	Percent of Wage Bill for Total Staff
1984	Ranges A1-A8	0.5	$54,000	0.36
1985	Ranges A1-A8	0.5	$53,000	0.35
1984	Ranges A9-B5	1.6	$596,000	1.11
1985	Ranges A9-B5	0.5	$190,000	0.35
Total Ranges A1-A8 and A9-B5			$893,000	

4. The total amount to be applied to increasing salaries to grade minima ($270,000) and applying across-the-board adjustments to staff deemed to be not overpaid ($893,000) would be $1,163,000, compared with the total of $1,299,000 set aside. Thus, a balance of $136,000 would remain from the original amounts set aside. If the salary structure were raised, this would add about $149,000 in salary increases, thus exceeding the total amounts set aside by $13,000.