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To: Members of the Committee on Administrative Policies

From: The Committee Secretary

Subject: **Staff Compensation—The Comparatio**

In the context of the forthcoming discussion on Staff Compensation—1997 Review (EBAP/97/27, Rev. 1, 4/2/97), a number of Executive Directors have raised questions concerning the concept and calculation of the comparatio adjustment. Attached for the information of Executive Directors is "Staff Compensation—The Comparatio" originally issued as EB/CAP/96/1 (1/19/96).

Mr. John Kennedy (ext. 34665) is available to answer technical or factual questions relating to this paper.

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INTERNATIONAL MONETARY FUND

The Role of the Comparatio
in the Staff Compensation System

Prepared by the Administration Department

Approved by K. Burke Dillon
January 17, 1996

In response to requests of Executive Directors, this paper describes the concept of the comparatio and explains the role that it plays in the Fund's compensation system and salary administration.

1. What Is The Comparatio?

The Fund has a **salary structure,** consisting of 19 **salary ranges,** corresponding to grades Al through B5. Each salary range has a maximum and a minimum salary, and the salary half way between the two is referred to as the **range midpoint.** A line connecting the range midpoints is referred to as the Fund's **payline.** [1]

For a single salary range, the **comparatio** describes the relationship of the average salaries of the staff within that salary range to the midpoint of the range. For example, if the comparatio for a salary range was 95, 100 or 105, this would mean that average salaries were, respectively, 5 percent below, equal to, or 5 percent above the range midpoint.

In the context of the annual salary reviews in the Fund and the Bank, the comparatio describes the overall relationship between salaries and midpoints, that is to say, it is the comparatio for each salary range averaged across the full salary structure.

It is an essential element of the Fund and Bank salary system, as recommended by the Joint Committee of Executive Directors (the JCC), that the annual salary increases in the two organizations should aim to set average salaries at a comparatio of 100, thus aligning overall average salaries with the range midpoints. In addition, as described below, the use of the comparatio serves two other purposes: (i) it is the mechanism that provides the resources

[1] This is sometimes referred to as the policy payline, in order to indicate that the mid-points of the salary ranges represent the "norm" towards which the Fund's compensation policy is directed. The Fund's payline corresponds to the payline connecting the salaries for different levels of responsibilities in the Fund's comparator markets. As this paper explains, the comparatio is the link between the policy payline and the actual salaries that staff are paid.

which allow staff to advance in their salary ranges through performance-based merit increases; and (ii) it is a discipline that helps to prevent the upward "drift" of salaries within salary ranges.

2. The Role Of The Comparatio In The Annual Salary Increases

The annual salary reviews involve decisions of the Executive Board that have two elements:

(a) First, the midpoints of the salary structure are set at the 75th percentile level relative to the comparator market. This adjustment of the salary structure sets the range midpoints and the policy payline on the "going rate" in the comparator markets for each level of duties and responsibilities in the Fund. This initial step does not, of course, lead to any automatic change in staff members' actual salaries.

(b) Second, a determination is made of the "overall increase" that will bring average salaries to a comparatio of 100, thus moving overall average salaries into line with the range midpoints and--on average--aligning **actual** salaries in the Fund with **actual** compensation in the comparator market.

The overall increase is, therefore, the sum of:

-- the "structural adjustment," i.e. the percentage increase in the midpoints of the salary ranges; **plus**

-- the "comparatio adjustment," which is the percentage increase needed--over and above the structural adjustment--to align actual staff salaries, on average, with the midpoints of the new salary structure.

The two components of the overall salary increase are shown schematically in Figure 1 in Annex I. The new salary structure and individual increases go into effect in the Fund on May 1 each year. The amount of the comparatio adjustment is determined by the April 30 comparatio, as measured against the old salary structure.

For example, if the April 30 comparatio is 98.5, a comparatio adjustment of 1.5 percent would restore the comparatio to 100. If the structural increase were, say, 4 percent, the overall increase needed to reach, a comparatio of 100 in the new structure would be 104 / 98.5 = 5.6 percent, or the equivalent (1.04 X 1.015) - 1 = 5.6 percent.

The comparatio normally declines over the twelve months from May 1 each year to April 30 of the following year. [1] These annual declines between salary adjustments, and the effects of the May 1 salary increases, are shown in Figure 2 in Annex I for the years 1989-1995. Annually, the comparatio has declined by 0.9-1.6 percentage points. The May 1 salary increases have moved the comparatio back to close to 100, although there has been a small shortfall each year, mainly because of the difficulties of estimating in early March the effect of promotions that will take place on May 1. Combining (i) the decline of the comparatio during the year and (ii) the initial shortfall below 100, the adjustments needed as of May 1 to restore a comparatio of 100 have averaged 1.6 percent.

As indicated above, the combination of the structural and the comparatio adjustment ensures that, on average, the actual salaries of staff--and not just the salary structure--are maintained at the intended level relative to actual compensation in the Fund's comparator markets. *Because the comparatio adjustment offsets a decline in the Fund's relative salaries*, each year's restoration of a comparatio of 100 maintains Fund salaries in a more or less constant position against the markets. This means that the increase in the Fund's overall salaries broadly corresponds, on average, to the year-to-year increase in market salaries. Thus, since 1989, the cumulative increase in the Fund's average salary has amounted to 29 percent while the cumulative increases in the U.S. market and the French and German markets have both been 32 percent. Limiting the comparatio adjustment to an amount less than needed to restore a comparatio of 100 would therefore result in a progressive erosion of the competitiveness of actual compensation in the Fund, even if the salary structure was maintained at fully competitive levels in relation to the comparator market. It was to prevent this erosion of competitiveness that the Joint Compensation Committee recommended that the comparatio "be maintained as close to the target of 100 as practicable".

In making this recommendation, the JCC was reflecting practices in the private sector, where the comparatio approach has been widely used as a salary administration tool for many years, and where the common pattern is an overall increase in excess of the upward movement of the salary structure. This excess is the equivalent of the Fund's comparatio adjustment, and in many organizations, it is determined in the same manner as the Fund's adjustment. Surveys conducted by Hewitt Associates for various types of private sector organizations in the United States show that the increases equivalent to the Fund's comparatio adjustments are broadly comparable with the adjustments made by the Fund (See Table 1).

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[1] The decline occurs for a number of reasons. Staff who retire or separate tend to have salaries that are in the upper levels of their salary ranges, while the new recruits who replace them have starting salaries that are set in the lower levels of the ranges. Promotions also lead to a decline in the comparatio: staff promoted into a higher grade usually have salaries above the mid-points of the grade from which they are promoted, while their new salaries are typically set in the lower levels of the ranges into which they are promoted. It is worth noting that even the large differences in the annual number of appointments that occurred in the 1990-1995 period had only a small impact on the size of the comparatio decline.

Table 1. Differences Between Overall Pay Increases [1] and Structural Adjustments
(Results from Hewitt Associates Surveys in Percents)

Industry	Executive	Salaried Exempt [2]	Salaried Non-Exempt [3]
1992			
Banking/Finance	1.6	1.9	2.0
Insurance	1.9	1.7	2.0
All Services	1.7	1.6	1.7
All Manufacturing	1.1	1.1	1.3
All Companies	1.4	1.4	1.5
1993			
Banking/Finance	1.8	2.1	2.0
Insurance	1.5	1.6	1.8
All Services	1.6	1.6	1.6
All Manufacturing	1.3	1.2	1.3
All Companies	1.4	1.4	1.5
1994			
Banking/Finance	2.3	2.0	1.9
Insurance	1.2	1.5	1.5
All Services	1.6	1.5	1.6
All Manufacturing	1.3	1.3	1.4
All Companies	1.5	1.4	1.5
1995 (Projected)			
Banking/Finance	1.8	1.2	1.7
Insurance	1.3	1.4	1.6
All Services	1.5	1.4	1.5
All Manufacturing	1.2	1.1	1.1
All Companies	1.3	1.3	1.3

[1] Overall pay increases are the percentage changes in average base salary from the beginning of the year to the end of the year; they combine all increases, including merit increases, structure increases, and any other general salary increases.

[2] Exempt from U.S. overtime pay; roughly corresponds to Fund Grades A9 to B2.

[3] Subject to U.S. overtime pay; roughly corresponds to Fund Grades A1 to A8.

Some Executive Directors have suggested that it is not necessary to achieve a comparatio of 100 each year, particularly if the decline of the comparatio during the previous year has been affected by, for example, an unusually large number of appointments or separations. It is, of course, possible that some extraordinary circumstances might arise that would suggest a comparatio adjustment of less than the norm agreed by the JCC, but this has not occurred since the inception of the compensation system in 1989. Moreover, any such shortfall in one year would only result in larger "catch-up" comparatio adjustments in subsequent years. Barring extraordinary circumstances, it is clearly preferable to maintain a comparatio of 100 on a year-to-year basis than to follow such a "stop-and-go" approach.

3. **Comparison of the Comparatio Approach with "Step" Increases**

The salary ranges in public sector and some international organizations typically have salary ranges that are divided into a number of "steps." The annual salary increases for employees in these step systems generally have two components: an increase in the structure and a more or less automatic step increase that raises the level of employees' salaries within their ranges. These increases take place over the course of the year, with each employee typically receiving a step increase on the anniversary of employment. It is the step increases that serve the purpose achieved by the comparatio in the Fund and the Bank, namely to prevent the decline of average salaries within the salary ranges.

The average annual step increases in the U.S. civil service and a number of international organizations are summarized in Table 2. On an annual basis, the increases are broadly comparable to the Fund's comparatio adjustment. However, from the standpoint of average salary costs, the comparatio approach is more conservative than step increases. This is because the comparatio method allows average salaries to decline relative to the midpoints throughout the year, followed by a one-time, end-of-year upward correction, while step increases maintain the average level of salaries within the ranges on an ongoing basis.

Table 2. Average Annual Step Increases
for Selected Organizations (1995)

Organization and Currency	Percentage Increase
United States Civil Service (U.S. dollars)	1.5
United Nations (U.S. dollars)	2.0
European Communities (Belgian francs)	2.1
Co-Ordinated Organizations [1]	2.3-2.6
Average 1990-95 Fund Comparatio Adjustment	1.6

[1] The Co-Ordinated Organizations are the Council of Europe, Organization for Economic Co-Operation and Development, North Atlantic Treaty Organization, Western European Union, European Space Agency, and European Center for Medium-range Weather Forecasts. Salaries are paid in the currency of the country in which staff are located.

4. The Role of the Comparatio in the Fund's Performance and Merit Pay System

The Fund does not give step increases, and there is no entitlement for a staff member to receive even the increase in the salary structure. The whole of the overall increase (structural increase plus the comparatio adjustment) is distributed as merit pay. [1] It is the comparatio adjustment that provides the salary resources that allow the pay of staff with good performance to advance within their salary ranges. The need for the comparatio adjustment can be demonstrated in two ways:

(a) If the result of the annual review showed no need to raise the salary structure, the only resources that would be available to allow the salaries of good performers to move up in their salary ranges would be the amounts derived from the comparatio adjustment.

(b) As explained earlier, if the overall increase were limited to the structural increase, average salaries within a range would generally decline relative to the mid-point; and the only way of advancing the salaries of better-performing staff low in the range would be by significantly, and inappropriately, reducing the merit pay of good performers near or above the midpoint.

In the Fund, the guidelines covering the distribution of merit pay reflect two elements: work performance and the existing level of salary within the range. [2] Permissible increases are tapered so that staff with salaries at lower points in the ranges are eligible for larger increases than staff with salaries at or above the midpoint. This tapering reflects the principle that the midpoint represents the going market rate for each range. It allows merit pay to accelerate the salary progression of good performers towards the midpoint; it serves to slow salary progression once the midpoint is passed; and it requires superior performance for staff with salaries high in the range to avoid falling back towards the midpoint.

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[1] This allows for considerable flexibility in the choice of a salary increase, thus providing more scope for a supervisor to reflect performance in the increase awarded.

[2] Although the majority of Fund staff receive the same performance rating, the "merit matrix" does allow for reasonably significant differences in salary increases as between, for example, a staff member who is a solid performer with a "2" rating and someone who narrowly avoids a "3" rating.

This system of merit pay implements the principle of "midpoint control," which was endorsed by the JCC. The principle is that salaries should, on average, track the level of the range midpoints--in other words, the aim should be to maintain a comparatio of 100. [1] The budgetary allocations for merit increases are established on the basis of the overall increase and the Fund-wide distribution of salaries within the ranges as of April 30. As a percentage of April 30 salaries, larger allocations are made for staff with salaries below the midpoint and smaller allocations for staff with salaries above the midpoint. The overall merit-pay budget set so as to bring the Fund-wide comparation to 100. Departments receive amounts for merit pay increases that reflect the distribution of their own staff's salaries within the ranges.

In controlling salaries around the midpoint in this manner, the comparatio acts, in effect, as a thermostat, both Fund-wide and for individual departments. While the comparatio principle avoids salary erosion relative to the range midpoints, it also restrains the upward drift of salaries above the midpoints. [2] It should be noted that the introduction of the comparatio method in 1989 has resulted in tighter controls over staff salaries.

5. Conclusions

The JCC carefully considered the need for an overall annual salary adjustment that included the two elements of an adjustment to the salary structure and the comparatio adjustment. In recommending a compensation system with these two elements, it was reflecting the widespread practice among private sector organizations and placing more emphasis on "pay-for-performance" than the "step" systems that are the equivalent of the comparatio adjustment in many public sector organizations. Since 1989, the use of the comparatio has effectively served its intended purposes in the staff compensation system. It has maintained the actual salaries of staff in line with the current level of salaries in the comparator markets, it has supported a performance-based merit-pay system, and it has provided a discipline that has prevented the upward drift of salaries within grades. It is accordingly recommended that the comparatio method continue to be employed in the staff compensation system.

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[1] Although the discipline of "mid-point" control is exercised in the Fund on an overall basis, the JCC recognized that it is unnecessary and inappropriate to achieve precision in this respect at each individual salary range. Some ranges (for example A14) are likely to have a much higher proportion of longer-serving staff, and the comparatio in that range will exceed 100. On the other hand, A11--the entry grade for Economists--will typically have a comparatio lower than 100.

[2] In the three years prior to 1989, when the present system was introduced, Fund salaries averaged 5.4 percent above the range midpoints. Subsequently, as shown in Figure 2 in Annex I, average salaries have always remained below the midpoints.

Figure 1. Year-to-Year Salary Movements and Components of the Overall Salary Incrrease

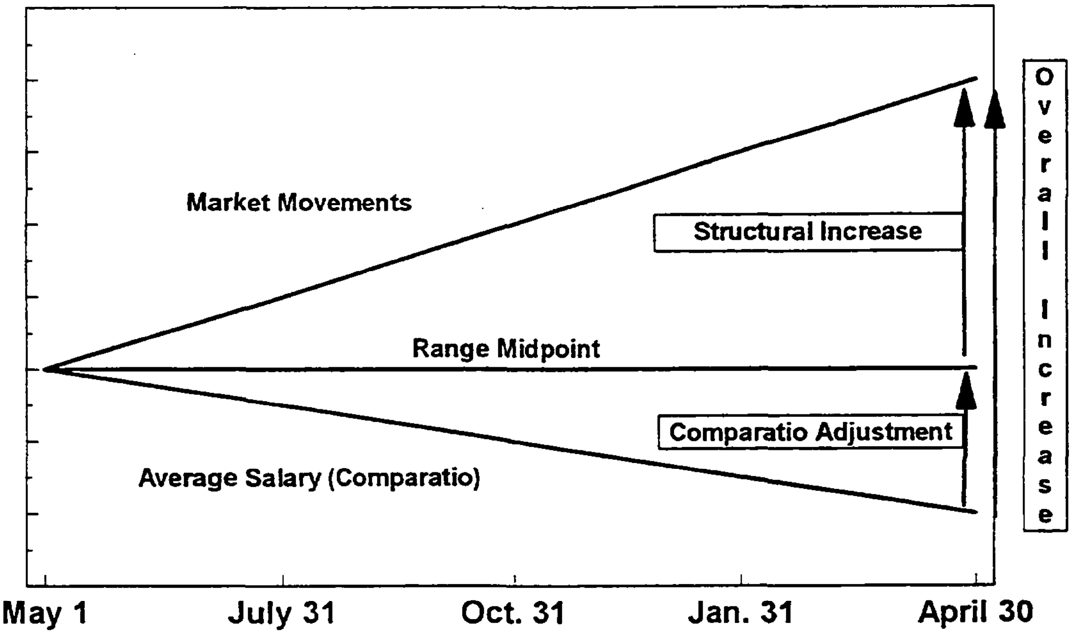
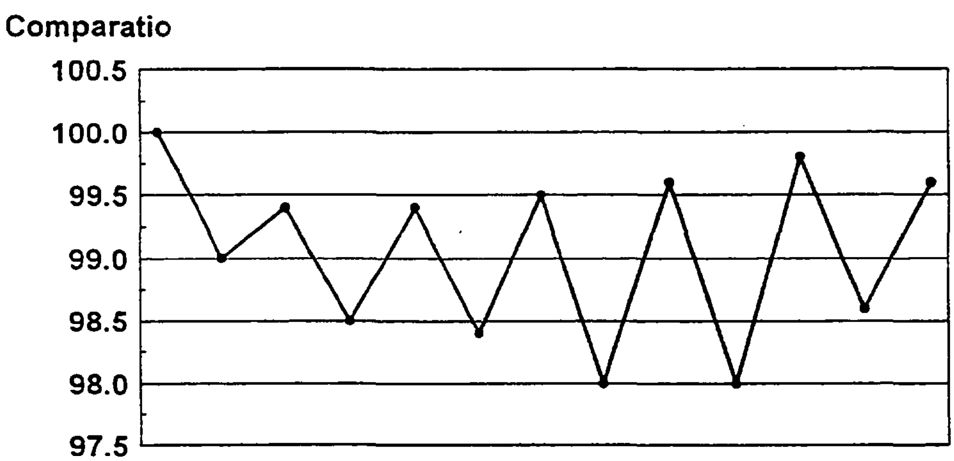


Figure 2. 1989-1995 Comparatio Movements
(Data as of April 30 and May 1 of Each Year)



Year and Month	5/89	4/90	5/90	4/91	5/91	4/92	5/92	4/93	5/93	4/94	5/94	4/95	5/95
Comparatio	100.0	99.0	99.4	98.5	99.4	98.4	99.5	98.0	99.6	98.0	99.8	98.6	99.6