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To: Members of the Committee on Administrative Policies

From: The Committee Secretary

Subject: **Quadrennial Review of the Procedures for Adjusting the Annual
Education Allowance Ceilings**

Attached for the information of the Committee on Administrative Policies is a paper on the quadrennial review of the procedures for adjusting the annual education allowance ceilings. Conclusions appear on page 5.

Att (1)

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INTERNATIONAL MONETARY FUND

**Quadrennial Review of the Procedures for Adjusting the
Annual Education Allowance Ceilings**

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Approved by Ulrich Baumgartner

July 13, 2000

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I. INTRODUCTION

1. This paper is being submitted in accordance with the Executive Board's approval of the Committee on Administrative Policies' recommendation (EBAP/96/90), which called for a quadrennial review by the Committee on Administrative Policies of the procedures for adjusting the education allowance ceilings under General Administrative Order (GAO) 21, beginning with the academic year 2000/01.

2. Section II of this paper provides background information on the education allowance ceilings. Section III describes the procedures used to conduct the annual adjustment of the education allowance ceilings and summarizes the results of the annual adjustment for academic years 1996/97 through 1999/2000. Section IV provides greater detail concerning the adjustment of the education allowance ceilings approved by management for the upcoming 2000/01 academic year.

II. BACKGROUND

3. As noted in GAO No. 21, Rev. 7, the purpose of providing education allowances is to provide financial assistance to eligible staff members for the education of their children in their home country or in a manner intended to assist their eventual return to their home country. Staff members must apply each year for education allowances and certify at the end of the academic year that the allowances received have been used for the intended purpose.

4. The education allowances are subject to maximum dollar amounts (ceilings) that are established for each academic year. Separate ceilings apply to each of the three categories of education allowance: (i) the annual cost of tuition for children who are studying at a qualified education institution within the staff member's country of assignment; (ii) tuition plus boarding for children who are studying at a qualified institution in a country other than the staff member's country of assignment and who pay for room and board at a facility provided by the education institution; and (iii) a flat subsistence grant for children studying outside the staff member's country of assignment who do not live either in school-provided facilities or with a parent.

5. The annual education allowance ceilings are set with the objective of reimbursing 75 percent of eligible expenses for 90 percent of eligible children. The 75 percent reimbursement level was chosen with a view to ensuring that the staff member does not simply choose the most expensive school; it also ensures that the staff member makes a reasonable financial commitment to his or her child's education. The 90 percent target is intended to keep the standard of 75 percent broadly in line with the average costs that staff incur; in effect, it means that those staff members who choose the most expensive school will receive allowances equivalent to less than the 75 percent of eligible expenses.

III. PROCEDURE FOR THE ANNUAL ADJUSTMENT OF CEILINGS

6. It is necessary to review the outcome of the education allowance process each year to determine if the level of the ceilings were effective in meeting the objective of reimbursing 75 percent of eligible costs for 90 percent of eligible students. In December 1993, the

Executive Board approved procedures, summarized below, for the annual adjustment of education allowance ceilings.¹

- For schools located in the United States, the formula for annual adjustment to the education allowance ceilings is based on the average increase of the respective costs for the three years immediately preceding the academic year for which the adjustment is made.
- For schools located outside the United States, the formula for annual adjustment to the education allowance ceilings uses the ceilings for U.S.-based schools as a basis and the UNPAI (United Nations Post Adjustment Index) issued in February for schools where the academic year begins in the fall of the same year, and the UNPAI issued in September for schools where the academic year begins in the spring of the following year for specific country adjustment.

7. In addition, the following data are analyzed and reviewed for each academic year: (i) the number of children benefiting from the education allowance; (ii) the number of children studying in the host country, home country, and third country at the primary, secondary, and post-secondary levels; (iii) the average tuition increase from previous academic year to current year; and (iv) the number of students whose school fees exceed the ceilings.

8. The annual adjustment of ceilings is conducted in close coordination with the World Bank, where this same procedure was adopted beginning with the 1995/96 academic year. Although the World Bank has recently changed its expatriate benefit package for staff hired after April 30, 1998, it continues to adjust the education allowance ceilings for staff who are grandfathered under the previous expatriate benefits policy. As part of this collaboration, the World Bank and the Fund share information on data collected and adjust the annual ceilings by the same amount. The World Bank collects and analyzes information to adjust the ceiling for schools outside the United States, and the Fund provides the information to adjust the ceilings for U.S.-based schools.

9. In 1996, the Executive Board approved the education allowances for the 1996/97 academic year and attributed authority to management to approve future adjustments to the ceilings using the methodology described above, subject to a requirement for management to report to the Board quadrennially on the experience under this system. Accordingly, management has approved changes to the ceilings each year using the adjustment mechanism agreed to by the Executive Board. The ceilings have been identical to those in effect in the World Bank. The following table shows how the education allowance ceilings in both organizations have been adjusted over the last four academic years.

¹See EBAP/93/79 (12/2/93).

Academic Year	Tuition	Tuition and Boarding	Flat Subsistence Grant	
			Primary/Secondary	Post-Secondary
1996/97	\$ 9,670	\$13,780	\$3,020	\$6,040
1997/98	\$10,200	\$14,600	\$3,150	\$6,300
1998/99	\$10,800	\$15,700	\$3,250	\$6,500
1999/00	\$11,460	\$16,870	\$3,365	\$6,730

IV. EDUCATION ALLOWANCE CEILINGS FOR ACADEMIC YEAR 2000/01

10. The review of the cost of education for the 1999/2000 academic year has recently been completed for schools attended by children of Fund staff members. The analysis of data collected from documents submitted by staff members for the 1999/2000 academic year indicates that the average increase in the tuition cost for the schools most frequently attended by eligible children in the Washington, D.C. area was 6.2 percent. Average costs of combined tuition and boarding for a representative sample of overseas schools attended by eligible children of World Bank and Fund staff increased by 3.5 percent, while the increase in local area boarding costs was 6.6 percent. The table below illustrates the average increase in costs for each category of allowance for the 1997/98 and 1998/99 academic year, the actual increase for the 1999/2000 academic year, and the average increase for the three year period.

Academic Year	Tuition	Tuition and Boarding	Flat Subsistence Grant
1997/98	6.3	9.5	4.9
1998/99	6.3	6.8	2.9
1999/00	6.2	3.5	6.6
Average	6.3	6.6	4.8

11. The outcome of the analysis indicates that the education allowance ceilings for academic year 2000/01, which is the result of adjusting the 1999/2000 academic year ceilings by the average increase, are as follows:

Tuition	\$12,180
Tuition and boarding	\$17,980
Flat subsistence grant	
Primary/secondary	\$3,525
Post-secondary	\$7,050

12. Management has approved the revised education allowance ceilings, which will be in effect for the academic year starting after August 1, 2000. The additional cost to the Fund of the proposed ceilings for the 2000/01 academic year is expected to be accommodated by the approved FY 2001 administrative budget.

V. CONCLUSION

13. The procedures approved by the Executive Board in 1993, and outlined in EBAP/93/79 dated 12/2/93, have served the institution well. Management will continue to adjust the education allowance ceilings annually in accordance with the approved procedures under the authority attributed to management by the Executive Board in 1996. Management will report again on the experience in adjusting the annual education allowance ceilings in June, 2004.