DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

IMMEDIATE ATTENTION

EB/CAP/99/3

February 19, 1999

To: Members of the Committee on Administrative Policies

From: The Committee Secretary

Subject: **Revision of the Annual Leave Policy**

Attached for consideration by the Committee on Administrative Policies is a paper on modifications to the annual leave policy.

In the absence of a request to the Committee Secretary by noon on Friday, March 5, 1999 that this matter be considered in Committee, the proposed decision that appears on pages 7-9 will be deemed approved by the Committee for submission to the Executive Board for its consideration on a lapse-of-time basis.

Mr. K. Craig (ext. 38212) is available to answer questions relating to this paper.

Att. (1)

Other Distribution:
Members of the Executive Board

INTERNATIONAL MONETARY FUND

Revision of the Annual Leave Policy

Prepared by the Administration Department
(in consultation with the Legal and Treasurer's Departments,
and the Office of Budget and Planning)

Approved by Ulrich Baumgartner

February 18, 1999

Contents | Page

I. Introduction

1. The purpose of this paper is to seek the agreement of the Committee on Administrative Policies (CAP) on proposed changes in the Fund's policy on annual leave and to request the Committee to recommend that the Executive Board approve these changes. The proposed modifications are intended to (a) underscore the responsibility of managers to balance their work programs and staff resources in a way that permits staff to utilize their annual leave; (b) resolve the difficulties encountered in the past decade in adhering to the policy's 60-day limit on carryover of annual leave; and (c) enable departments to make alternative staffing arrangements in cases where extended periods of leave are approved.

2. The Fund's annual leave policy is set forth in Section 3 of General Administrative Order (GAO) No. 13, Rev. 5 (June 15, 1989). This policy permits an individual to carry over up to 60 days of accrued annual leave from one year to the next. Having this limit on leave carry-over is an implicit incentive for staff members to utilize their annual leave on a regular basis. Furthermore, departmental managers are expected to make appropriate allowance for staff members' leave plans when arranging their work schedules. However, due to recurring periods of heavy work demands, some staff have been unable to draw down their leave balances to the maximum level of 60 days that may be carried forward—at times resulting in the loss of accumulated annual leave. In response to this continuing problem, management has approved a number of strategies over the past eight years designed to help affected staff to reduce their year-end leave balances to the prescribed 60 days (see the Annex). Over the past 18 months, the intense work pressures that have resulted from the exigencies of the world financial situation have further hampered the ability of some staff to plan and take their annual leave.

3. One of the principles on which the annual leave policy is based is that adequate provision for time off from work is essential in promoting the health and well-being of the staff and in maintaining their ability to meet the demands of the Fund's work over the longer term. The changes proposed in this paper are intended to reinforce this principle and introduce much more flexibility for staff to utilize their annual leave entitlement. It is hoped that the additional flexibility will obviate the need for temporary extensions of leave carryover and other ad hoc measures. However, the new system will work only if there is a balance between the demands on staff and the available resources. Sustained excessive work pressure would lead to a breakdown of this new system, as it did with the previous one.

4. Section II of this paper describes the principal features of the current Fund policy on annual leave; Section III outlines the proposed changes and the budgetary impact; and Section IV states the proposed decision.

II. Current Annual Leave Policy

5. Under the current policy, staff members accrue 26 days of annual leave per financial year (i.e., one day per pay period) during the first five years of their appointments. Once they have completed five years of continuous service, they are granted an additional two days of leave at the start of the year. Upon completion of ten years of continuous service, four additional days of leave are awarded, for a maximum leave entitlement of 30 days per financial year. Staff may carry forward a maximum of 60 days of accrued leave from one financial year to the next. This is the maximum for which they may be paid a lump sum, based on their final rate of pay, upon separation. In the absence of a temporary waiver of the 60-day limit, any annual leave in excess of 60 days is "lost" to the staff member (it is converted to sick leave). A summary of the temporary changes made to the annual leave policy with respect to the carryover of leave is found in the Annex.

III. Proposed Changes to the Annual Leave Policy

6. At the same time that management approved temporary modifications to the annual leave policy in March 1998, efforts were begun to devise a permanent solution to the leave carryover problem. Based on discussions with all departments, the Administration Department developed the policy changes now being proposed. The basic elements of the proposed changes are described below.

Minimum usage requirement

7. GAO No. 13, Rev. 5, Section 3.01.1 states that staff members are **encouraged** to use in full the annual leave that they accrue each year and that they are **expected** to use at least 15 days of leave each year. To underscore the importance the Fund places on staff utilizing their annual leave and the responsibility of managers to ensure that their staff are permitted to do so, **it is proposed that taking 15 days of leave per financial year become a requirement** under the annual leave policy. It must be stressed, however, that these 15 days are not to be perceived as a norm or a maximum for the Fund with respect to leave usage. Rather, 15 days of annual leave per annum is considered the **minimum amount** necessary to maintain an individual's well-being.[1] Departmental managers must continue to encourage staff to utilize their annual leave to the fullest extent possible.

8. The 15-day minimum usage requirement would apply to anyone on the staff on May 1 each year. Any portion of these 15 days not utilized by the end of the financial year would be forfeited—without compensation to the staff member and without being converted to sick leave. No exceptions would be made to the "use or lose" principle with respect to these

---

[1]Compensatory leave that may be granted following intensive periods of overtime work does not affect the annual 15-day minimum usage requirement for annual leave.

15 days. Any amount of annual leave over and above 15 days that was accrued but not used during the year would be carried forward into the following financial year.

9. For staff members entering on duty after May 1, the minimum usage requirement would be waived until the beginning of the next financial year. This requirement would also be waived for staff members who separate before the end of a financial year or are absent from the office for more than 60 working days during the financial year on leave without pay, sick leave, maternity leave, adoption leave, or study leave.

Carryover of annual leave

10. **It is proposed to abolish the existing 60-day limit on the amount of leave that may be carried forward from one financial year to the next.** After having satisfied the annual 15-day minimum usage requirement, staff members would be able to accrue an unlimited number of days of annual leave until their separation from the Fund.

11. **A corollary of this proposal is that excess annual leave remaining from the May 1995 rescheduling would not be lost on May 1, 1999.**[2] This rescheduled leave was specifically excluded from the interim modifications of the rules on leave carryover for FY 1999, which were announced in Staff Bulletin 98/17 on September 2, 1998. Any amount of excess annual leave from the May 1995 rescheduling that remains on April 30, 1999 would be included in the annual leave balances carried forward on May 1, 1999 for the staff members concerned.

Options regarding accrued annual leave at the time of separation from the Fund

12. The proposed removal of the limit on carryover of annual leave means that some staff members may have, at the time of their separation, accrued balances that exceed the 60 days for which they may receive a lump-sum payment. **It is proposed that separating staff members in this situation have the following new options regarding their accrued annual leave:**

- **"Exit" leave.** Immediately before their separation from the Fund, staff members would be able to use any amount of their accumulated annual leave, provided that (a) the period of "exit" leave may not extend beyond the month in which a staff member reaches age 65; and (b) a staff member may not take up employment elsewhere while on "exit" leave from the Fund.

---

[2]Under the revised provisions for the carryover of excess annual leave that were announced in Staff Bulletin 95/7 (March 30, 1995), staff were given four full years to use their accumulated annual leave in excess of 60 days outstanding on May 1, 1995. During the four-year period ending April 30, 1999, staff could carry over each year **up to** the amount of leave they carried over on May 1, 1995.

- **Service credit for retirement.** If unused annual leave in excess of 60 days remains at the time of separation, the amount of the excess would be applied as service credit under the Staff Retirement Plan (SRP). However, this provision would not affect a staff member's eligibility date for early retirement under the Plan's Rule of 75 or Rule of 85. It should also be noted that applying unused annual leave in excess of 60 days as service credit under the SRP implies a significant discount compared to the cash value of leave. The Fund would bear the cost of this provision fully.[3] For SRP participants who have already reached the maximum accrual of 73 percent of pensionable gross (70 percent for pre-1990 service), the service credit for unused leave would be additional, bringing the total accrual above that maximum. This feature would require the approval of the Executive Board, based on the recommendation of the Pension Committee to modify the SRP provisions.

Budgetary implications for departments

13. To provide an incentive for departmental managers to accommodate requests from their staff for extended periods of annual leave,[4] **it is proposed that departments approving extended periods of leave receive compensating leave replacement resources from a central pool that would be established by the Office of Budget and Planning**. The department would bear the cost of any leave replacement during the first 30 days of the staff member's leave. **The central pool would cover the cost of leave replacement for any portion of the absence that is in excess of 30 days.** It is envisaged that staff members may request approval for an extended period of annual leave at certain points during their career: between Fund assignments (e.g., before making an intra- or interdepartmental transfer, or prior to or at the end of a resident representative assignment), or as "exit" leave immediately before separation from the Fund.

14. The cost of this proposal cannot be estimated at this time with precision, because there is no way to predict how many staff will make requests for approval of extended periods of annual leave. However, the cost is not expected to be significant in the short term.

Staff Emergency Leave Account

15. The amount of annual leave forfeited each year by staff failing to meet the 15-day minimum usage requirement would be credited to a Staff Emergency Leave Account (SELA).

---

[3]The funding of any expected liability deriving from accrued annual leave would, in any future review of SRP benefit levels, have to be over and above the Fund's normal SRP contribution.

[4]An extended period of annual leave is defined as a period of more than 30 consecutive days of leave.

This would be a discretionary resource that would be administered by representatives of the Fund staff and of the Staff Association Committee as a means of helping, in special and unusual circumstances, staff members who do not have sufficient annual or sick leave, as applicable, to meet their needs. There are no mechanisms currently available to assist staff members who are in need of additional leave on compassionate grounds. The operational details of administering this account would be worked out at a later stage. It remains to be seen whether a sufficient amount of forfeited leave would be available to operate such an account, in view of the policy revisions that are proposed in this paper, which provide incentives to both the staff and departments for fuller usage of annual leave.

16. For these reasons, **it is proposed that management be authorized to decide in FY 2001 whether the account should be established and how it should operate**. It is anticipated that the earliest start-up date for a Staff Emergency Leave Account would be May 1, 2002. If established, the account would be credited with the collective amount of annual leave forfeited by staff members at the end of FY 1999[5] and subsequent financial years.

Monitoring the use of annual leave

17. Under the proposed revision of the annual leave policy, staff members would continue to be encouraged to utilize their annual leave to the fullest. While departmental managers would have greater accountability for their management of leave usage by their staff, they can fulfill their responsibility only if work pressures are not excessive and if there is balance between the demands on staff and the available resources.

18. The Administration Department will continue to monitor leave usage in the Fund very closely. If there should be an indication that the use of annual leave by staff is declining as a result of the policy modifications, corrective measures could be recommended as early as FY 2002. These measures could include reestablishing a limit on the amount of annual leave that staff may carry forward.

---

[5]Under the provisions of Staff Bulletin 98/17 (September 2, 1998).

IV. Proposed Decision

It is proposed that the Committee on Administrative Policies recommend the adoption by the Executive Board of the following draft decision:

1. The annual leave policy will be amended to require staff members to take a minimum of 15 days of annual leave each financial year, beginning with FY 2000. The minimum usage requirement will apply to anyone on the staff on May 1 each year. Any portion of the required 15 days of annual leave not taken will be forfeited, and staff members will not be compensated for the loss of this leave. Other than as described in paragraph 2, no exceptions will be made to the "use or lose" principle with respect to these 15 days.

2. For staff members entering on duty after May 1, the minimum usage requirement will be waived until the beginning of the next financial year. This requirement will also be waived for staff members who separate before the end of a financial year or are absent from the office for more than 60 working days during the financial year on leave without pay, sick leave, maternity leave, adoption leave, or study leave.

3. Subject to meeting the yearly minimum usage requirement, staff members' accumulated annual leave may be carried forward from one financial year to the next without limit, including excess leave carried forward from the May 1995 rescheduling.

4. At the time of their separation from the Fund, staff members will have the following new options regarding their accrued annual leave in excess of 60 days:

- Staff members may use, immediately before their separation, any amount of their accumulated annual leave, provided that the period of leave does not extend beyond the month in which they reach age 65 and they do not take up employment elsewhere during this period.

- The amount of staff members' accumulated annual leave in excess of 60 days could be applied as service credit under the Staff Retirement Plan (SRP). This provision would not affect eligibility for early retirement under the Plan's Rule of 75 or Rule of 85. The cost of this provision would be borne fully by the Fund. This provision will require amendment of the SRP by the Executive Board, upon the recommendation of the Pension Committee. Failure of the Pension Committee to recommend—or of the Executive Board to approve—such an amendment to the SRP would not alter the other changes that are included in this decision.

5. A department approving a staff member's request for an extended period of annual leave (i.e., defined as a period in excess of 30 consecutive working days) could receive compensating leave replacement resources from a central pool established by the Office of Budget and Planning. The department would bear the cost of any leave replacement during the first 30 consecutive days of the staff member's leave. The central pool would cover the

cost of leave replacement for the remaining portion of the absence in excess of 30 consecutive days.

6. Management is authorized to decide whether to create a Staff Emergency Leave Account and approve associated operating procedures. The purpose of this account would be to assist, in special and unusual circumstances, staff members who do not have sufficient annual or sick leave, as applicable, to meet their needs. The account would be constituted from the collective amount of annual leave forfeited by staff members who fail to meet the minimum usage requirement applicable to FY 1999 and subsequent financial years.

7. The modifications to the annual leave policy outlined in paragraphs 1, 2, 3, 4, and 5 above shall become effective on May 1, 1999, with the exception of the changes proposed to the SRP, which will become effective if and when they are approved by the Executive Board upon the recommendation of the Pension Committee.

Summary of Changes in the Administration of the Rules on Carryover of Annual Leave, 1980–1998

Until 1980, the Fund strictly enforced the annual leave policy's 60-day limit on the amount of annual leave that may be carried forward from one year to the next. Then, at the time of the debt crisis in the early 1980s, this rule was gradually relaxed, so that the growing number of staff members with accumulated leave in excess of 60 days would find it easier to reduce their excess balances. In late 1986, the following guidelines were established for handling requests for approval of the carryover of excess annual leave:[6]

- Individuals were permitted to carry over up to 75 days, rather than 60 days, in alternate years.
- The cut-off date for leave usage was moved from the end of the calendar year to the end of the seventh attendance period of the following year (i.e., a carryover in excess of 60 days on December 31, 1986 had to be used by early April 1987), providing an additional quarter during which excess leave balances could be reduced.
- Provision was made to automatically convert lost days of annual leave into sick leave.

Subsequently, the workload and tight staffing situation during 1990, which followed developments in Eastern Europe and the former Soviet Union, led to further relaxation of the rules on annual leave carryover. In early April 1991, management agreed, as a one-time exception, to permit those staff who had carried over up to 75 days of annual leave into 1990 to carry forward up to the same amount of leave into 1991, provided their departments certified that the excess leave could not be taken due to work demands.[7]

The annual leave policy went through a major revision in 1993, in an attempt to encourage staff to utilize more leave.[8] Provisions of the new policy were also intended to accommodate the change in leave accrual from a calendar year to a financial year basis. The new policy strongly encouraged all staff to use at least 15 days of annual leave each year, although no enforcement or penalty was provided. A schedule was adopted for the gradual reduction of existing excess leave by April 30, 1999. No carryover was allowed for excess leave accumulated in FY 1994 and beyond—any such leave continued to be converted to sick leave. Many staff did not succeed in reducing their balances in accordance with the approved

---

[6]Staff Bulletin 86/17 (9/16/86), Guidelines for Utilization and Carryover of Accrued Annual Leave in Excess of 60 Days).

[7]Staff Bulletin 91/7 (4/10/91), Carryover of Annual Leave in 1991.

[8]Staff Bulletin 93/2 (4/14/93), Modifications to the Annual Leave Policy.

schedule, due to the ongoing heavy workload. As a result, the 1993 plan was superseded in May 1995 before the original schedule for reduction of excess leave had run its course.

The policy introduced in May 1995 eliminated the phased schedule for reduction of excess leave.[9] Instead, it implemented a one-time rescheduling of any excess annual leave carried over on April 30, 1995. This rescheduling allowed staff until April 30, 1999 to utilize any excess leave carried over at the end of FY 1995 (i.e., a period of four years). The policy also stipulated that, for FY 1996 and beyond, there would be no exceptions to the maximum of 60 days of annual leave that may be carried forward.

Due to the intense work pressures in FY 1998, the April 30, 1998 deadline for utilizing excess annual leave accumulated during FY 1998 was extended by six months, through October 1998.[10] Then, before the deadline was reached, management approved a modification of the rules on carryover of annual leave on an interim basis, applicable only to FY 1999, pending completion of a thorough review of the annual leave policy.[11] The modified rules for FY 1999 removed the November 1, 1998 deadline for using—or losing—annual leave carried forward from FY 1998. However, these modified rules did **not** affect the excess annual leave that many staff were still carrying forward from the May 1995 rescheduling. Any excess leave from the May 1995 rescheduling was to be lost on April 30, 1999, as originally stipulated. Another important feature of the modified rules for FY 1999 was the introduction of a combination "use or lose" rule, which was to pertain to any staff having more than 60 days of accrued annual leave on April 30, 1999. Under this rule, either the 60-day carryover limit or a 15-day minimum usage rule would be applied to those with excess leave at the end of FY 1999. The interim rules were formulated so that no one would be worse off in FY 1999 under the modified rules than under the previous policy.

---

[9]Staff Bulletin 95/7 (3/30/95), Revised Provisions for the Carryover of Excess Annual Leave and Long-Service Leave Credit.

[10]Staff Bulletin 98/7 (3/5/98), Carryover of Annual Leave in 1998—Temporary Extension.

[11]Staff Bulletin 98/17 (9/2/98), Modification of the Rules on Carryover of Annual Leave for FY 1999.