0411

CONFIDENTIAL

COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 91/2

4:00 p.m., February 21, 1991

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
T. C. Dawson	
	A. Gronn, Temporary
	M. J. Mojarrad, Temporary
	L. J. Mwananshiku
	P. Wright
	R. Marino
K. Yamazaki	N. Tabata

C. Brachet, Secretary
B. J. Owen, Assistant

Also Present

Zhang Z.

Staff Association Committee: A. Doizé, Chairman. Administration Department: G. F. Rea, Director; D. S. Cutler, Assistant Director; D. A. Anderson, S. L. Chung, T. U. Diamond, M. E. Gehringer. Legal Department: W. E. Holder, Deputy General Counsel. Secretary's Department: B. R. Hughes, M. J. Papin. Statistics Department: R. V. Kennedy. Advisors to Executive Directors: M. B. Chatah, M. J. Jones. Assistants to Executive Directors: S. B. Creane, O. A. Himani.

1. SPOUSE AND DEPENDENTS' ALLOWANCES

Committee members considered a staff paper on spouse and dependents' allowances (EB/CAP/91/2, 2/8/91).

The Acting Chairman noted that the Staff Association Committee's Chairman had requested to make a statement to the meeting and be present for the discussion. The practice on previous occasions had been for the Staff Association Committee (SAC) representatives not to remain for the discussion, and he asked whether members wished to continue that practice.

The Committee indicated its wish to maintain its previous practice.

Ms. Doizé, Chairman, SAC, made the following statement:

> The Staff Association welcomes the suggestion to bring the spouses' and dependents' allowances up to date and supports the proposed changes both with regard to the amount of the spouse and child allowances and the calculation method. The present rates have been in place since 1980 and have clearly needed to be revised for some time because of the changes in U.S. tax laws. We hope that the Committee on Administrative Policies will endorse these changes, as they make the system more equitable and reduce the administrative complexity.
>
> We regret the proposed elimination of the allowance for secondary dependents. We would have preferred an adjustment of the allowance, as the U.S. tax system also recognizes other dependents under certain specified circumstances. About 80 staff members now receive $420. This may be a small amount for most of the staff, but it is certainly not negligible for staff at the lower range of the salary scale. As the major argument for the elimination of this benefit is the cost involved in its administration, the proposed "buy-out" would seem preferable to grandfathering.

Mr. Dawson inquired whether the SAC supported the increase in the salary ceiling for payment of the spouse allowance, and if so, whether it did not believe that the effect was regressive in that it rewarded wealthy staff members at the expense of middle and lower income staff members.

Ms. Doizé responded that the objective of the proposals, with which the SAC had no difficulty, was to make the system more equitable and comparable, including for U.S. staff members, who paid taxes.

The SAC Chairman then left the meeting.

The staff representative from the Administration Department stated that on the previous day, the World Bank had approved the same proposals as those set out in the staff paper.

Mr. Dawson said that as he understood the proposal to raise the salary ceiling, the cost of the spouse allowance would increase, but the proposal could be viewed as being cost neutral because the allowance was an integral part of the salary calculation base. Therefore, an increase in the allowance, in the broadest possible terms, was fed back into the compensation review and reduced the amount paid in compensation as opposed to allowances. However, he did not quite understand the basis on which that particular allowance was being increased. As he had mentioned, the way in which it was being raised seemed to be regressive in its effect. If money was, as it were, available for compensation purposes, he failed to see why it should be allocated to staff members who were, relatively speaking, better off.

In a more general sense, Mr. Dawson added, he wondered whether thought had been given to folding the entire allowance base into the compensation structure. In principle, he had no problem with the basic increases, because they were neutral in that sense, but the system as a whole was administratively complex.

The Assistant Director of Administration confirmed Mr. Dawson's understanding of the neutrality of the proposed increases in allowances, which were folded into the salary-setting system. The staff itself had suggested in the final paragraph of its paper that a system that did not take account of spouse income should be considered, with a view to administrative simplification. The existing system gave rise to difficulties with staff in its administration. However, the Fund staff had been unable to prevail on its World Bank colleagues to pursue that objective.

In response to a further question by Mr. Dawson, the Assistant Director replied that the staff had been discussing the discontinuance of prorating the spouse allowance; of course, prorating was an issue in respect of the children's allowance as well.

The staff representative from the Administration Department commented that the staff had attempted to address the difficult issue of the regressive aspect of the allowance to some extent in its analysis of the proposals as they related to U.S. tax law. The proposal to raise the income level of the spouse to $30,000 was actually much more favorable to the lower-paid staff than it was to higher-paid staff. The previous system had had a penalizing effect on the lowest-paid staff: with an income cutoff of $10,000, and a methodology that prorated spouse income and provided an allowance based on the percentage of family income that the staff member contributed, staff members with salaries ranging from $20,000 to $30,000 and whose spouses earned from $10,000 to $30,000, essentially had their allowance cut in half. Yet the highest-paid staff members, with spouses who earned from $10,000 to $30,000, had their allowance reduced by 5-10 percent. A spouse income level of $30,000 was not ideal for the lowest-paid staff members, whose allowance would be reduced below the comparable tax effect under the U.S. tax system, and it was somewhat more favorable to the highest-paid staff members. A balance had had to be sought between a reasonable level of spouse income--indexed against the figure of $10,000 for

1975--at a level that would not be as damaging to the lowest-paid staff and that at the same time would not produce a windfall for the highest-paid staff.

The suggestion by Mr. Dawson to fold the allowances into the compensation system had been considered thoroughly by the Joint Committee on Remuneration, the staff representative from the Administration Department recalled, but the cost would have been fairly substantial at the time. Taking the spouses' and dependents' allowances out of the compensation system actually reduced the market payline by about $4.5 million; the cost of the entire allowance program, even with the proposed changes, was about $3.9 million. Basically, that sum was being taken out of the market payline and given back to staff members to the extent that they had a spouse and two dependent children. But if the market payline was netted down on the broad assumption that all staff members were married with two children--the average number was actually about 1.6 children--and if the spouses' and dependents' allowance was not then taken out, single staff members, married staff with no children, and married staff with one child would all be overpaid. Again, it was a matter of balancing the amount that had to be taken out of the payline and then, to the extent required by eligibility, giving the amount back; in that way, a better sense of internal equity was achieved than if one group of staff was overpaid and another underpaid.

Mr. Dawson made a general point relating to the problem that arose in addressing the issue of Bank-Fund comparability, an issue on which the U.K. chair had previously expressed a view. For instance, the points he had raised on prorating the allowances based on salary and folding allowances into the compensation system had, as a practical matter, been pre-empted for the Committee by the actions taken that week by the World Bank. He was sure that Executive Directors at the World Bank had the same sense of frustration in dealing with issues that the Fund might have resolved beforehand.

Comparability was sometimes defined broadly, but he was not necessarily against identical treatment of the benefits under discussion, because true differentiation would be difficult to achieve, given the large number of families involved and the existence of different pay systems, Mr. Dawson remarked. But the two points he had raised seemed to be a classic example of one element of the compensation system that should be addressed in a joint fashion; other elements should perhaps not be.

Apparently, the World Bank was unwilling at that time to look further into some of the issues that had been raised by the Fund, Mr. Dawson noted. Therefore, he reiterated his support for the U.K. chair's desire to work on setting up a joint process of some kind so that such issues could be looked at in a consistent way, and not presented as what amounted to a fait accompli, which was what the Committee unfortunately had been presented with as a result of the World Bank's prior action.

In summary, his position, notwithstanding the staff representative's explanation, was that his authorities would be willing to go along with the increases in the basic levels of the allowances, but that they were opposed to the increase in the salary level at which the spouse allowance would be prorated because of the lack of justification, Mr. Dawson concluded.

Mr. Wright noted that his chair had argued for some time for a joint Fund-Bank committee on administrative matters. He agreed with Mr. Dawson that the matter before the Committee was a classic example of a subject for consideration by such a committee, especially given the views that had been expressed previously in the Committee on such topics as the comparability of compensation.

On the specific proposals, Mr. Wright said that he could support them all. The measures were fairly limited in nature; the treatment of other dependents seemed entirely sensible, as did the increase in the threshold for the spouse's income. However, speaking from the point of view of administrative simplicity, and in light of the reference in the staff paper to the cumbersomeness of the present system, he inquired to what extent the proposed changes would simplify and thus ease the burden of administering the system.

Taking up Mr. Dawson's point with respect to the possibility of totally disregarding the threshold for the spouse's income, Mr. Wright said that he foresaw many problems of inequity arising. At the same time, he would be most interested in knowing whether the staff had made any assessment of the costs and benefits of such a move, in terms of administrative simplicity. If not, he urged that that be done, especially in light of the staff's own emphasis on the administrative burden of the scheme as it stood.

The Assistant Director of Administration replied that although the matter had not been explored in great detail, there would be a clear gain in respect of handling the allowances for other dependents, especially as only a few staff were available to work in that area. The increase in the threshold for the spouse's income to $30,000 should reduce by about one third the number of computations that had to be made to determine the prorated amount and later to adjust it for any difference between estimated and actual income.

The staff representative from the Administration Department explained that it was difficult to arrive at the costs of disregarding spouse income. From a technical standpoint, the tax allowance for a married U.S. staff member filing a joint return was about 5 percent of family income. Providing a 5 percent allowance, which was reduced as spouse income increased, attributed more than 5 percent to the spouse's income, which was not in line with the U.S. tax system, at least. Therefore, the staff had considered the possibility of eliminating spouse income and maintaining the full allowance for all staff members. For staff at the highest income levels, the percentage of working spouses with significant income was very small, and the increased cost would be about $0.3 million, but the overall impact on the budget would be a saving that could not be quantified because the reduction in costs would not be counted in the market payline as a saving.

Mr. Dawson commented that he was not sure that his authorities were fully convinced that the allowances needed to exist at all, if they were folded into compensation. The staff representative had talked in terms of the ability under the existing system of differentiating among groups of staff members. Yet the World Bank had decided very recently not to differentiate by class of coverage in its medical benefits plan, whereas the Fund had introduced new classes of coverage and contributions in its plan. That was another example of how difficult it was to move toward a comparable system, as was the failure of the World Bank and the Fund to agree on whether the cutoff age for medical insurance for a child was 24 or 25.

The Assistant Director of Administration recalled that for many years, the cutoff age for most Fund benefits had been 24 years, and for the Bank, 25 years. The difference had never been a matter of great significance.

Mr. Al-Jasser said that he agreed with Mr. Wright that the proposals were reasonable. He would appreciate additional information from the staff on the three options for grandfathering in respect of the allowance for secondary dependents, and in particular on the advantages of the option chosen by the staff.

He also had a technical question, as to whether the cost for the Fund was transitional or whether it became neutral at some point in the long run, Mr. Al-Jasser added. Presumably, in the first instance, the allowances had been deducted in deriving base salaries or net income and, in particular for the spouse allowance, then added to on the basis of the 5 percent tax effect.

The Assistant Director of Administration responded that the first option for grandfathering--for as long as the existing dependents retained their current status--was seen as failing to provide the administrative saving that was sought because some people might continue to be dependents for 20 years or more. The second option, for limiting grandfathering to three or four years, had a certain attraction because it would reduce costs somewhat. But the third option, for the buy-out of all existing dependents, had appealed to the staff of both the Fund and the World Bank as being by far the most straightforward method. It would, moreover, bring about a significant administrative saving, whereas the other options would prolong unnecessarily the existence of administrative difficulties. Of course, the procedures for implementing the buy-out would have to take into account certain technicalities, such as the imminent retirement of staff members.

The staff representative from the Administration Department noted that the direct annual cost of the first three changes in the summary of recommendations in the staff paper, of $750,000, had been calculated on the simple basis of taking the difference between the increased allowances and the cost of current allowances. No account had been taken in the cost calculations of the net salary reduction. As for the total budgetary effect, the salary savings would be $4.6 million, and the cost of the spouses' and dependents' allowances would be $3.9 million. Cost neutrality in that context could be achieved, of course, if every staff member was married and had two children.

The Acting Chairman took it that those Committee members who had not intervened supported the recommendations in EB/CAP/91/2. The Committee's general support for the proposals would be reported to the Executive Board, together with an indication that there had been one objection to the increase to the level of $30,000 for prorating spouse income (EBAP/91/36, 2/22/91).

2. EXTERNAL ASSIGNMENTS FOR PROFESSIONAL AND CAREER DEVELOPMENT

Mr. Wright said that he wished to refer briefly, under other business, to the wording of a memorandum reporting on the Committee's recommendations relating to external assignments for professional and career development, which had been circulated to the Executive Board on February 20 for its approval by lapse of time on February 27 (EBAP/91/28, 2/20/91). He hoped that the wording of any subsequent circular to the staff would do more than simply state that the ceiling on the number of individuals who could participate in the program at any one time was being increased from 10 to 20. Otherwise, staff members would not be encouraged to take advantage of a program that, it had been established, was of considerable value to the institution.

The Assistant Director of Administration took note of Mr. Wright's point.

The Committee adjourned at 4:35 p.m.

APPROVED: November 8, 1991