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EBAP/84/266

December 10, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Review of Expatriate Benefits

There is attached for consideration by the Executive Directors a paper on the review of expatriate benefits. Draft decisions appear on pages 8 and 9.

This subject will be brought to the agenda for discussion on a date in January to be announced.

If Executive Directors have technical or factual questions realting to this paper prior to the Board discussion, they should contact Mr. Keyes (ext. (5)8207).

Att: (1)

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INTERNATIONAL MONETARY FUND

Review of Expatriate Benefits

Prepared by Administration Department

December 7, 1984

I. The Review Process

The Review of Staff Compensation for 1980, discussed by the Executive Directors at EBM/81/86, June 5, 1981, provided that an examination should be made of the adequacy of expatriate benefits. The Bank's Executive Directors at the same time supported a similar undertaking. The results of this examination are contained in the attached background report entitled "Expatriate Benefits--A Survey of Options" (Attachment I). The survey, which led the way to this paper, is the product of close cooperation between representatives of the Compensation Department of the Bank and the Administration Department of the Fund. It did not attempt to evaluate or rank the various options from a budgetary standpoint. Its purpose was essentially to examine the rationale for existing benefits and to assess how well they (a) met the needs of the expatriate staff; and (b) compared with the expatriate benefits given by our compensation comparators and by other international organizations.

Although it was not originally envisaged that the exercise would encompass an examination of the case for an explicit expatriation allowance, it soon became obvious that to refrain from doing so would leave many unanswered questions and would detract substantially from the comprehensiveness of the study. An examination of this issue led to the unambiguous conclusion that, from the viewpoint of the international competitiveness of Fund compensation, the need for the introduction of an explicit expatriation allowance did not now exist.

Questions raised in the course of the survey led to the reexamination of another issue that had not fallen within the purview of the exercise as originally conceived, viz., the appropriateness of continuing to adhere to nationality as the sole criterion for eligibility for expatriate benefits --the position endorsed by the Joint Committee on Staff Compensation Issues in its 1979 Report. This matter is discussed in Section III below and in Appendix I to Attachment I. In view of the different approaches taken at staff level by the Bank and the Fund on the criteria to be used for determining expatriation as well as on the features of a system that would facilitate more frequent home leave, a Working Group comprising six Executive Directors (three Bank and three Fund) was convened to reconcile differences. The Report of this Working Group is to be found in Attachment II to this Report.

II. Summary and Assessment of Survey Findings

At the second stage of the exercise, viz., the examination of the findings of the survey, the managements of the Fund and the Bank have endeavored to weigh the facts and opinions that have emerged from the study and, where appropriate, to develop proposals that take due account of budgetary constraints.

Given the heterogeneous nature of service abroad--ranging from private firms that assign a few employees overseas, typically for periods of a few months to a couple of years, to international organizations where a large proportion of the staff is expected to serve in a country other than the home country for an entire career--it is not surprising that applicable benefit practices vary widely. 1/ Accordingly, if an eclectic approach to comparator practices were to be followed, arguments could be marshalled for some selective improvements in Fund benefits. However, it is the considered opinion of the managements of the Fund and the Bank that, overall, their expatriate benefits are neither excessive nor deficient when compared with other international organizations. A similar conclusion might be reached when looking at private sector comparators, where benefits for expatriate staff appear *prima facie* to be more generous, if it is remembered that, in such cases, the norm is for dislocations to be of relatively short duration, calling for a different structuring of benefits than are needed in organizations like the Fund and the Bank.

Nevertheless, the managements of both the Fund and the Bank consider that the review has indicated a few areas where improvements in benefits, or a change in the mix of benefits, might be warranted, especially since they would involve no net additional cost. The proposed adjustments to expatriate benefits are set out in Section IV below.

III. Eligibility Criteria for Expatriate Benefits

As noted above, it was not originally anticipated that the review would examine the issue of eligibility for expatriate benefits. In the course of the survey, criticism was levelled at present practice of the Fund and the Bank on the score that they adhere to a more lenient definition of expatriation than other international organizations, making no distinctions based on residency (as in the Organization for Economic Cooperation and Development (OECD) and the European Communities (EC)), 2/ visa status (as at the United Nations (UN) and the Inter-American Development Bank (IADB)) or staff category (as at the UN and OECD). As is inevitable, cases were cited where individuals were receiving the full range of expatriate benefits whose ties to a country, other than the duty station country,

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1/ Appendix A (Comparison of Benefits) provides a summary of expatriate benefits provided by the Fund, other international organizations, and financial and industrial sector employers in France, Germany and the United States.

2/ Non-duty station country nationals on the staff of the OECD and EC are ineligible for expatriation benefits if they have lived continuously more than 3 and 5 years respectively in the duty station country before joining the organization.

were tenuous, thereby leaving the Fund and the Bank vulnerable to the charge that they had extended expatriate benefits to some non-U.S. staff members who appear to have made firm decisions to settle in the United States before joining the organizations. Given the significant and long-term implications of this eligibility question, not only for the image of the Fund and the Bank but also for budgetary purposes, it was decided that the time had come when consideration should be given to taking a more restrictive approach.

The Fund's Administration Department and the World Bank's Compensation Department explored possible alternatives to the existing nationality "test" of expatriation and reviewed the current practices of other international organizations. Although the managements in both the Fund and the Bank agreed on the desirability of adopting a more rigorous eligibility test to establish who is an expatriate, there was no agreement on the type of test to be introduced. The Fund favored a test based not on visa status but on residence in the United States prior to appointment. The issue was referred to the ad hoc Working Group, which recommended that eligibility for expatriate benefits be based on visa status prior to appointment, the approach favored by the Bank. Specifically, it recommended that the Bank and the Fund should adopt a policy whereby new staff members who had been in permanent resident (PR) status at any time in the twelve-month period prior to appointment would be ineligible for expatriate benefits irrespective of any future change in visa status. Therefore, if a staff member holding a PR visa were to change to G(iv) visa status, he would not be eligible to receive expatriate benefits. As a corollary to the visa-based limitation on eligibility for expatriate benefits, all staff should be free to take out PR status but would, with the exception noted below, lose eligibility for expatriate benefits on doing so. 1/ The exception recommended by the Working Group is that any existing staff member who had already formally applied for a change in visa status, or who does so in the twelve months immediately following the adoption of the new policy, shall not lose eligibility for the existing expatriate benefits package. Expatriate staff already in PR visa status will retain eligibility for existing benefits.

IV. Summary of Findings and Proposed Changes in Benefits

1. Home contact

The survey showed that the frequency of home leave was an area where improvements should be considered. Both the Fund and the Bank provide home leave at intervals no more frequent than once every two years while, by contrast, yearly travel home tends to be the norm for the private sector, and varies between one and two years for other international organizations. The study notes that the existing policy would probably be adequate if occasional contact with the home country were the desired objective. If, however, the aim is both to preserve fully the international nature of the staff and to afford them and their families the opportunity to

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1/ For a description of the evolution of the present policy, see Appendix I to Attachment I.

maintain their social, cultural and professional links with the country to which they will eventually return, then more frequent home contact would be desirable, assuming that such an improvement in benefits could be effected without significantly raising costs.

Both organizations also favor retaining the existing three-year option in first class and two-year option in business class and agree that the goal of giving the staff the opportunity to travel home more frequently, if they so wish, should be incorporated into a third option that would be linked to a reduction in the class of travel. However, despite extensive consultations, it was not possible to reach an acceptable joint proposal. This issue was also referred to the ad hoc Working Group of Fund and Bank Executive Directors, which considered two alternative approaches. The approach generally favored by the Working Group was a a "points scheme" under which supplementary travel to the home country would be given upon the accumulation of a certain number of points which would be allocated each time home leave travel was by economy class. The Working Group's endorsement of this approach was subject to the proviso that there should be no increase in costs of home leave. In light of these considerations, the following scheme has been worked out between the administrations of both organizations:

a. Points would be earned for regular home leave travel at Fund expense by the staff member and each eligible dependent as follows:

- first class or business class fare	0 points
- unrestricted economy class fare	100 points
- restricted economy class fare (excursion/APEX)	150 points

b. The Fund would meet the cost of one round trip ticket to the home country (no stopover or in-and-out expenses, excess baggage, home leave allowance or travel time) for use by the staff member or eligible dependents upon surrender of:

- 400 points for travel by unrestricted economy fare

- 300 points for travel by excursion/APEX fare

c. For children traveling at less than the full adult fare, the points earned and the points to be surrendered for additional travel would be prorated.

d. Any cancellation fees that result from change of travel plans would be borne by the staff member.

e. Any unused points to the staff member's credit on leaving Fund employment would lapse.

This scheme is based on the current airfare structure whereby, on a weighted average basis, economy class fares and excursion/APEX fares are below business class fare by some 20 percent and 35-50 percent, respectively. As such it will not lead to additional costs to the Fund. The scheme would be subject to review, from time to time, in the light of changes in the air-fare structure.

The Fund has already initiated measures designed to curb costs of home leave travel by eliminating entitlement to stopovers in "high intermediate points" (i.e., stopover cities which have the effect of increasing the total fare), using the direct airfare for the class of travel concerned as published by the majority of airlines, and by eliminating the excess baggage entitlement (10 kgs per person) on routes where restrictions are based on the number of pieces of luggage rather than by weight.

2. Education of children

Children's education represents a real and specific additional cost for expatriates. They arise because in many cases education up to and including university level is usually provided free or at minimal cost for residents of the home countries. We believe the present arrangements, even though less generous than those provided by most private sector comparators and governments for foreign service personnel, are appropriate. These are that the Fund meets 75 percent of the cost of tuition and board (if necessary), and provides reasonable flexibility to parents to determine the education which will best enable the child(ren) to re-enter the home country educational and employment environment. The review suggested, however, two minor improvements. The first is an attempt to assist in meeting the cost of a third vacation trip home for children being educated outside the duty station country, in years when staff members traveling under the two-year option are not eligible for home leave. At present, staff members must bear an additional cost either in terms of an extra visit to the duty station in the "off" year by the child or meeting the costs of board and lodging in the other country during the vacation, neither of which are reimbursed by the Fund. We are recommending that the Fund meet the cost of an additional trip in such years, provided that all travel other than the one-way trips at the beginning and end of the academic year, be at less than regular economy fares. It is possible to provide this extra travel at no extra cost to the Fund by using APEX or other excursion fares. Although the use of restricted fares of this kind would not always be practicable in the case of home leave travel (because of last minute changes in dates of travel, often for work reasons), there should be little difficulty in doing so for children's visits since the dates of school vacations are generally known well in advance.

The other improvement for consideration is that the age limit for the education allowance be raised by one year to allow some students, especially in Europe, to finish their undergraduate studies. An examination of recent education allowance applications reveals that the costs of raising the age limit for the Fund would be small: currently only one student would be affected in the Fund. For the Bank, however, the cost would be proportionally much higher, and because of this it is not proposed to raise the age limit save for students who are obliged to interrupt their studies to undertake military service, for whom it seems only reasonable that a one-year extension of the age limit be granted.

The review considered the question whether education allowances should be paid for children of non-U.S. staff studying at universities in the duty station country. It is recognized that the children of some expatriates, having been brought up in the United States, will inevitably attend U.S. universities and that education costs in some cases are somewhat greater for the expatriates than for their U.S. counterparts, because of restricted access to scholarships and other forms of financial support. Such extra costs are difficult to quantify, and do not fall equally on all expatriate students. Because of this, it is difficult to argue that university education in the duty station should be explicitly provided for. The solution that was suggested in the study, viz., that the limit on salary advances for education costs be extended from six months to one year, is not being recommended since comparator practices do not lend support to such a change.

3. Other benefits and services

In the course of the survey, considerable interest was expressed by the staff for greater involvement by the organization in helping spouses and children of G(iv) visa holders find suitable employment. The personnel departments of the Fund and the Bank do not have the internal resources for this task, and to acquire such expertise or to have recourse to employment agencies would not only be expensive but would not necessarily be effective.

The study also noted that expatriate staff members are likely to encounter substantial difficulties when legal and financial issues arise that are peculiar to their expatriate status, e.g., investment, tax or visa problems. They can often incur relatively heavy expenses in obtaining professional assistance to resolve such problems, which are not normally encountered by U.S. citizens. While assistance would be both effective and appreciated, it is by no means clear how far the organizations should go. Certainly, the Fund or the Bank should not take upon itself the role of primary provider of counselling on what are frequently personal decisions. It seems that an attitude of cautious enhancement of information services in these areas would produce the best results.

To this end, provision was made in the FY 1985 budget to augment the Fund's Legal Assistance Service. Furthermore, where issues arise that affect expatriate staff in general and that require specialist knowledge, it is envisaged that the Fund would have recourse to suitable specialists either for the provision of opinions and advice or, if appropriate, to conduct seminars for the expatriate staff. While perhaps a conservative approach to the problem, it is deemed preferable to the provision of cash subsidies which, at worst, could prove very costly. The Bank proposes to adopt a similar approach.

V. Conclusions and Recommendations

The review of expatriate benefits now completed has permitted a timely assessment of the rationale for existing benefits, a compilation of comparator practices and a weighing of their relevancy in the Fund milieu. It cannot be claimed that our existing benefits answer fully the needs of all expatriate staff or, indeed, those of any individual staff member over an entire career. Nevertheless, it is the best judgment of the managements of the Fund and the Bank that their expatriate benefit package constitutes a reasonable and adequate attempt to meet the most pressing expatriate needs.

It is true, nonetheless, that the world as it existed when most expatriate benefits were introduced has changed, sometimes dramatically. Home contact is an area where a benefit that was generous in its frequency when first introduced has, with the growth of air travel, been surpassed by many employers of expatriate staff. The opportunity to travel to the home country more frequently should serve to enhance the cultural diversity of an international staff and alleviate the problems of expatriation that staff members and their family members may encounter. It might have simpler, and perhaps more consistent with the aims of home leave policy, to eliminate first class travel completely and to permit annual home leave by economy class travel standard. Cost estimates based on the fare pattern prevailing in October 1984 indicate that if all eligible staff were to avail of annual travel, airline ticket costs would increase by 52 percent. While it is clear that not all eligible staff would avail of annual home leave, the potential increase in cost is such that the "points scheme" described above may best reflect a balancing of conflicting considerations. In case of education travel, it is possible to permit the reunion of families in school vacations. These improvements can be effected without incurring any extra cost.

The most contentious area on which the review has focused has been the question of what criteria should be applied in deciding who qualifies for expatriate benefits. It had become increasingly difficult to defend a system that extends all expatriate benefits merely on the basis of nationality to individuals who have freely decided, prior to Fund employment, that they had relocated permanently to the United States. As noted, the Fund and the Bank were unable, at the staff level, to find an agreed solution. The difference stemmed from fundamental and long-established differences in policy orientation. The Fund has, from its inception, rejected visa status as the appropriate eligibility test, while the Bank, on the other hand, has based its policy on such a test for the greater part of its history. Under these circumstances, the Bank and Fund managements sought the assistance of members of their Executive Boards in working out an agreed proposal. The consensus was that henceforth visa status should be the test for eligibility for expatriate benefits.

As a corollary to the tightening of the eligibility criteria for expatriate benefits, the Working Group of Executive Directors recommended the removal of the restriction that now applies to all staff recruited at Ranges F-M against taking out PR visas. In connection with the removal of this restriction, the World Bank is proposing to introduce a restriction on expatriate staff in ranges equivalent to the Fund's Ranges F-M from taking out U.S. citizenship. Without such a restriction the Bank is concerned that (a) there might be a shift in nationality distribution from non-U.S. to U.S. nationals; and (b) the cost arising from the need to pay allowances for U.S. income taxes would far exceed the cost of all expatriate benefits. In this connection, tax allowances for F-M staff in FY 1985 are estimated at 61.6 percent of U.S. staff salaries while expatriate benefits are equivalent to 9.6 percent of expatriate staff salaries. No such restriction is being proposed in this paper, partly because it is judged that the risk of a significant shift in nationality distribution is slight and can, in any case, be offset through recruitment. More importantly, it is felt that since no permission is now required by staff members who wish to change citizenship, the imposition of a restriction based solely on the acquisition of U.S. citizenship would be discriminatory in nature.

Accordingly, the following decisions are recommended for favorable consideration by the Executive Board:

1. Eligibility criteria for expatriate benefits

a. New staff who have held permanent resident (PR) status at any time in the twelve months prior to appointment will be ineligible for expatriate benefits irrespective of any change in their visa status unless required by the Fund to take out G(iv) visa status.

b. Subject to c. below existing expatriate staff, irrespective of visa status, will continue to be eligible for existing benefits and any updating thereof. Entitlement to any new benefits will be decided at the time they are introduced.

c. New or existing staff in G(iv) visa status will lose eligibility for expatriate benefits on taking out permanent resident status except that existing staff who have already formally applied for PR status, or who may do so in the twelve months immediately following the implementation of the new policy, will not lose their eligibility.

d. Staff in G(iv) visa status at any level will be free to apply for PR status at any time but, with the exception noted in c. above, will lose eligibility for expatriate benefits at the time they take out PR status.

2. Home leave. The present provisions that permit home leave travel at two- or three-yearly intervals shall remain unchanged. Staff members and eligible family members shall, however, accumulate points for each home leave trip undertaken at a travel standard that is lower than business class.

The number of points accumulated shall be 100 for unrestricted economy class, and 150 for restricted economy class or its equivalent. An entitlement to travel to the home leave destination by unrestricted economy class shall be reached when 400 points have been accumulated and by restricted economy class when 300 points have been accumulated. No home leave allowance, travel allowances, travel time or other allowances of any kind will be granted when the additional air tickets are given.

3. Education travel. Children of Fund staff studying outside the country of assignment shall receive five round trips over a period of two full academic years, as compared with two round trips per year under the current provision, provided that all travel other than one-way trips at the beginning and end of each academic year be at less than economy class fares.

4. Education allowance. The maximum age for receipt of education allowances shall remain unchanged except in the case of children whose studies have been interrupted for obligatory military service of at least six months, in which case eligibility will remain for one extra year, i.e., the scholastic year in which a child reaches his twenty-fifth birthday.

VI. Cost Implications

The cost implications, on an annual basis, of the various changes proposed above are:

	Additional Cost	Cost Reductions
Restriction of eligibility criteria	--	from \$60,000 in second year rising in similar amounts to \$540,000 in 10th year, and \$1.1 million ultimately.
Home leave travel (Points scheme)	--	\$35,000, if all staff opted for unrestricted economy class option, and \$900,000 if all staff opted for "restricted" economy class.
Education benefits		
Extra trip every second year		\$20,000
Raise maximum age to 25	\$5,500	

VII. Views of World Bank

With the exception of the restriction that the Bank proposes to impose on the acquisition of U.S. citizenship, we understand that the President of the World Bank is making the same recommendations to the Bank's Executive Directors.

Attachments

Comparison of Benefits

	INTERNATIONAL ORGANIZATIONS 1/				PRIVATE SECTOR COMPARATORS 2/					
					FRANCE		GERMANY		UNITED STATES	
	FUND	UNITED NATIONS	OECD	EC	Financial	Industrial	Financial	Industrial	Financial	Industrial
Education										
o Expenses	75% Max. $4,000 at duty station; $5,800 outside duty station. (UNPAI adjusted)	75% $4,500 maximum	70% Max. 2.5 times children's allowance in duty station country or 3.0 times children's allowance in home country 3/	BF 3,891 per month for school within 30 miles; BF 7,782 for school more than 30 miles.	100% for French Lycee	Practice ranges from FF 1,000 per month to 100%.	100%	Nothing or 100%	100%	100% with adjustments for university in some cases .
o Travel	2 round trips per year. Cost limited to trip between home country and duty station.	One round trip or 2 round trips if school is outside duty station in years when there is no home leave. Cost limited to trip between home country and duty station.	One round trip if school is more than 190 miles. None if home leave round trip is claimed in the same year. Cost limited to trip between home country and duty station.	None.	None specified.	None specified.	None specified.	None specified.	Practice ranges from 1 to 2 round trips per year.	Practice ranges from 1 to 2 round trips per year.
o Age limit	End of academic year in which child reaches 24th birthday	End of academic year in which child reaches 25th birthday.	Age 26	Age 26	None specified.	None specified.	None specified.	None specified.	None specified.	None specified.
Home Leave										
o Frequency	Every 2 years.	Every 2 years.	Every 2 years.	Within Europe: Annually for home country within 30-450 miles; 2 times per year for home country more than 450 miles. Outside Europe: Annually.	Annually.	Annually.	Every 2 years.	Annually after 2 years.	Annually,	Annually.
o Travel	Economy class on 2-year option, or 1st class on 3-year option.	Economy class.	Economy class, except at high level.	Varies according to mode of transportation and position level.	Economy class.	Economy class.	Economy class.	Economy class.	Economy class.	Economy class.
o Allowance	$860--staff member $430--spouse $430--each child	None.	Additional 8 days leave time.	None.	None.	None.	None.	None.	None.	None.
Installation	If eligible,(normally staff F-M only).									
o Allowance	Settling-in grant: 8 weeks salary--staff with family; 4 weeks salary--single staff Installation: $2,560--staff $1,280--spouse $1,280--child over 4 years $640--child under 4 years	30 days subsistence ($98 per day) --staff member; half that amount for each additional family member.	1/6 annual salary--2 or more children 1/8 annual salary--spouse and/or one child 1/12 annual salary--no dependents.	2 months salary--with family 1 month for single Plus daily subsistence allowance 5/ 180 days with family (approx. $2,500); 120 days without family (approx. $1,300).	Nothing or 2 months salary plus children's allowance.	One month salary or installation expenses plus family allowance.	Installation expenses or furniture allowance.	Two months salary or installation expenses.	Practice ranges from 3% to 25% of annual salary plus home sale expenses.	Home sale expenses allowances to cover losses.
o Travel	First class airfare.	Economy class.	Economy class. First class if flight exceeds 9 hrs.	Varies according to mode transportation and position level.	Economy class.	Economy class.	Economy class.	Economy class.	Economy or first class depending on position level.	Economy or first class depending on position level.
o Shipment of furnishings	11,000 lbs.--family 7,000 lbs.--single Car	18,000 lbs.-family 10,800 lbs.-single	Maximum 16,000 lbs Plus 1,000 lbs. per child	Weight limit not specified.	All furnishings.	All furnishings.	Furnishings plus car	All furnishings.	Furnishings plus car.	Furnishings plus car.
Repatriation	F-M staff eligible after 2 years; A-E staff after 5 years.		After 2 years service	After 4 yrs service						
o Allowance	Resettlement allow. 80% of inst. allow. Separation allow. For those with over 5 years' service 2 weeks' net salary per year of service after July 1, 1979	Max. 28 weeks salary based on years of service. 4/	Same as instal. allow. Prior to 2 years 1/2 installation.	2 months salary with family 1 month salary for single	Same as installation.	Same as installation.	Same as installation.	Same as installation.	Same as installation.	Same as installation.
o Travel	First class airfare.	Economy class.	Eco. class (1st class if flight exceeds 9 hrs.)	Same as installation.	Same as installation.	Same as installation.	Same as installation.	Same as installation.	Same as installation.	Same as installation.
o Shipment of furnishings	Same as installation (within 90 days of separation).	Same as installation.	Same as installation (within 2 years of separation)	Same as installation (within 3 years of separation)	Same as installation.	Same as installation.	Same as installation.	Same as installation.	Same as installation.	Same as installation.
General Expatriation 6/	None	None	20% of salary if receiving household allowance 16% if not receiving household allowance FF 2,262 per year for each child not receiving educ. allow.	16% of salary.	Practice ranges from 10% of salary to 50% of salary including housing.	Practice ranges from 10% to 25% of salary.	Practice ranges from 10% to 40% of salary.	Practice ranges from none to 30% of salary.	Practice ranges from none to 10% of salary.	15% of salary.

FOOTNOTES

1/ For international organizations the benefits described apply to expatriates recruited for employment at the headquarters location.

2/ For private sector comparators the benefits described apply to expatriates assigned to the United States for a temporary period, typically one to four years. The information represents the trend among the comparators surveyed in the 1980 Compensation Review.

3/ Children's Allowance: FF 8,065.20 per annum.

4/ UN Repatriation Schedule:

Years of continuous service away from home country	Staff member with a spouse or dependent child at time of separation	Staff member with neither a spouse nor a dependent child at time of separation: Professional and higher categories	Staff member with neither a spouse nor a dependent child at time of separation: General Service category
1.............	4	3	2
2.............	8	5	4
3.............	10	6	5
4.............	12	7	6
5.............	14	8	7
6.............	16	9	8
7.............	18	10	9
8.............	20	11	10
9.............	22	13	11
10.............	24	14	12
11.............	26	15	13
12 or more	28	16	14

5/ EC Daily Subsistence Allowance:

Article 10(8)(10)(13)(19)(23)(27)(30)

1. Where an official furnishes evidence that he must change his place of residence in order to satisfy the requirements of Article 20 of the Staff Regulations, he shall be entitled for a period specified in paragraph 2 to a daily subsistence allowance as follows:

LEVEL	Entitled to household allowance: 1st to 15th day	Entitled to household allowance: from 16th day	Not entitled to household allowance: 1st to 15th day	Not entitled to household allowance: from 16th day
	(Belgian francs per calendar day)			
A1-A3, L/A3	1 392	655	957	549
A4-A8 L/A4-L/A8,B	1 350	612	915	478
Other	1 225	572	788	395

6/ When salary comparisons are made with other institutions, any expatriation allowances paid by the international organizations are included in salary whereas the expatriation allowances paid by private sector firms are excluded from the comparisons.

INTERNATIONAL MONETARY FUND

Expatriate Benefits--A Survey of Options

Prepared by Administration Department

December 7, 1984

In considering the Managing Director's recommendations on the 1980 Comprehensive Compensation Review, the Executive Directors agreed that an examination should be made of the adequacy of expatriate benefits, especially in view of the decision not to follow outside practices regarding the explicit premia paid for expatriation.

The review was conducted by a working group comprising staff members from the Administration Department of the Fund and the Compensation Department of the Bank, in consultation with their respective Staff Association Committees. As originally envisaged, the review was to be confined to determining needs that were peculiar to expatriate staff, to assessing how far Bank-Fund expatriate benefits met these needs, and to considering the extent to which the organizations should go in meeting them, taking into account the policies of comparator organizations surveyed in 1980 by Hay Associates and those of other international organizations.

The possible modifications in benefits discussed in this paper were considered on the assumption that the eligibility criteria for expatriate benefits would remain those approved by successive Executive Boards and endorsed by the Joint Committee on Staff Compensation Issues in its Report issued in 1979 (Chapter 4, Sections 11-16 and 17 (vii)). However, during the course of the review, the Bank and a number of the Fund staff members consulted expressed the opinion that this issue should be re-examined. In response to these views the considerations governing eligibility for expatriate benefits are presented in Appendix I.

The review highlighted the wide differences in needs between expatriate staff members and, indeed, for the same staff member at different stages of his career. In addition, some needs, though real, are particularly difficult to quantify. It is hardly surprising that, in the circumstances, views were expressed that the case for an explicit expatriation allowance should be reconsidered, not least because it was felt that such an allowance might represent an acceptable common denominator. The issue is therefore discussed in the first section of this paper.

The review did not include the Home Currency Option (HCO). This arrangement, which was in operation from July 1979 until June 1982, was intended to provide staff members with a measure of protection against erosions of the purchasing power of that portion of salary which they chose to spend or to save in their home country. Up to 20 percent of salary could be remitted home by means of the HCO. Its exclusion from this review is because it was intended to protect against the erosion of purchasing power rather than to be a benefit per se.

1. The arguments for and against an expatriation allowance

An examination of comparator practices lends little evidence in support of viewing an expatriation allowance as an alternative to specific benefits. Indeed, most of the comparators surveyed, while having an explicit expatriation allowance, also provide expatriation benefits that are roughly similar in purpose to those of the Fund.

The clear impression gleaned from an examination of the practices of comparators and of international institutions is that explicit expatriation allowances, where they exist, serve two main objectives. First, the allowance may be regarded as compensation for the disruption in the lives of the employees and their families. Such foreign service premia are found very frequently in the private sector and are often geared to the needs of personnel on 1-3 year assignments. Many firms are, however, reluctant to continue these incentive payments to employees on long-term assignment overseas, arguing that, after a number of years at post, employees have adapted adequately to their new environment. To avoid this problem, some organizations prefer to give a lump-sum settling-in grant at the outset instead of a continuous allowance. Such a lump-sum payment offers the employee a substantial cash incentive to undertake the assignment as well as providing him with financial assistance when he needs it most.

The second objective of an expatriation allowance is the provision of a "premium" to ensure the international competitiveness of an organization's compensation. This appears to have been the purpose when this practice was established in the Organization for Economic Cooperation and Development (OECD); it was later taken up by the European Communities (EC) in 1962. The United Nations (UN), after paying expatriation allowances for five years, discontinued the practice in 1951. Although it has considered its reintroduction on a number of occasions since then, payment of the allowance has never been resumed. It is noteworthy that the absence of an explicit expatriation allowance during the Fund's first quarter century was not subject to serious questioning, even though the payment of such allowances was widespread for private firms, government agencies and European-based international organizations. It is reasonable to infer that during this period Fund salaries were competitive internationally. This is hardly surprising since U.S. living standards were among the highest in the world and U.S. salaries, when converted into other currencies, were considered to be favorable. This situation changed during the 1970s, very largely as a result of the depreciation of the U.S. dollar vis-a-vis most major currencies.

A comparison of Fund salaries with those of the EC and OECD (including the expatriation allowances granted in each institution) during this period is given in Figures 1 and 2 below and will serve as an example of what occurred. In the decade ended 1980, the Belgian franc and French franc appreciated 71 and 31 percent, respectively, against the U.S. dollar. During this period, the salaries of the EC and OECD gained rapidly in nominal terms, relative to the Fund. By 1979 EC and OECD salaries at the equivalent of Range I were, respectively, as much as 70 percent and 47 percent ahead of the corresponding Fund salary when converted into U.S. dollars at the prevailing exchange rates.

Since then, however, the Fund has regained a competitive edge in large part because of the appreciation of the U.S. dollar. If, therefore, an expatriation premium is to be regarded as an appropriate device for ensuring the international competitiveness of Fund salaries, the need for its introduction does not now exist. Furthermore, even if the need did exist, the situation would logically call for the establishment of a variable premium; the sharp variations of exchange rates in either direction experienced over the past decade would argue against the introduction of a flat amount or a fixed percentage of salary.

This issue is closely related to the question of the choice of the appropriate conversion factor to be used in comparing salaries across countries. While the use of a purchasing power parity index is intellectually appealing, the difficulties of finding the appropriate index are considerable. These difficulties were examined in the paper on Exchange Rate Conversion Factors for the International Salary Comparison Survey (EBAP/81/82, 3/13/1981) and were discussed by the Executive Board on April 21, 1981.

FIGURE 1

RATIO OF EC AND OECD SALARIES TO FUND SALARIES, 1970-82

(EC and OECD salaries were converted into U.S. dollars at the average exchange rate for each year observed and expressed as a percentage of comparable Fund salary)

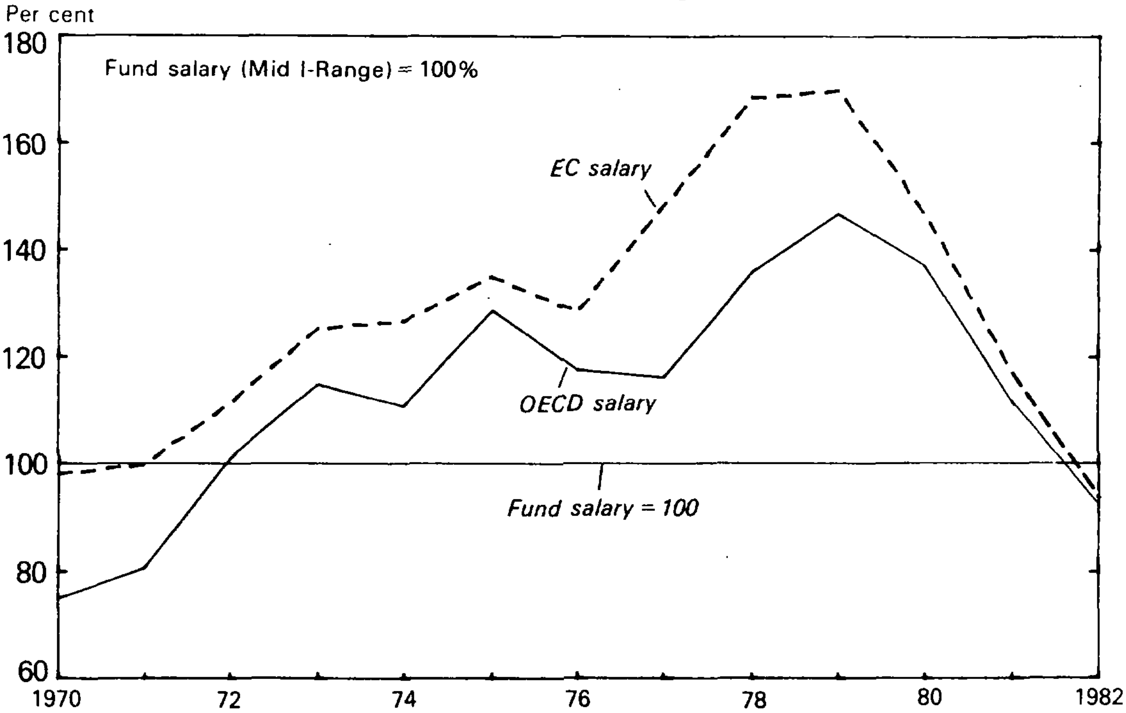
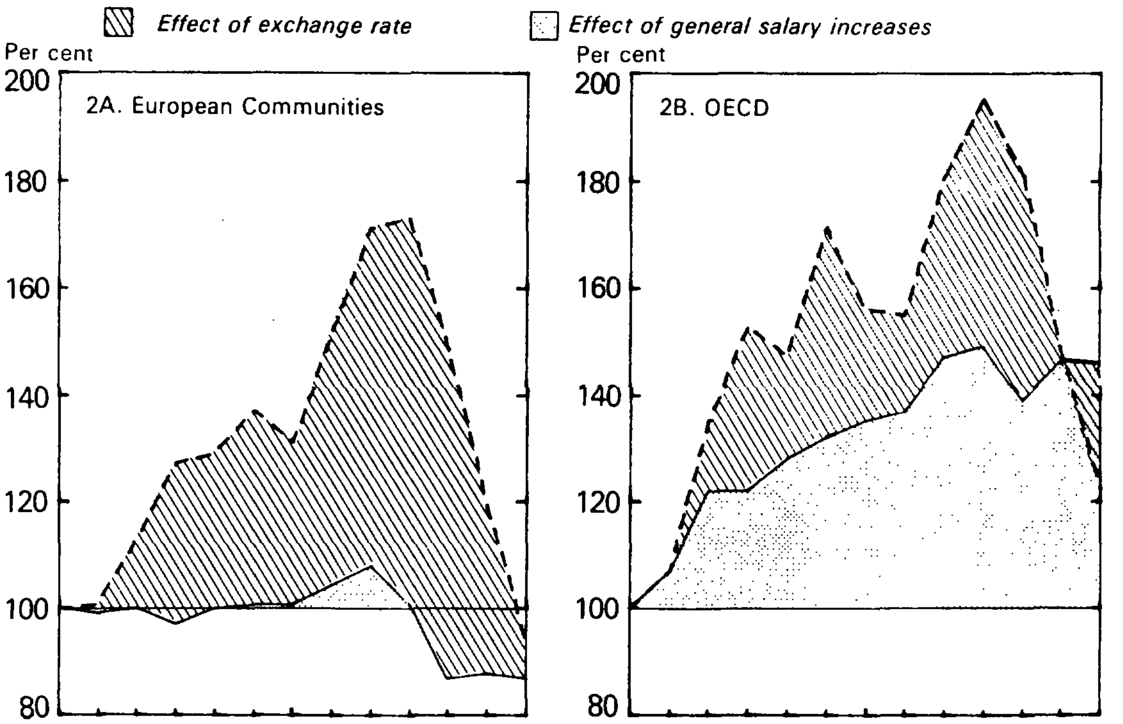


FIGURE 2

ANALYSIS OF THE CHANGE IN EC AND OECD SALARIES RELATIVE TO FUND SALARIES AS ILLUSTRATED IN FIG. 1



A case can, nevertheless, be made for an expatriation allowance on different grounds: it is impossible to provide specific benefits which will cover the reasonable needs of all expatriate staff members. Indeed, from an administrative point of view, a policy that addressed each and every expatriate need would be impracticable and very costly. By contrast, a modest expatriation allowance has a certain allure as a means of compensating for these diverse expenses. The allowance would help in covering actual but variable expenses, for example, the added cost of contact with the home country, purchase of imported foods, etc. It would also compensate for intangible factors, such as the psychological costs of separation from family and culture, the uncertainties resulting from differences between the United States and the home country laws relating to the disposal of real property and financial assets, and the lack of local knowledge regarding the efficient purchase of goods and services.

Although there can be little doubt that these additional expatriate "costs" exist, it is nevertheless a debatable question whether the Fund should meet such needs with an explicit expatriation allowance. The answer to this question depends in part on how the Fund wishes to compare its practices with those of other employers concerning specific benefits and in part on the adequacy of any implicit premium already included in current salary levels. Fund salaries contain a 10 percent quality premium above U.S. comparators, and to the extent that Fund salaries when compared with those of foreign comparators contain a premium that exceeds 10 percent, as was the case in the 1984 survey, the excess might be viewed as an implicit expatriation premium.

The present compensation policy does not offer non-U.S. staff members a salary premium vis-a-vis their U.S. colleagues, who do not face the expatriate costs described earlier. However, it has been Fund policy so far not to differentiate between nationalities in terms of salary. The Joint Committee on Staff Compensation Issues noted and supported this policy (see Chapter 4 of the Committee's Report, in particular Section 4.5). Management also endorsed this position (see EBAP/79/110, 4/12/79, Section V) and proposed in 1981 that the current review of expatriate benefits be undertaken in the light of the decision not to pursue the expatriation allowance option (see Managing Director's Statement 81/100, 6/3/1981).

Whatever the arguments for or against the introduction of an explicit expatriate allowance might be, there appears to be no strong justification for reopening the question at this juncture. The assumption underlying the present review of expatriate benefits was that the Fund would continue its present general compensation policy of (a) setting salaries at levels that provided a sufficient inducement to attract high quality staff worldwide; and (b) once staff had been recruited, enabling them to move to, and settle into, the duty station, while at the same time enabling them and their families to maintain contact with the home country with a view to facilitating their eventual return there. These particular benefits--home leave, children's education allowance, appointment and resettlement benefits, housing, and miscellaneous services--are discussed in the following sections.

2. Contact with home country

The purpose of the Fund's home leave policy is to enable expatriate staff members, and their spouses and children, to maintain their personal ties and association with the home country. These visits are also intended to ease the families' eventual reabsorption into the home country. However, adequate home leave provisions are also of benefit to the Fund inasmuch as they enable the organization to recruit on a broad geographical basis and they help preserve the international outlook and character of the staff. To meet these needs, the Fund currently provides regular economy class travel, or business class where available, to the recognized home every two years for the staff member, spouse and dependent children. There is also a three-year option that permits such travel in first class.

The appropriateness of these policy objectives was not questioned during the review. What was questioned was whether the home leave policy as it stands met its objectives adequately. In particular, views were expressed that contact with the home country at intervals that were no more frequent than once every two years led to a considerable weakening of personal contacts and resulted over time in a blurring of cultural differences between staff members, instead of their bringing to the Fund's work the distinctive contributions of their varied cultural heritages.

Many staff members place considerable importance on relatively frequent visits to the home country in order that the spouse and children may not lose touch with their family and with their social and cultural milieu. Such contact has more than sentimental significance. From a practical standpoint, the children may be obliged, if they are G(iv) visa holders, to return and equip themselves for a career in the home country. Indeed, the education allowance policy, which is discussed in the following section of this paper, is predicated on the need to keep this option open. Furthermore, if the children are being educated in the home country, staff members may wish to return every year, inter alia, to make necessary arrangements for their schooling. As the Fund pays for the children to return to Washington twice per year, staff members may also wish to travel home each year in order to spend the third vacation with the children.

It has to be recognized, of course, that a determination of how often staff members and their families "need" to take home leave in order to preserve their personal ties with the home country--or to maintain the true international character of the Fund--is largely subjective. The need to keep close contact with the home country not only varies between staff members but also changes over time for each individual. In view of these difficulties, the information available on home leave practices elsewhere is of particular importance.

Data from the 1980 Comprehensive Compensation Review, which is given in Appendix A, show that many comparators provide annual home leave. The French and U.S. comparators and those from the German public sector generally provide home leave at least once a year, whereas policies of the German private sector organizations are more in line with the existing practice in the Bank and the Fund. As far as international organizations are concerned, the UN and the OECD provide home leave once every two years. The EC, however, provides home leave travel once every year to staff members whose homes are not in the locality (within 40 kms of the office) and twice per year to staff members whose homes are within the Community but more than 725 kms from the duty station. Annual home leave is also provided to those staff members whose recognized destination is outside the member states.

In light of these arguments and the supporting evidence from comparator practices, two options designed to increase the frequency of home contact are examined below:

(a) An increase in the frequency of home leave from once every two years to once every year. The three-year option would be retained in its present form. The cost of this improvement was estimated at $2.2 million per year. However, this additional cost could be reduced considerably if it were decided to increase the frequency of home leave to, say, two trips every three years ($0.73 million).

(b) The introduction of a limited "supplementary home country travel" provision, leaving the present home leave entitlements unchanged. Under this provision, all expatriate staff members would receive, in addition to regular home leave, a "credit" for one round-trip economy class ticket to the recognized home. The first credit would be given on the introduction of the provision or one year after the staff members entered on duty (whichever was later). Thereafter, married staff would earn a credit once every two years and unmarried staff members once every four years. The "credits" could be accumulated and the staff member would be able to convert a credit into a single round-trip ticket whenever he saw fit. In concept, this option is not new; a similar provision was discussed by Executive Directors in 1981, but in the interests of parallelism with the Bank, this proposal was set aside.

The estimated cost of this option is $750,000 per year, assuming immediate use of the "credits" once they had been earned. In practice, however, the cost impact would probably be delayed since people would save up their "credits."

3. Education of children

The Fund grants an education allowance to staff members who are not nationals of the duty station country to assist them in educating their dependent children in a manner that will facilitate their eventual return to their home country. The Fund recognizes that staff members face additional costs in providing their children such an education and that the organization should assist in covering these costs. This policy has raised a number of contentious issues within the staff, particularly as regards Fund assistance to expatriates who send their children to English-medium private schools in the United States or to schools or universities other than in the home country. The case for providing assistance for children studying in a school where the medium of instruction is a foreign language that is the same as in the staff member's country is readily understood and accepted. What is less well understood is that instruction in the vernacular may not be available locally leaving staff members with no alternative but to enroll children in an English language school. Even for children whose mother tongue is English, there is no assurance that local public schools have standards that are adequately comparable with those of the educational system in the home country. In such circumstances, the Fund has preferred not to lay down strict criteria for the type of schooling which will best meet the needs of the children of expatriate staff, believing it preferable to leave the choice of school to the staff member. Lines of demarcation for the types of education that fall within and outside the objective of policy are difficult to draw; parents can seldom predict accurately if their children will wish or need to assimilate in the home country. Frequently parents feel that they have to prepare their children for the possibility of both remaining in the United States and returning home. In this sense, the policy provides a kind of educational "insurance policy" for the children in case the parents leave the Fund and are obliged to leave the United States.

Under the Fund education allowance provisions, expatriate staff members are reimbursed 75 percent of their children's tuition fees at primary and secondary schools in the duty station, up to a current ceiling of $4,000 per annum. If their children are attending schools or universities outside the duty station country, 75 percent of the tuition and boarding costs are reimbursed up to a current maximum allowance of $5,800 (this figure is adjusted on a country-by-country basis using the UN Post Adjustment Index) and the Fund also provides two round-trip economy air fares per year for each child.

The review concentrated on four areas where concern has been expressed that a gap exists between the purposes and the provisions of the policy; these are:

a. the extent of the staff member's contribution toward education costs, i.e., currently not less than 25 percent of the fees;

b. the desirability of providing education allowances to expatriate staff members who have children studying at universities in the duty station country (an expense at present not covered by the Fund education allowance policy);

c. the number of return journeys per year for children studying outside the duty station country; and

d. the age limit at which children cease to qualify for education allowances.

a. Proportion of education costs reimbursed

With reference to the purpose of the education allowance policy described in the first paragraph of this section, it is not easy to determine how far the Fund should assist staff members or to define what are the "additional costs" caused by expatriation. For staff members from those countries where high-quality education is provided free by the state, almost all education costs in the duty station may be regarded as additional expenditure. In these circumstances, a case could probably be made for providing 90 or even 100 percent reimbursement of school fees. On the other hand, staff members from some other countries would probably have sent their children to private schools as a matter of course if they had remained in their own country. In such cases the staff members would not incur any additional education costs in the duty station relative to the normal situation in their home country (setting aside differences in tuition and other related costs). Clearly, the majority of cases lie between these two extremes, given the variation in the standard and cost of schooling between countries.

It might be argued that an increase in the Fund's contribution toward education costs is warranted, and that the education allowance policies of the Fund lag behind those of a significant number of comparators. The results of the Hay Survey (see Appendix A of the "Review of Expatriate Benefits") show that the majority of French and German comparators pay education costs for the children of expatriate staff and it is understood that in many cases reimburse 100 percent of reasonable tuition costs (although the available data in this area is incomplete). This practice is certainly prevalent in U.S. organizations, both in the public and private sectors. The U.S. State Department, for example, sets its allowance levels to cover the full cost of "adequate" schooling at post, or if no "adequate" school exists at post, away from post.

Comparisons with other international organizations are also pertinent, however, since their conditions of service are similar to those in the Fund (i.e., nature of employment, period of expatriation, etc.). In this area the Fund's present policy compares favorably: OECD in Paris requires its staff to pay 30 percent of approved education costs, with the organization reimbursing the balance up to a current maximum allowance of FF 20,163 per annum (approximately US$3,000), if the child is not studying in the staff member's home country, and up to a ceiling of FF 24,196 per annum (approximately US$3,500) if the child is studying in the home country. The EC pay 100 percent of approved education costs, but they apply a maximum of BF 49,260 per annum (approximately US$1,000) if the child is studying at the duty station, or twice that amount if the child is at university in the home country or linguistic region (e.g., Belgium). The agencies in the UN family require their staff to pay 25 percent of the first $3,000, but if tuition fees exceed this figure, staff members pay 50 percent of the next $1,000 and 75 percent of the next $1,000. Such data would indicate that the Fund's present cost sharing policy is in line with other international organizations or is more generous.

Another reason for continuing the present arrangements is the desirability of having staff members pay a portion of their children's education expenses. By requiring staff members to contribute part of the cost of their children's private education, staff members will be deterred from using the benefit merely because it is available. It is felt that private education should not be treated as a "free good."

The review committee also considered an alternative approach: to include the local bussing expenses as part of the recognized costs of attendance (but without increasing the maximum allowance accordingly or taking these transportation costs into account when making the annual adjustment in the maximum allowance). Since the children of some expatriates have to travel quite long distances to attend the school of their choice (e.g., the French and German Schools), the local transportation costs can be appreciable. Looking at the issue from a different point of view, a few private schools reportedly do not identify the cost of bus transportation *in the school bill and this leads unintentionally to discriminatory treatment* in the calculation of the education allowances.

In the U.S. public school system, the costs of bus transportation are borne by the state. Comparator surveys did not provide data on this point, although we are aware that some companies reimburse local transportation together with the tuition costs. Such costs are not paid by the UN or EC, but they are covered by the OECD. It is estimated that such a change would increase the education benefit costs to the Fund by around $150,000 per annum.

b. University education in the duty station country

The Fund does not pay an allowance for university education in the duty station country. To do so would appear to be inconsistent with the policy's objective: assistance with the additional costs of educating the expatriate children in a manner to facilitate their return to the home country. Allowances for education at primary and secondary level in the duty station are justified because it is understood that parents may not wish to be separated from their children while the latter attend school abroad and because, in any case, the education program in selected private schools in the duty station is compatible with the school system, religion and mores of their home country. However, students at tertiary level frequently attend university outside their home town and are, therefore, absent from home during term-time. The Fund has, therefore, taken the view that no major social objections exist which would prevent children from attending university in the home country.

In certain countries it is recognized that a U.S. university education may assist children who return home to take up a career. However, where this is so, one cannot argue that the parents of such children serving in Washington face additional costs because of expatriation, and in such cases the grounds for paying education allowance are very weak.

Furthermore, if the policy were no longer directed toward reimbursing "additional costs," the benefit would become a pure educational subsidy--but one from which U.S. nationals would be excluded. Such a policy change would be highly discriminatory. In such circumstances, if the education allowance policy (including university education in the duty station country) were to be made available to U.S. staff members, it would eliminate this perceived inequity. Such a step is not considered to be justifiable, however, in the light of practice among the Fund's comparators and its justification would have to rest on grounds other than expatriation.

The cost of children's university education in the United States represents a significant financial burden on all families living in the United States, perhaps second only to the purchase of a home. It should also be considered that Fund salaries are determined by the U.S. market and employees in comparator organizations are normally expected to meet such expenditure out of their salary.

Nevertheless, since the UN agencies (and also the Inter-American Development Bank) have in recent years changed their education grant policies to cover university education in the duty station, there is considerable pressure for this issue to be re-examined. Some expatriate staff at headquarters argue that, having brought up their children in the United States, the children have no practical option but to go on to U.S. universities because they lack either the language or the special academic qualifications necessary to be accepted by universities in the home country. As a result of the desire to keep their children at home rather than sending them away to school in the home country when they were still young, many staff members now face substantial costs which they would not have incurred if they had remained in their home country. Furthermore, if the children are not U.S. citizens, they are ineligible for certain scholarships and loan programs, making their education more expensive than for U.S. children.

In a similar context, through its support of the G(iv) Children's Coalition, the Fund has demonstrated its awareness of the difficulties faced by G(iv) visa-holding children who have come to regard the United States as their home but who do not at present have the right to permanent residence. Through the education allowance policy, the Fund also recognizes that non-U.S. staff members may wish to educate their children so that they may be assimilated into the home country. However, it appears neither logical nor fair to confuse the two groups and their objectives, and to provide an expatriate benefit for children who, for the most part, would appear to want to enter the U.S. labor market.

An alternative to amending the education policy and its objectives may be to consider improving the terms of salary advances for education in line with the policies of some U.S. companies. At present, staff members of all nationalities may request up to six months' salary to cover children's university costs. The Fund recognizes that, in some circumstances, expatriate parents may well feel that a university education in the duty station country is the best course for their children. For them, as for staff members who are duty station nationals, these costs are considerable. For all staff, the ceiling on borrowing could be raised to twelve months' salary. The cost of this option is the opportunity cost of investing funds otherwise held in the U.S. dollar account in an asset earning only a 4 percent rate of interest.

c. Education travel

Staff members sending their children to schools or universities outside the duty station are faced with the decision on where the children will stay during the vacation. Understandably, most staff members prefer to unite the family by bringing the children to the duty station or by returning, themselves, to the home country. Alternatively, they may lodge the children with friends or relatives, which may involve expenses for their board and lodging. Under the present policy, the children studying outside the United States are granted two economy class round trips annually and, thus, assuming a staff member takes home leave once every two years, the family can be reunited five vacations out of six in a two-year period. The sixth vacation, therefore, represents a clear-cut expatriate expense.

However, comparator institutions appear to be less generous than the Fund with regard to education travel. In the Hay Survey of the French and German private sector, education travel is not mentioned as a benefit; in the case of U.S. private companies the practice is to give one or two round trips per year. Among the international organizations, the EC do not provide education travel while the UN and OECD normally pay for one round trip annually.

d. Age limit

Provided that they are full-time students, children of expatriate staff qualify for education allowances from the beginning of the school year in which they reach their fifth birthday to the end of the academic year in which they reach their 24th birthday. These age limits were set so that children would be covered from the beginning of primary education until they receive their first degree. It has been pointed out, however, that in some countries, especially in Europe, students do not finish their high-school studies until the age of 19 or 20 and, where this is followed by a five-year university course, they will not complete their first degree until the age of 24 or 25--possibly later if their studies have been interrupted by military service.

The practice of private sector organizations is not clear in this regard; however, it appears that many pay education allowances until the child has received his first degree. As regards the international organizations, the education benefits at the OECD terminate when the children cease full-time studies, but not later than their 26th birthday. The EC pay education allowances until the 26th birthday. The UN does not continue education benefits beyond the end of the academic year in which the children reach 25 years of age, although, exceptionally, one year's grace may be given when children have had their studies interrupted by military service.

The UN formula would appear to be most suitable for adoption in the Fund and would thus allow for the education benefits to be paid for one more year, or exceptionally two more years than at present. The cost of this benefit which would probably affect about five students a year would amount to around $20,000 per annum. This cost could be reduced, and possibly a saving could be made, if in future education allowances were available only for study toward the first university degree, though agreement on the definition of "first degree" would not be easy.

4. Services and facilities

In addition to specific benefits policies, the Fund offers a variety of services designed primarily to meet the needs of expatriate staff. This assistance ranges from the provision of general information on housing, shops, schools, etc., through help with immigration and visa applications, to direct counseling in personal matters. Its purpose is to help staff members and their families settle in and adjust to life in Washington.

Since the Fund staff providing these services do not possess specialized knowledge or extensive resources, they do not involve themselves directly in matters where professional, legal or financial expertise is required. Although the Fund makes available the services of a lawyer to offer preliminary counseling, staff members are advised to retain their own lawyer if they wish to pursue a matter further.

Staff members generally recognize that the Fund can scarcely provide a full range of such services, but nevertheless there have been requests for the Fund to offer further help in two areas. First, the Fund could more actively assist the spouses or children of G(iv) visa holders in finding suitable employment commensurate with their abilities, within the constraints imposed by their visa status. Although the assignment of Fund staff to this task might help in some cases, the inherent problems are such that their "success rate" in finding suitable jobs for Fund family members would probably not be high and, relative to what they could reasonably expect to achieve, the cost to the Fund of using staff time for this purpose would be considerable. Furthermore, it might raise expectations that the Fund could somehow find jobs for these family members. A more realistic proposition would be to provide support services (office equipment, telephones, etc.) to the IMF wives voluntary group (InFFO) if it wished to involve itself in this area.

The second area concerns an inadequate recognition of the legal and financial problems arising out of expatriate status. Apart from a lack of familiarity with U.S. regulations, non-U.S. staff members find that their problems are likely to be more complex than those of the U.S. staff, because they have different legal and tax status in the United States and in their home country. For instance, they may need to draw up two wills to dispose of their assets in both countries. Consequently, the assistance that they require with their legal and financial affairs tends to be more specialized and time-consuming and, therefore, more expensive than for their U.S. colleagues.

These difficulties might be alleviated:

(a) by expanding the in-house legal assistance and also by offering expatriates assistance in dealing with financial matters; or

(b) by subsidizing the cost of external counseling in these areas.

If under Option (a) the Fund were to hire the services of one lawyer and one financial counselor on a half-time basis, and provide them with an office with secretarial support, the cost would probably exceed $135,000 per year. The cost of providing assistance with staff members' legal and financial counseling Option (b) would depend on the level of the subsidy--but might prove equally expensive.

Visa Restriction for Staff in Ranges F and Above

Under existing rules, non-U.S. nationals who hold U.S. immigrant visas 1/ are required to relinquish them in exchange for G(iv) visas upon joining the Fund as regular staff members in Ranges F and above. Participants in the Economist Program and other staff on fixed-term appointments may retain an immigrant visa until offered a regular appointment. Similarly, regular staff members may retain their visas until their appointment has been confirmed at the end of a one-year probationary period. No restriction on visa status applies to staff members in Ranges A-E.

The rule is based on an Executive Board decision taken in December 1953, under which expatriate staff members in Ranges F and above are prevented from retaining or obtaining U.S. immigrant visas. A clause which gives the Executive Board the discretion to approve exceptions in cases of unusual hardship was part of the original decision, but it has only been applied in a very small number of cases throughout the years. In 1976, a general exception was approved with respect to staff members who are within five years of retirement. This followed a similar decision taken by the World Bank the previous year, but the Bank's simultaneous decision to permit new staff members to retain immigrant visas was never adopted by the Fund. It is now proposed that the Fund act to bring its policy in line with that of the Bank.

The Executive Board's 1953 decision preventing the Fund's staff in Ranges F-M from retaining or obtaining U.S. immigrant visas was taken on the assumption that non-U.S. employees with such visas might become liable to pay U.S. income tax (EBAP/53/96, 12/24/53). This understanding was based on statements made at that time by the U.S. Attorney General. Although the U.S. authorities subsequently ruled that non-U.S. staff, irrespective of visa status, would not be liable for U.S. income tax on their Fund salaries, the Board decision was not revoked. Thus, the Fund has ever since adhered to a policy whose initial justification was removed shortly after its inception, and for which an alternative justification has not been the subject of a specific decision by the Executive Board. However, it has been tacitly assumed that the limitation on the acquisition of an immigrant visa has been retained on the grounds that it assists in maintaining the nationality distribution of the professional staff.

1/ An "immigrant visa" is the visa issued by the U.S. authorities to an individual who has been "lawfully accorded the privilege of residing permanently in the United States as an immigrant in accordance with the immigration laws." This visa is sometimes referred to as a "permanent resident visa" or simply as the "green card."

The issue of eligibility for expatriate benefits for holders of immigrant visas was discussed in the Executive Board in 1968. The relevant Board paper (EBAP/68/116, 7/24/68) raised the question of waiving the restrictions for two categories of F-M staff: (a) those who had especially needed skills or who would suffer hardships as a result of relinquishing their visa status; and (b) staff members 55 years of age or older who wished to remain in the United States after their retirement. While Executive Directors expressed considerable sympathy for staff members in the two categories, the focus of the discussion was on benefits issues. The issue of visa status was instead incorporated the following year into a general review of recruitment issues. However, since at that time no substantial difficulties had apparently arisen as a result of the visa policy, the issue was left in abeyance (EBAP/69/226, 12/4/69).

During 1974 and 1975 discussions took place between the Fund and the Bank concerning the desirability of removing the visa restriction for F-M staff. There was considerable pressure for a change in the Bank, mainly because of the perceived problems in the area of recruitment, but the matter was not considered equally urgent in the Fund. In the end, the Bank alone proceeded to abolish the requirement for new recruits to give up their immigrant visas. At the same time the Bank introduced a provision that permitted staff within five years of retirement to switch from G(iv) to immigrant visa. The latter change was subsequently adopted by the Fund; in the context of the 1976 Compensation Review, it was proposed to the Executive Board who approved the following policy:

> "a staff member in Ranges F-M who is within five years of normal retirement, or a specifically stipulated early retirement date, would be permitted to apply for and obtain a U.S. immigration visa and individual approval by the Executive Board would no longer be required in such cases" (EBAP/76/77, 4/9/76).

To date, 15 staff members have requested permission to obtain immigrant visas under this rule.

While staff in Ranges F and above have been precluded from retaining or obtaining a U.S. immigrant visa, with the exception of those within five years of retirement, no such restriction has ever been applied to staff in Ranges A-E. Moreover, if a staff member who holds an immigrant visa is promoted from Ranges A-E to Range F and above, the requirement for relinquishing the immigrant visa is not applied. If it were, career development opportunities for staff in Ranges A-E might be significantly constrained.

ATTACHMENT II

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

EXECUTIVE DIRECTOR

July 27, 1984

CABLE ADDRESS
INTERFUND

MEMORANDUM

TO: The Managing Director

FROM: Teruo Hirao T.H.

SUBJECT: Report of the Working Group on Expatriate Benefits

In an exchange of letters between you and Mr. de Maulde, you suggested an informal way of considering the harmonization of approaches to eligibility and other issues regarding expatriate benefits. A group (Messrs. Lovato, Prowse and myself) held joint meetings with the Bank group (Messrs. de Maulde, Ray and Burnham) during the period March 28 through July 5, 1984. The attached report was prepared by the Joint Bank/Fund Working Group on Expatriate Benefits. It reviews the eligibility for expatriate benefits and home leave frequency, and recommends the adoption of new policies regarding these two issues.

Attachment

REPORT OF THE JOINT BANK/FUND WORKING GROUP ON EXPATRIATE BENEFITS

I. INTRODUCTION

1. To address recommendations of the Kafka Committee, the Executive Directors of the Bank and of the Fund, in May 1981, requested a review of certain expatriate issues. This review was initiated by the Bank and the Fund in January 1982 and by July 1983 agreement between the two institutions had been reached on a number of issues, including the need to restrict eligibility for expatriate benefits, but major differences remained in two key areas: the precise criteria for restricting eligibility for expatriate benefits and the method of providing greater flexibility in the home leave travel provisions. Despite every effort on both sides, it was clear that these differences could not be reconciled at the management level. In an effort to reconcile these differences a Joint Bank/Fund Working Group on Expatriate Benefits was formed comprised of three Bank Executive Directors and three Fund Executive Directors. The members of the Working Group are Messrs. Burnham, de Maulde and Ray from the Bank and Messrs. Hirao, Lovato and Prowse from the Fund. Meetings of the Working Group were held in the Bank and Fund on an alternating basis with meetings held in the Bank chaired by Mr. de Maulde and those in the Fund chaired by Mr. Hirao. Senior administrative staff from the Bank and the Fund attended and participated in these meetings. The Working Group has concluded its deliberations and its recommendations are set forth in this report.

II. ELIGIBILITY FOR EXPATRIATE BENEFITS

2. Following a general background review of expatriate benefits the Working Group considered a paper entitled "Eligibility for Expatriate Benefits" prepared jointly by the Fund Administration Department and the Bank Compensation Department, dated April 26, 1984 (Attachment I). The paper evaluates five possible options for eligibility for expatriate benefits against considerations of equity, simplicity and cost. The five are:

- I - nationality
- II - internationally recruited staff
- III - visa status prior to appointment
- IV - length of residence in the U.S.
- V - combination visa status prior to appointment and residency (the so called "compromise" solution).

3. The Working Group, after careful consideration of all five options, recommends adoption of Option III (visa status prior to appointment) because:

- it is the most logical criterion and recognizes the different circumstances and needs of U.S. nationals and permanent residents on the one hand and expatriates in G-4 visa status on the other;
- it addresses the inequity perceived by U.S. staff of extending expatriate benefits to permanent residents; and
- it is simple to administer.

4. The Working Group attaches no weight to the two perceived disadvantages of Option III noted in the paper. The first - that it would create distinctions between permanent residents and G-4 visa holders - could hardly be a disadvantage since this is the intention of the proposal; as to

the second disadvantage - that it fails to recognize that staff members might hold permanent resident visas without the intention of remaining in the U.S. indefinitely - the Working Group believes very strongly it would not only be impractical but also inappropriate to make judgements of intention and to determine eligibility for benefits on such a subjective basis.

5. The Working Group emphasizes there is a fundamental difference between Option III and the practice in the Bank prior to 1979. The latter was widely regarded as inequitable in that it permitted non-U.S. staff married to a U.S. national or a permanent resident to switch to G-4 visa status purely in order to obtain access to expatriate benefits but subsequently to revert easily to permanent resident status by virtue of the status of the spouse. Option III would deny expatriate benefits to anybody in permanent resident status in the year prior to appointment irrespective of any subsequent change in visa status. The Working Group notes that Option III depends upon a criterion established by U.S. legislation which could be changed in the future. Although the contingency appears remote - there has been no material change in the rules governing G-4 visa status for the past 30 years - this situation could be addressed if and when the need arose.

6. The Working Group believes it to be essential that, upon introduction of the new eligibility criterion, present staff, so long as they retain their current visa status, shall remain eligible for the existing expatriate benefit package; entitlement to any new benefits would be determined at the time of their introduction. The Working Group notes and welcomes the fact that the Bank and Fund managements support the same views. As a corollary to its basic recommendation, the Working Group also recommends that staff at any level be permitted at any time to take out permanent resident status if they so desire; upon taking out permanent resident status a new or existing staff member

should cease to be eligible for expatriate benefits. The Working Group further recommends that if and when the proposed new set of rules affecting eligibility status is adopted by the Boards of the Bank and Fund it should have immediate effect for existing and new staff, except that existing staff in G-4 visa status who apply for permanent resident status within twelve months of the adoption of the new rules would not lose their eligibility for the existing expatriate benefit package on taking out such status.

III. HOME LEAVE

7. The Working Group also considered a paper entitled "Home Leave" prepared jointly by the Fund Administration Department and the Bank Compensation Department, dated May 15, 1984 (Attachment II). The paper summarizes the Fund and Bank proposals designed to increase the frequency of, or provide greater flexibility in, home leave travel. The two main proposals, which are described in detail in the paper and are assessed against the three criteria of equity, simplicity and cost, are the following:

- a "points system" under which supplementary travel to the home country would be given upon the accumulation of a certain number of points which would be allocated each time home leave was taken in economy class; and
- a "cash savings scheme" under which staff who elected to travel on home leave in less than full economy class would receive a cash sum for the difference between that fare and the full economy class fare applicable at the time of travel.

8. The Working Group considers the "cash savings scheme" to be unacceptable. Despite the savings to the institutions which would accrue, the idea that staff members would be given some maximum amount of money with which to buy tickets and could "pocket" what they did not use is, in principle, objectionable, especially since staff with different home leave destinations would be very differently affected by the proposal. The Working Group recommends that the "points system", which would be easy to administer, would best serve the needs and interests of the staff and the two institutions, provided that it is modified to ensure that the Bank and the Fund would not incur any additional home leave costs. One way this could be done would be by increasing from three (i.e. the number originally proposed) the number of points required to be exchanged for an additional economy class ticket, or by providing that points be allowed only for travel on less than economy class.

IV. SUMMARY RECOMMENDATIONS

9. In summary, the Working Group recommends that the Bank and Fund:

- adopt a policy whereby new staff who had been in permanent resident status at any time within one year prior to their appointment would be ineligible for expatriate benefits irrespective of any future change in visa status. As a corollary, all staff should be free to take out permanent resident status but would lose eligibility for expatriate benefits on doing so;

- explore the feasibility of increasing the frequency of home leave travel along the lines of the "points system" provided this can be achieved without any increase in costs of home leave.

R de Maulde

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Bank Chairman

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Attachments

Eligibility for Expatriate Benefits

The options are assessed against the criteria of equity, simplicity and cost.

OPTION	Equity	Simplicity	Cost Index 1/ 100
OPTION I: NATIONALITY The existing eligibility test in the Fund (since 1953) and in the Bank (since 1979), as recommended in the Report of the Joint Committee on Staff Compensation Issues (1979). Description: If staff members are not US citizens, they are eligible for expatriate benefits. Implications: Using this test, all non-US staff qualify, irrespective of level, method of recruitment, visa status or length of stay in U.S. prior to appointment.	For: treats all non-US nationals equally and makes no judgements about staff members' current or former visa or residency status. Against: 1. Does not recognize that G-4 and permanent resident (PR) staff may have different needs with respect to benefits. 2. Creates distinctions between US and PR staff. US staff perceive PR staff as enjoying benefits not available to US staff, although their circumstances are similar (PR seen to have "best of both worlds").	1. Easy to administer because eligibility test is based on clear-cut definition of staff categories. 2. Easy to verify (check passport).	100
OPTION II: INTERNATIONALLY RECRUITED STAFF Similar to test used by United Nations. Description: Only non-U.S. citizens in internationally-recruited positions are eligible. Staff in Ranges F-M/J-N are considered to be internationally recruited although, in exceptional circumstances, some A-E/A-1 staff (e.g., bilingual secretaries) may also be recruited internationally. Implications: Using this test, G-4 and PR "professionals" receive expatriate benefits while virtually all "support" staff are ineligible, regardless of visa status.	For: most consistent with organizations' recruitment and employment needs. Against: 1. Would represent a fundamental change in the institutions' approach to expatriate benefits, and would appear to distinguish between staff by rank rather than by the individuals' needs. 2. At F-M/J-N levels, does not recognize that G-4 and PR staff may have different needs with respect to benefits. 3. Because few A-E/A-1 staff would qualify, they would probably perceive the test as discriminatory (even if existing staff not directly affected).	1. Problems may arise in identifying "internationally recruited" staff at A-E/A-1 levels. 2. It may create a barrier to free movement of staff between "locally recruited" and "internationally recruited" positions.	71
OPTION III: VISA STATUS PRIOR TO APPOINTMENT Description: US nationals and new staff in PR status at any time within the year prior to their appointment would be ineligible, irrespective of any later change in visa status unless required by Fund/Bank to hold G-4 visa. (As a corollary, new or existing staff would lose eligibility on taking out PR status.) Implications: Visa status prior to appointment becomes criterion, irrespective of any subsequent change in visa.	For: 1. Recognizes different circumstances and benefits needs of G-4 and PR staff. Since G-4s have no right to be employed in or to remain in the United States on leaving Fund/Bank, they have greater need to maintain contact with home country. 2. Directly addresses the main source of resentment among US staff (and of criticism in the community at large) in that expatriate benefits are currently extended to PR staff many of whom are married to US nationals or permanent residents. 3. Since subsequent switch to G-4 status irrelevant, avoids criticism that those who are considered least qualified for expatriate benefits (e.g., those married to US nationals or PRs) could most easily give up PR status to obtain expatriate benefits without endangering their ability to regain that status. Against: 1. Creates distinctions between G-4 and PR staff. PR staff may perceive G-4 as enjoying benefits not available to them although they are both foreign nationals living in the United States. 2. Fails to recognize that staff members may hold PR visa without intention to remain in U.S. indefinitely.	1. Easy to administer because based on clear-cut definition of staff categories. 2. Easy to verify (check visa in passport).	84

OPTION IV: LENGTH OF RESIDENCE IN U.S.	Equity	Simplicity	Cost Index [1]
Similar to tests used by EC and OECD. Description: US staff members ineligible, as well as new staff who have resided in the U.S. for the three years ending six months before appointment. For non-US staff, exceptions permitted to cover periods in the U.S. as: (i) international civil servant (ii) expatriate official of foreign government; (iii) expatriate on intra-company transfer or as representative of non-US media; (iv) 5 years as university student; (v) dependent child under 18 of non-US national. Implications: Length of residence in U.S. becomes criterion, irrespective of visa status.	For: 1. Like nationality test (Option I), recognizes that PR status may not imply intention to remain in U.S. 2. The test relies on a past event—i.e., 3 years residence in U.S. —rather than on an assumption about the staff members' intentions based on passport or visa status. 3. Test would eliminate expatriate benefits for many PR staff, thereby reducing present adverse perception by US staff. Against: Creates distinctions among PR staff depending on length of prior residence. Test will have less perceived validity the longer staff members stay with the Fund/Bank, since test applied at a single moment in time.	1. Problems may arise with regard to exceptions: there may be contentious judgements when determining periods spent in U.S. that do not count towards the three years' residence. 2. Problems may arise in determining whether staff member was living in U.S. at a certain date.	83
OPTION V: COMPROMISE SOLUTION			
Description: In addition to US nationals, new staff in PR status for at least 3 out of the 4 years prior to appointment would be ineligible, irrespective of any later change in visa status unless required by the Bank/Fund to hold G-4 visas. New or existing staff would become ineligible if they convert to PR status. Implications: Similar to G-4 visa test, but with advantages of residency test.	For: 1. Recognizes different circumstances and needs of G-4 and long-term PR staff; 2. Recognizes that limited prior PR status may not indicate intention to remain in U.S. indefinitely. 3. Would eliminate expatriate benefits for long-term US residents and those on the staff wishing to acquire PR visa. It should therefore reduce present adverse perception by US staff. Against: Fails to recognize that staff members may hold PR visa without intention to remain in U.S. indefinitely.	Fairly easy to administer: among non-US staff, the Bank/Fund must check that recruits have not held PR visa in three out of four years prior to appointment. There may be some problems in confirming exact period of prior PR status.	89

1/ Cost Index: This column shows the relative cost of expatriate benefits (home leave and education allowance) for new staff, based on the "nationality test" (Option I) = 100. On the assumption that the eligibility of existing staff would be "grandfathered," the total cost saving would be progressively realized over about 25 years, i.e., after all currently "grandfathered" staff have left the Fund and Bank.

Prepared by Administration Department, IMF
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Home Leave

The Fund 's Administration Department and Bank's Compensation Department are agreed that the present home leave options should be retained. Currently, eligible staff members, their spouses, and dependent children may travel on home leave at their organization's expense

either once every three years in first class,

or once every two years in business/economy class.

The Fund and Bank administrations also agreed that it would be desirable to introduce a third option to provide greater flexibility for staff willing to use cheaper fares for home leave travel.

Although no agreement was reached on the mechanics of such a third option, the possible approaches have been narrowed to two schemes:

1. a "points system" for supplementary travel to the home country, favored by the Fund, and

2. a "cash savings scheme", favored by the Bank.

These proposals are summarized below and assessed against the criteria of utility to staff members, equity, simplicity, and cost. Estimated annual cost increase/savings are given for each proposal, based on the probable usage of the three options.

The Bank and Fund administrations are of the view that, whatever scheme is adopted, it should be subject to review in the light of experience and of changing airline practices.

The Bank and Fund administrations are also agreed that, irrespective of the class of travel, the organizations will only meet the cost of home travel by a reasonable cost-effective route between the duty station and the home country. For this purpose "reasonable" means:

(a) avoiding stopovers in "high intermediate points" (cities where the transit costs are high); and

(b) using the direct airfare for the class of travel concerned as published by the majority of airlines.

If a staff member insists on a different routing or choice of airline, he will be required to meet any resulting increase in cost.

Attachment

Administration Department, IMF
Compensation Department, IBRD
May 15, 1984

Home Leave

	Utility to Staff Members	Equity	Simplicity of Administration	Cost
Fund Proposal (Points System)				
One supplementary economy class ticket would be given for every three home leave trips taken in economy class (as opposed to business class). Scheme to be operated as points system: 1 "point" per economy class ticket issued; 3 points may be exchanged for one round-trip ticket to home country (no home leave allowance, travel allowances or travel time without charge to leave would be granted with supplementary tickets). Points transferable between staff member and qualifying family members. Points may be accumulated and used by qualifying family members as desired.	1. Eligible staff members and qualifying family members would each earn one supplementary air-ticket once every six years: in effect, this option would allow Fund/Bank paid travel home once every 18 months. 2. Since points would be transferable, any qualifying family member may use points as earned, for emergency purposes (when not covered by organizations' emergency travel policies), additional education travel, or any other purpose. 3. All supplementary travel would be made in economy class, thus allowing more flexibility in choice of flights, ability to cancel or change reservations without penalty, than is available with APEX or charter fares.	1. All eligible staff members would have equal home leave entitlements. No discrimination between nationalities. 2. Scheme unaffected by uncertainties of international airline marketing. Home travel entitlements would remain constant over time. 3. The new benefit could only be used to increase frequency of travel to the home country. The proposed option is consistent with the purpose of the policy and meets a perceived expatriate need.	Additional accounting records required, but points system no more complicated to establish and maintain than system used for Spouse Travel on Points, which has worked satisfactorily.	Additional Annual Cost Fund: $130,000 Bank: $400,000 (3% of home leave budget) Cost variations by country or over time would be borne by the institutions.

	Utility to Staff Members	Equity	Simplicity of Administration	Cost
Bank Proposal (Cash Savings) If staff members elect to travel on home leave in less than full economy class (e.g., APEX or charter), they would receive a cash sum for the difference between that fare and the full economy class fare applicable at the time of travel. The scheme would take full advantage of airline deregulation. The savings would be split between the organization and the staff member, the organization receiving the difference between the business and economy class fares, and the staff member receiving the remainder. The cash sum to staff would serve as an incentive for them to elect this cost-saving option.	1. Great flexibility: the cash sum allows staff members to use savings as they wish. 2. In certain circumstances, staff members may be able to use cash savings to travel home more frequently than under Fund proposal.	1. Benefits of scheme would be uneven, being dependent on availability of cheap fares to home leave destination and the general state of world travel market. At present, staff members from Africa and Latin America would generally be at disadvantage over those from Europe and Asia. 2. Since staff members need not use cash sum for additional travel, staff members could generally make larger savings the more distant their home leave destinations (e.g., compare Montreal and Sydney). 3. Even among nationals of same country, benefits may be unequal depending on time of year staff member travels (e.g., high or low season, existence of tourist-season charter flights). 4. Since advance planning usually needed to take advantage of cheaper fares, staff members with uncertain work schedules would be at disadvantage. 5. The provision of one benefit in place of another—particularly the substitution of cash—runs counter to the present principles of Fund and Bank staff benefits policy, which are based primarily on need and equity. 6. The provision of what may be perceived as cash benefits to non-U.S. Fund and Bank staff may be perceived as inequitable by the U.S. staff, and by the public at large.	In essence, a simpler system than the Fund proposal: no need to maintain "points" etc. Full cost of travel would be known and incurred at time of travel. However, certain difficulties are likely to arise: 1. in handling cases where staff members, or members of their family, miss flights and receive no refund from the airline (or the airline does not honor its commitments); 2. in dealing with pressure on managers to release staff at certain times so that they can take advantage of cheap fares. These problems could increase both direct and indirect (administrative) costs.	Annual Cost Savings: Fund: $240,000 Bank: $600,000 (5% of home leave budget). Cost variations by country or over time would be borne by the staff member.