

EB/CAP/01/2

October 31, 2001

To: Members of the Committee on Administrative Policies
From: The Committee Secretary
Subject: **Change in Eligibility for Expatriate Benefits**

Attached for consideration by the Committee, at a meeting on a date to be announced, is a paper on a proposed change in eligibility for expatriate benefits.

Questions may be referred to Mrs. McCarthy (ext. 38286) and Mrs. Shannon (ext. 37258).

Att. (1)

Other Distribution:
Members of the Executive Board

INTERNATIONAL MONETARY FUND

Change in Eligibility for Expatriate Benefits

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I. EXECUTIVE SUMMARY

The purpose of this paper is to propose a change in the eligibility criteria for expatriate benefits (home leave, education allowance, and repatriation). Under the current policy, which was adopted in 1985, eligibility for expatriate benefits is restricted to staff holding a G-4 visa. Non-U.S. nationals who have held U.S. Resident Alien (RA) visas in the 12 months prior to their Fund employment, or those who convert from a G-4 to an RA visa lose eligibility for expatriate benefits, while RA visa holders who switch to a G-4 visa do not become eligible.

Under the present policy, RA visa holders are considered non-U.S. nationals for meeting the Fund's geographic diversity objectives, while at the same time the Fund does not provide them the benefits associated with their nationality. This difference in treatment is compounded by the current policy of not providing expatriate benefits to those non-U.S. nationals who switch from an RA to a G-4 visa. The proposal is to allow those current and prospective new staff who give up their RA visa for a G-4 visa to become eligible for expatriate benefits (one-time change). This change in policy would better reflect the principle of equal treatment of similarly situated staff and would be more in line with the classification of staff for the purpose of meeting the Fund's diversity objectives.

In past reviews, it was argued that persons who have been recruited in the United States and hold RA visas intend to stay in the United States after Fund employment. Intentions in this respect, which can and do change over time, cannot be inferred automatically from the possession of an RA visa. In fact, with international labor market mobility being greater now than at the time of the policy change in 1985, such inferences are increasingly problematic. Each year, the Fund hires a sizable number of non-U.S. nationals who have completed their university studies in the United States. Many of these students secured RA visas in order to support themselves during their studies, even though they may have no intention to remain permanently in the United States. Furthermore, some non-U.S. nationals joining the staff as mid-career recruits have gained work experience in the United States and, as a consequence, hold an RA visa. The current policy therefore puts individuals who acquire work experience in the United States at a disadvantage compared with their compatriots who have not previously worked in the United States, because they cannot become eligible for expatriate benefits even if they convert to a G-4 visa.

The annual cost for expatriate benefits is about \$11,000 per eligible staff member. Currently, there are 245 ineligible RA visa holders on the staff. In addition, approximately 20 new RA visa holders are hired each year while others retire or separate from the Fund. If all of these RA visa holders converted to G-4 status, the additional expenditure would be about \$2.9 million per year, or an increase in annual expatriate benefit costs by 14 percent to \$23.7 million. While the actual number of conversions that might take place is uncertain, it is unlikely that more than 50 percent of those eligible would do so. Assuming a 50 percent conversion rate, the cost implication would be about \$1.5 million per year. However, the full budgetary impact would not arise until two years after the change in policy, because the home leave entitlement date would not arise until two years after the change in visa status.

II. INTRODUCTION

1. The purpose of this paper is to propose a change in the eligibility criteria for expatriate benefits. Under the current policy, which was adopted in 1985, eligibility for expatriate benefits is restricted to staff holding a G-4 visa. Non-U.S. nationals who have held U.S. Resident Alien (RA) visas (also referred to as “permanent resident” or “PR” visas, or “green cards”) in the 12 months prior to their Fund employment, or those who convert from a G-4 to an RA visa lose eligibility for expatriate benefits, while RA visa holders who switch to a G-4 visa do not become eligible.

2. Under the present policy, RA visa holders are considered non-U.S. nationals for meeting the Fund’s geographic diversity objectives, while at the same time the Fund does not provide them the benefits associated with their nationality. This difference in treatment is compounded by the current policy of not providing expatriate benefits to those non-U.S. nationals who switch from an RA to a G-4 visa.

3. The proposal is to modify the present eligibility criteria to allow those current and prospective new staff who give up their RA visa for a G-4 visa to become eligible for expatriate benefits. This change in policy would better reflect the principle of equal treatment of similarly situated staff and would be more in line with the classification of staff for the purpose of meeting the Fund’s diversity objectives.

4. This paper is organized as follows: Section II sets out the historical background; Section III provides an assessment of the current policy with respect to the Fund’s employment mandate; Section IV discusses the cost implications of the change; and Section V presents the conclusions and proposed recommendation.

III. BACKGROUND

5. There are two main expatriate benefits—home leave, and allowances for the education of children. In addition, staff members eligible for expatriate benefits are entitled to repatriation to their home country upon separation; those who are ineligible receive resettlement benefits within the cost limit to the furthest point in their final duty station country.

6. Prior to 1985, expatriate benefits were granted on the basis of the nationality test, which establishes nationality as the sole eligibility factor, irrespective of visa status. As a result, all non-U.S. staff, including RA visa holders, were deemed eligible for such benefits. In 1985, the Executive Boards of the Fund and the Bank took the decision to change the eligibility criterion from nationality to visa status, whereby expatriate benefits would only be extended to G-4 visa holders and would be forfeited by any staff member who held an RA visa in the 12 months prior to joining the Fund or at any time during Fund employment. This

decision was the outcome of recommendations put forward by an ad hoc Working Group of Executive Directors from both organizations who had considered five options for eligibility¹ against factors such as equity, simplicity and cost. The rationale for enacting the visa criterion was stated in the Working Group's report, as follows: "... 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 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." Another consideration that motivated this change was that the visa test resulted in a less costly expatriate benefits program than the nationality test.

7. The current policy, based on the visa test, took effect on January 28, 1985. Fund staff who were RA visa holders at the time of the policy change, and G-4 visa holders who applied for an RA visa during a one-year grace period following the policy change, were grandfathered for existing expatriate benefits and for any updating of these benefits. However, staff who have acquired an RA visa on the basis of an application filed with the Immigration and Naturalization Service on or after January 28, 1986 lose eligibility for expatriate benefits. U.S. nationals and non-U.S. nationals who have held an RA visa in the 12 months preceding Fund employment are ineligible for expatriate benefits, with the exception of the time during which they may be assigned to duty stations outside the United States.

8. The eligibility criteria for expatriate benefits were reexamined by the Executive Boards of the Bank and Fund in 1994 (EB/CAP/94/2, EBAP/94/39). In reviewing the issue, both Boards examined three main options:

- Reverting to the nationality criterion.
- Adopting the "modified INTELSAT option" proposed by Bank staff. Under this system, RA visa holders become eligible for the benefits by changing to a G-4 visa. However, if the staff member's spouse is either a U.S. national or an RA visa holder, expatriate benefits are reduced to 50 percent of the standard family benefit.
- Retaining the status quo (visa test).

Given the administratively cumbersome nature of the "modified INTELSAT option" and the cost of reverting to the nationality criterion, the Bank and Fund Boards decided to stay with the status quo.

¹The five options included the nationality test; the visa test (G-4 and grandfathered RA visa staff); non-U.S. international recruits; length of residence in the United States prior to Fund appointment; and non-U.S. nationals not in RA status for at least three out of four years preceding Fund employment.

9. In July 1999, the Bank replaced the traditional expatriate benefits package with a "mobility premium" (a lump-sum cash payment) which starts to decline after four years and is eliminated after 10 years of employment. This is in line with the Bank's short-term employment objective and is not practical for the Fund where our staffing needs continue to be primarily for career staff. Furthermore, the Bank has found that the declining value of the premium is a drawback for field assignments which typically are taken a few years into one's career at the Bank, at a time when significant expenses may be incurred for educating children outside the country of assignment due to the lack of good local schools. Accordingly, the Bank's policy is to freeze the mobility premium for the duration of a field assignment and replace it with the traditional expatriate benefits package until the assignment is concluded. G-4 visa holders and grandfathered RA visa holders who were appointed prior to July 1999 continue to receive the traditional expatriate benefits (home leave and education allowance). RA visa holders who were appointed prior to July 1999 but who were not grandfathered are not eligible for expatriate benefits or for the mobility premium, even if they relinquish the RA visa in favor of a G-4 visa.

IV. ASSESSMENT OF CURRENT FUND POLICY

10. In assessing the present policy, it is important to consider the fundamental rationale for giving expatriate benefits. In an international organization like the Fund, expatriate benefits are intrinsically linked with the goal of maintaining an international staff. There are two main aspects to this connection. The Fund's ability to recruit and retain a highly qualified international staff is enhanced by a policy of providing some compensation for the additional costs faced by expatriates in maintaining contact with their home countries and providing a cultural and educational environment similar to what they would have at home. Moreover, providing such compensation encourages staff members to keep up ties with their home countries, contributing to maintaining a staff whose outlook continues to reflect their diverse national origins.

11. RA visa holders are classified as nationals of their own countries, not of the United States, for purposes of meeting the geographical diversity objective stated in the Articles of Agreement and Rule N-1. They are not, however, accorded the expatriate benefits associated with their nationality that are given to other non-U.S. nationals employed by the Fund. Moreover, a non-U.S. staff member who is eligible for expatriate benefits immediately loses eligibility for these benefits upon acquisition of an RA visa, but one who is ineligible for expatriate benefits cannot gain eligibility for these benefits by relinquishing the RA visa.

12. In past reviews, it was argued that persons who have been recruited in the United States and hold RA visas intend to stay in the United States after Fund employment. Intentions in this respect, which can and do change over time, cannot be inferred automatically from the possession of an RA visa. In fact, with international labor market mobility being greater now than at the time of the policy change in 1985, such inferences are increasingly problematic. Each year, the Fund hires a sizable number of non-U.S. nationals

who have completed their university studies in the United States. Many of these students secured RA visas in order to support themselves during their studies, even though they may have no intention to remain permanently in the United States. Furthermore, some non-U.S. nationals joining the staff as mid-career recruits have gained work experience in the United States and, as a consequence, hold an RA visa. The current policy therefore puts individuals who acquire work experience in the United States at a disadvantage compared with their compatriots who have not previously worked in the United States, because they cannot become eligible for expatriate benefits even if they convert to a G-4 visa.

13. It could be argued that some RA visa holders might convert to G-4 visas solely for the purpose of receiving expatriate benefits and then revert to their RA status upon separation from the Fund. However, the reacquisition of U.S. permanent residence is not automatic. Individuals must qualify anew for permanent resident status and having previously held permanent residence does not provide any advantage. Furthermore, G-4 visa holders now have the option of remaining in the United States upon retirement from the Fund under certain circumstances. This was more difficult in 1985 when the present policy was adopted, and it has narrowed somewhat the differences between RA and G-4 visas.

V. PROPOSED CHANGE IN POLICY AND COST IMPLICATIONS

14. Expatriate benefits are a key instrument for promoting the international character of the Fund staff. Eligibility for expatriate benefits is a complex and sensitive issue and this is underscored by the numerous discussions that have been held over the years. The nationality criterion, which the Fund had used as its basis from 1947 until 1985, would in many respects be the one that is most consistent with the diversity mandate of the Articles of Agreement and current efforts to increase diversity. The visa criterion implies assumptions about long-term intentions of staff holding RA visas that may not be valid in the case of EP participants and mid-career professionals typically recruited by the Fund. Most problematic, however, is the asymmetric treatment of those who wish to give up their RA visa but are still ineligible to qualify for expatriate benefits. It would, therefore, be appropriate to remove this asymmetry in the current policy. Thus, it is recommended that staff currently holding RA visas and new staff who hold them prior to employment with the Fund, be given the opportunity to become eligible for expatriate benefits by relinquishing their RA visa and converting to G-4 status. This policy would become effective on May 1, 2002. Every staff member can make one such change in a Fund career. The expenses incurred in changing to a G-4 visa must be borne by the staff members.

15. The annual cost for expatriate benefits is about \$11,000 per eligible staff member (Table 1). Currently, there are 245 ineligible RA visa holders on the staff (Appendix Table 2). In addition, approximately 20 new RA visa holders are hired each year while others retire or separate from the Fund. If all of these RA visa holders converted to G-4 status and thus were eligible to receive the benefits, the additional expenditure would be about \$2.9 million per year, or an increase in annual expatriate benefit costs by 14 percent to \$23.7 million.

16. However, it is unlikely that all current or new RA visa holders will elect to relinquish their visas. While the actual number of conversions that might take place is uncertain, it is unlikely that more than 50 percent of those eligible would do so. Assuming a 50 percent conversion rate, the cost implication would be about \$1.5 million per year. However, the full budgetary impact would not arise until two years after the change in policy, because the home leave entitlement date would not arise until two years after the change in visa status.

Total annual cost of expatriate benefits	20.8 million
Education allowance	7.6 million
Home leave benefit	13.2 million
Annual per capita cost per eligible staff member (\$20.8 million/1,910)	\$11,000 ^{1/}
^{1/} While most eligible staff make use of their home leave allowance, less than one-half use the education benefits.	

VI. RECOMMENDATION

17. It is proposed that the Committee on Administrative Policies recommend to the Executive Board approval of the following:

The eligibility criteria for expatriate benefits are amended so that:

- Non-grandfathered staff who are presently employed by the Fund but who hold an RA visa and new recruits who hold RA visas will be eligible for full expatriate benefits for themselves and their eligible family members, provided they relinquish their RA visa and obtain a G-4 visa.
- This option will be limited to one change in a Fund career.
- Staff who exercise this option will be required to submit acceptable proof of the change of visa status.
- Eligibility for the benefits will be counted from the date of issuance of the G-4 visa.

These changes will become effective May 1, 2002.

Table 2. Eligibility for Expatriate Benefits as of May 2001
Distribution of Fund Staff by Visa Status

	Number of Staff	Percent Total
A1-B5		
Total	2649	100
U.S. nationals	684	26
Non-U.S. nationals	1965	74
G-4 visa holders	1594	67
RA visa holders	371	14
Eligible RA visa holders	126	5
Ineligible RA visa holders	245	
Total staff eligible for expatriate benefits	1910	2
A1-A8		
Total	832	100
U.S. nationals	226	27
Non-U.S. nationals	606	73
G-4 visa holders	416	50
RA visa holders	190	23
Eligible RA visa holders	62	7
Ineligible RA visa holders	128	15
A9-B5		
Total	1817	100
U.S. nationals	458	25
Non-U.S. nationals	1359	75
G-4 visa holders	1178	65
RA visa holders	181	10
Eligible RA visa holders	64	4
Ineligible RA visa holders	117	6