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COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 90/1

3:30 p.m., October 22, 1990

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	B. R. Fuleihan, Temporary
T. C. Dawson	
	L. B. Monyake
	R. Marino, Temporary
	N. Kyriazidis
M. Fogelholm	
	O. Kabbaj
	S. Rouai, Temporary
	S. Yoshikuni

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

Also Present

Zhang Z.
P. Wright

Staff Association Committee: H. Flinch, Chairman. Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; D. A. Anderson, D. S. Cutler, S. L. Dove, M. E. Gehringer, J. P.-C. Gollé, A. D. Goltz, J. D. Huddleston, N. S. Jackson, D. Nieburg. Legal Department: J. S. Powers. Secretary's Department: B. R. Hughes. Treasurer's Department: D. R. Hutton. Advisor to Executive Director: A. R. Ismael. Assistants to Executive Directors: T. T. Do, J. M. Jones, R. Meron.

1. DEVELOPMENTAL LEARNING

Committee members considered a staff paper reviewing the Fund's policy relating to developmental learning (EB/CAP/90/1, 3/15/90).

The staff representative from the Administration Department noted that the indication on page 4 of the staff paper that no supplementary budgetary allocation for FY 1990 was requested to accommodate the proposed change in policy should be corrected to refer to FY 1991. The staff paper had been circulated to the Committee during fiscal year 1990 but as the proposal had not been considered urgent, it had not been put forward for discussion until other matters had been taken up. The estimated cost of the proposed change shown in the paper remained unchanged and could be accommodated in the training budget for the current year that had been approved early in 1990.

Mr. Dawson asked for clarification that the proposal was for study that, while not job related, was nonetheless Fund related.

Mr. Fogelholm said that on the same point, he understood that the distinction between job-related study and less job-related study was to be reflected in the change in the amount of reimbursement from 75 percent to 50 percent. He wondered whether it was so important to make that distinction, especially as it would no doubt be administratively difficult to find out which studies qualified. The basic thrust of the proposal was positive and merited strong support, in the light of the point that had been made with respect to the slow growth of the organization and the adverse impact on staff morale. Thus, he proposed that a single rate of reimbursement of 75 percent should be agreed upon.

The staff representative from the Administration Department commented that it was easy in practice to determine for most jobs whether or not the proposed training was job related. On the broader aspect of the issue that had been raised, it was as much a matter of the Fund's interest as of that of the staff. While recognizing that it would be useful to improve staff members' morale by meeting a number of aspirations for broadening their educational background, the staff had also been sensitive to the concern that greater access to the study program might lead some staff members to entertain even greater career aspirations. For instance, the institution might be expected to undertake to achieve job transfers once the training was completed. On balance, it had been considered useful to request staff to bear a slightly greater burden of the cost of training that was not directly related to the job but remained in the interests of the Fund.

Mr. Fogelholm remarked that it should not be too difficult to explain to staff members that reimbursement for training had nothing to do with their future careers. The Fund might even find it worthwhile to pay for training that led a staff member to find a new job outside the Fund, thereby increasing staff turnover and making possible a greater degree of rotation in the staff.

Mr. Monyake said that he supported Mr. Fogelholm's position. The line between job-related and Fund-related study was a very fine one. Improving the staff's knowledge of Fund-related subjects and activities should enhance usefulness on the job, even the one the individual currently had. As Mr. Fogelholm had said, it should be easy to indicate to the staff that successful completion of courses would not necessarily lead to advancement. Already at the inception of Individual Study Program III (ISP III), in 1968, the issue of 50 percent versus 75 percent reimbursement had been discussed, with the higher percentage having been adopted, although less of a distinction had been made at that time between the different categories of course.

In sum, he supported the general idea of enhancing developmental learning, Mr. Monyake concluded, but with the retention of 75 percent reimbursement.

Mr. Dawson commented that if it was easy in practice to make the distinction between courses, as the staff representative had stated, consideration needed to be given to the real reasons for raising the percentage for reimbursement of Fund-related rather than job-related courses.

Mr. Fogelholm explained that the underlying reason for his position was the need to encourage mobility, not the need to avoid administrative problems.

Mr. Dawson remarked that he understood that the staff was concerned not to give staff a signal of undue priority for consideration for transfers to other jobs.

Mr. Fogelholm noted that people who sought opportunities for further education and training were usually not particularly happy in their jobs, and thus presumably not as effective as they might be. The Fund should support their study plans, even at the risk of leading them to look for employment outside the Fund. It was in no one's interest to continue to employ a staff member who was not fully meeting job requirements.

Mr. Dawson observed that the need for such a staff member to take job-related training argued for a higher reimbursement for such training than for Fund-related training.

Mr. Yoshikuni said that like Mr. Dawson, he thought that if the classification of study courses was easy, the distinction should be made.

Mr. Fuleihan said that he tended to agree with Mr. Fogelholm that people who wanted training opportunities--whether directly related to their work or not--were trying to move into other positions or to improve their performance in their current position. Fund-related training might improve whatever work they were doing. It appeared from Attachment I to the staff paper that many of the institutions listed reimbursed 100 percent of the cost of work-related courses and, if they made a distinction at all, 50 percent of nonwork-related courses. A reasonable solution for the Fund would thus seem to be 75 percent reimbursement.

Mr. Monyake noted that he liked to think of the institution as a large team composed of smaller teams. For all the Fund's staff members to perform properly, all should understand what the others were doing. The work of the Fund should not be compartmentalized and departmentalized. The development of staff members should be as broad as possible within the limits of Fund work.

Mr. Marino remarked that he tended to agree with Mr. Monyake. If the training was related to the benefit of the institution as a whole, there was no need to separate the returns; he saw no rationale for compartmentalizing it.

The staff representative from the Administration Department explained that the Fund currently supported any job-related training. Essential training was provided in house; training of great importance could also be provided during working hours; under ISP III, staff were able to work toward graduate degrees if needed for their job. The proposal was to help staff members undertake graduate training in an area of general interest to the Fund but not directly needed in their current career stream. For instance, a personnel officer might undertake training in economics. Such a person could be reimbursed for up to 50 percent of the cost of a study program. The proposal to introduce the concept of 50 percent reimbursement had been intended to ensure fiscal discipline by distributing the cost equally between the Fund and the staff. The two rates of reimbursement had been meant to establish a distinction between the value of Fund-related training, which of course was positive, but less so than training that was directly job related.

Mr. Kabbaj said that his preference was for the staff proposal, although if there was a consensus in favor of Mr. Fogelholm's suggestion, he could go along with it.

Mr. Dawson stated that he supported the staff's proposal.

Mr. Kyriazidis commented that he was slightly concerned about the introduction of too many fine distinctions in staff benefits. His personal preference was for simple schemes. He agreed with Mr. Fogelholm that there should be only one reimbursement rate, for both Fund-related and job-related study.

The Acting Chairman noted that the Committee was in support of modifying the proposal by increasing the rate of reimbursement from 50 percent to 75 percent for developmental learning undertaken at the graduate level in the main areas of work in the Fund. The proposal as modified would be submitted to the Executive Board for its approval on a lapse of time basis. 1/

2. MEDICAL BENEFITS PLAN - REVIEW

Committee members considered a staff paper reviewing the Fund's Medical Benefits Plan (MBP) (EB/CAP/90/3, 8/27/90; and Sup. 1, 10/10/90).

The Acting Chairman said that the Chairman of the Staff Association Committee (SAC) had asked to make a statement to the Committee and to be

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1/ See EBAP/90/274 (10/24/90); EBM/90/155 (11/2/90).

present for the discussion. The practice had been to allow the SAC to make a presentation but not to stay for the discussion. It was up to the Committee to decide whether to continue that practice or to change it to allow the SAC to be present.

The Committee indicated that it did not support a change in past practice.

Mr. Flinch, Chairman, Staff Association Committee, made the following statement:

> Thank you for the opportunity to communicate to you the SAC's views on the proposed changes to the Medical Benefits Plan. We generally agree with the proposed two-phased approach, which takes into account a number of comments we made on earlier drafts of the paper you are examining today. In this regard, I should like to express the SAC's appreciation for the frank and very constructive exchange of views we have had with the Administration Department (ADM) on the Medical Benefits Plan. We are ready to continue to collaborate in exploring cost containment strategies and the possibility of offering options with different coverage. Indeed, we do share ADM's concern with the escalation of health care costs. In evaluating these strategies, we should take into account the factors that are affecting the costs of the Plan and the impact of these strategies on the value of the Plan for the staff.
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> It is obvious that the recent increase in the Plan's disbursements was due almost entirely to the increase in the number of large claims, as reimbursement for claims below $20,000 remained practically unchanged. This leads us to make two observations: first, the proposed increase in the level of deductibles is not likely to prevent this type of development in the future. Second, while it is presented as a cost-containment measure, the increase in deductibles is in fact an expense-shifting measure, as it shifts the burden of medical expenses from the Plan to the staff, thereby diminishing the value of the Plan for staff members. We have serious reservations about this nonincome-related hike on the annual deductible, in view of its effect on particular categories of staff. Combined with the upward revision in the contribution scale for two-parent families and staff with other dependents, this increase would entail a significant additional burden, particularly for lower-level staff. As an example, two-parent families at the $24,000 salary level would see their out-of-pocket expenses prior to reimbursement by the Plan increase by about $330, or about 1.4 percent of the staff member's salary. The proposed increase in deductibles is not likely to be well accepted by the staff. In this regard, I should like to call your attention to the fact that, in a recent opinion survey conducted by the SAC, over 46 percent of the respondents indicated that they were dissatisfied or very dissatisfied with the medical benefits provided by the Fund under the existing Plan. It might be helpful

in this regard if ADM could give us some indication about the share of total medical expenses that would be borne by the Fund and the staff, respectively, under the proposed revision of the Medical Benefits Plan including the proposed increase in deductibles.

There are a number of proposals in the paper before you which we agree with and which we welcome. In particular: we welcome the proposal not to recover the deficit accumulated by the Plan by the end of FY 1990. This deficit is very close to the theoretical interest that would have been paid on the Plan's accumulated reserves had the policy endorsed by the Executive Board's Committee on Administrative Policies in 1984 been implemented.

- We welcome the proposed increase in the Fund's contributions to the Plan from its present 66 to 75 percent, which brings the Fund's contribution to health care benefits closer to that of comparator organizations. However, in the SAC's opinion, the results of the recent quadrennial benefits survey indicate that a higher increase would be justified.

- We welcome the proposed lowering of the stop-loss "catastrophe" provision from 10 percent to 7 percent of the family's net annual income. In addition, we would suggest attaching the new threshold to any consecutive 12-month period, rather than the calendar year.

- We welcome the proposed simplification in the coinsurance factor and the proposed adjustments in dollar ceilings on benefits. We also welcome the recommendation of exempting basic preventive care from the deductible. However, we still have some differences of opinions on particular ceilings, coverage, and coinsurance factors. In the SAC's opinion, the Plan coverage for accidental injury should be maintained at 100 percent, instead of being reduced to 80 percent; the coverage for eyeglasses and contact lenses should be restored to their real level in 1980 instead of being eliminated; and the dollar ceiling on the lifetime benefit for outpatient treatment for nervous disorders, as well as the maximum benefit per calendar year for dental care should also be restored to their real level in 1980.

- We welcome the proposed marginal increase in the adjustment factor to "reasonable and customary" charges from 1.1 to 1.15, but further improvements are needed, notably, to make the system more transparent.

In conclusion, I would like to reiterate our appreciation for the opportunity we have had to discuss the proposed revisions to the Plan with ADM and for the opportunity to present to you our point of view. I would like also to reiterate the SAC's willingness to continue to cooperate with ADM in order to define and implement a strategy that would have the fullest support of the staff while finding a satisfactory solution to our common concerns. This task should be undertaken without delay.

The staff representative from the Administration Department said that the Fund's share of total costs of the MBP--after taking account of deductibles, ceilings on benefits, and all other costs paid by the staff--was estimated at approximately 51 percent compared with the institution's nominal contribution share of two thirds. That figure would rise to about 58 percent as a result of the increase in the Fund's contribution share to 75 percent.

The Deputy Director of the Administration Department recalled that the review of the Plan was being undertaken in two phases. In the first phase, an attempt was being made to cope with the immediate, urgent financial problems of the MBP, and to align the Fund's Plan with those of comparators, along the lines set out in the staff paper. The second, subsequent stage would be an attempt for the longer term to contain, to the extent possible, rising medical costs, which were the crux of the problem over the medium and long term.

The Fund's experience in terms of medical costs had not differed greatly from general experience in the United States, the Deputy Director added. As noted in the staff paper, some cost-containing features were being introduced in the first phase of the review--for instance, in the form of 100 percent coverage for preventive care with a view to avoiding larger medical expenses later. Among the cost-containment measures listed in paragraph 20 of the staff paper, two of the most promising for the longer term were the preferred provider organization and case management and prior authorization arrangements. Those ideas would be followed up in the second phase of the review.

The staff representative from the Administration Department said that in paragraph 37, the reference to about 200 of 1,500 spouses enrolled in the Plan having an annual income of $10,000 or more should be corrected to refer to 600 of 1,500 spouses. As a consequence of that change, and in the same paragraph, the annual yield from the surcharge should be corrected to read $100,000, instead of $33,000, or 3 percent of total enrollee contributions instead of 1 percent. In Table 7, the figure in item 2(b) for the Fund share of contributions resulting from the change in the share ratio to 75 percent should read $760,000, instead of $1,060,000, and the figures in items 3 and 5 should be reduced by a corresponding amount of $300,000. The net requirement for additional appropriations in FY 1991 was thus $1,060,000.

Mr. Dawson said that he had many serious problems with the staff paper and with the reference to the two-phase review. In its interim report dated December 28, 1989 (EB/CAP/89/6), the staff had cited two quite appropriate purposes for the review--to compare the Fund Plan to plans of comparator organizations; and to look at the cost element. The review that had been prepared for the current meeting was not structured along those lines; it focused simply on the revenue side without looking at the cost side and options for cost containment. He had, however, taken note of the Deputy Director's remark about preventive care contributing to cost containment.

Furthermore, he was not sure that the cost experience of the Fund's Plan paralleled that of the United States, with respect either to the cost of living index or of medical care specifically, Mr. Dawson said. In the past three years, the Fund's costs had risen 20 percent, whereas the increase in the medical component of the consumer price index had been 7 percent. One of the rationales given in the review of the Fund's Plan in 1989 (EB/CAP/89/1, 2/24/89) had been the high rate of increase in contributions to various health plans, including a 26 percent increase for that of the U.S. Federal Government. He wished to point out that the major plan of the U.S. Federal Government would not have any increase in costs or contributions for the current year. He recognized that the Fund Plan had had to meet some particularly large individual claims, but that was not the issue. The cost experience of the Fund Plan seemed to be at variance with that of the comparators cited in recent years.

The Deputy Director of the Administration Department recalled that the Committee had had various opportunities to review the MBP and to consider updates of its financial situation. The growing deficit of the Plan and the lack of a reserve had brought the situation to the point at which action had to be taken to restore the Plan to a sound financial footing. That was the objective of the first phase. At the same time, certain changes would be introduced to contain what would otherwise have to be a large increase in staff members' contributions--of 84 percent rather than the proposed 30 percent--and, following up on the results of the quadrennial survey of staff benefits, increase the Fund's contribution to bring it more in line with that of other employers--from 66 percent to 75 percent. The increase in Fund contributions would then also parallel increases by the World Bank at various times since 1988 and in various magnitudes in contributions to its plan.

The staff representative from the Administration Department commented that the comparison with the United States was meant to indicate a long-term trend rather than developments year to year. For the Fund, with its relatively small population, variations from year to year tended to occur, and the increased costs in 1989 were abnormal when compared with experience in earlier years or with the World Bank's experience.

Mr. Dawson stated that the two-part study that the staff had promised, in December 1989, would be ready two months later, in February 1990, was to have tackled both the comparator and the cost aspects. Only the first part of that study had been prepared; the review before the Committee undertook no serious consideration of the cost-containment measures that had been listed in Attachment II, even though the staff found two of them to be worth further study. A number of medical plans in the local community--including the one cited as a rationale for the increase in contributions to the Fund plan 18 months previously--had already introduced many such measures to contain costs, including high and low insurance options. He had difficulty understanding why the Committee had been provided with only half a study.

He did not challenge the proposed changes to the Fund's MBP, including the increase in the Fund's contribution share, Mr. Dawson added. Indeed, the staff had not been given a good deal under the Plan. He himself had had the option to join the MBP, or to stay with a plan under the auspices of the U.S. Government, which had been one of the plans cited favorably by the staff on a previous occasion. He had decided that he would be much better off to stay with the Blue Cross Plan, which had much larger coverage but much better cost experiences. Admittedly, that Plan had previously had an unfortunate experience but it had not had the liberty of resorting to deficit financing, as the Fund Plan had, and it had been forced to make changes designed to cut costs. There was no indication at all in the staff review or proposals that the costs of the MBP had been brought under control, even though a detailed, comprehensive proposal had been promised for as long ago as February 1989.

The Deputy Director of Administration said that the review process had proved much more controversial than had been expected when, too optimistically, a report had been promised within two months. Endless rounds of talks had taken place with the SAC, departments in the Fund, and with the World Bank, whose plan had so far had not faced the same precarious financial situation as the Fund's, because it had received large contributions from the Bank's budget. If the first phase of the review had been put off further, pending preparation of an all-encompassing package, a much more serious financial situation would have developed later on.

Mr. Fogelholm asked for an explanation of the reasons why Mr. Dawson asserted that his medical plan was much better than the Fund's and also of the relevance of such an assertion to the issue at hand.

The staff representative from the Administration Department noted that it needed to be borne in mind that apart from the administrative costs of the Fund plan--which were very low--all the funds in the plan were returned to the staff in reimbursement of medical claims. The average amount received by staff under the MBP was $3,500, a figure that was higher than for most U.S. Federal Government plans. Thus, while it might be true that for many enrollees the monthly contribution was currently higher than for certain federal plans, it was also true that the benefits received were somewhat higher on average.

Mr. Dawson said that he contributed to the Blue Cross standard insurance option, which cost him $77 a month, for about the same amount of reimbursement. On the surface, the coverage was less good--for instance, with respect to catastrophic and preventive care--but the deductibles were better. For a family of the size of his own, he was saving $120 a month. A comparison on a net basis was clearly to the disadvantage of the Fund plan.

His problem with the Fund plan was that the cost side was out of control, Mr. Dawson went on. For instance, according to his calculations, the subsidized coverage of other dependents accounted for 52 percent of the deficit in 1988 and approximately 49 percent of the deficit in 1989. The World Bank did not subsidize other dependents, who paid a flat rate of $258 a month compared with about $70 to $75 in the Fund plan. He had no quarrel with the principle of coverage of other dependents, but he did not understand why a group that was identifiably a higher risk group should be subsidized to the extent that 213 individuals accounted for approximately half of the MBP's deficit.

The Deputy Director of the Administration Department said that Mr. Dawson's point was well taken. As a matter of fact, an attempt had been made in Table 4, on contribution ratios for different categories of enrollment, to illustrate the extent of cross-subsidization. That issue, too, was controversial and had required lengthy discussion among the staff. As Table 4 indicated, other dependents received a windfall because their experience ratio was 1.47 whereas their contribution ratio was 1.18. The staff proposed to raise the latter ratio to 1.5, thereby reducing the subsidization.

The Acting Chairman noted that the two issues--cross-subsidization and overall cost to the MBP--were related, to the extent that such subsidization increased the demand for medical services by a particular group. A comparison needed to be made with the experience of the Bank, in terms of the relative demand from other dependents.

Mr. Dawson commented that he had looked into that matter. Under the staff's proposal to increase the contribution ratio of other dependents, revenue would rise in 1991 to a little over $250,000 a year, whereas the cost of other dependents' claims in 1989 had been $560,000; on that basis, there would still be a deficit of $300,000. The World Bank claimed that the premium under its plan for other dependents covered the estimated costs of that group. If the Fund charged the same premium for other dependents as the Bank--$240 a month--the increase in revenue of just over $150,000 would, at the level of claims for 1989, halve the deficit, which would nevertheless still amount to $150,000. Those figures tended to indicate that the Fund's experience in terms of the claims of other dependents was somewhat more adverse than the Bank's.

In sum, Mr. Dawson said that he much preferred the Bank's practice of not having a subsidy, other than in a specific year. Somebody had to pay for the Fund's subsidy, whether it was the staff or the Fund as an institution.

The Acting Chairman said that in addition to the issue of who paid for the expense of subsidizing other dependents--the cross-subsidization issue--there was an issue related to the overall costs of the plan--namely, the extent to which the subsidization of dependents added to those costs. Even if the cost of subsidization was redistributed, there might be no reduction in medical claims by other dependents.

Mr. Kabbaj said that he would be interested to know what the impact had been of discontinuing the practice of providing annual medical checkups by the Bank-Fund Medical Department. His own experience had been that an annual physical examination outside the Medical Department cost twice as much for less. At an average cost of $300-$400 for each staff member, the total cost to the MBP of reimbursing staff members for the cost of such physicals could reach $3-4 million a year.

The Deputy Director of the Administration Department replied that the costs of conducting annual physicals had been subsumed in the overall cost of the Medical Department. The practice had been suspended because the staff had not made wide use of it, perhaps out of concern for privacy of information. The Director of the Medical Department at the time had begun an all-encompassing computer program with the objective of being able to flag medical problems experienced by staff on missions and establishing a record of vaccinations, for instance.

Mr. Fuleihan asked whether, in referring to the small population of staff membership in the Fund plan, the staff representative had been making the point that the costs of the plan were excessive but that they could be reduced if, in the long run, the Fund merged its plan with that of other institutions, thereby increasing the size and spread of the population and reducing the costs.

The staff representative from the Administration Department responded that one of the options being considered was for the Fund to participate in some sort of joint plan with the World Bank. By joining a larger population group, presumably the ups and downs would be evened out from year to year, particularly with respect to larger claims.

The Acting Chairman said that he wondered to what extent an insurance company would take into account the experience of the Fund plan, if it were asked to provide coverage. Would the company base its premiums on the experience of a high-risk population, or would it merge that population into a larger one, raising the overall cost, but distributing the premiums? No doubt the World Bank would raise the same issue, if the Fund population was to be added to that of the Bank under a single plan.

The staff representative from the Administration Department observed that when the Fund had moved to a self-insurance scheme, costs had been reduced because the Fund had been taking the risk rather than the insurance company. The overhead, which had included the risk factor, had been reduced from 11-12 percent of total claims to about 5 percent. In addition, previously a much larger reserve had been maintained for the protection of the insurance company which had also been reduced when the Fund had assumed the risk itself.

In response to a question by Mr. Fuleihan, the staff representative said that one objective of joining the World Bank plan would be to reduce overhead costs by spreading them over a larger population. Another possibility might be to seek insurance protection against large claims or against the total costs exceeding a certain ceiling. Such possibilities had been considered, but they were costly, and the advantages were not obvious.

Mr. Marino asked for a fuller explanation of Table 4, in relation in particular to the third footnote, which indicated that the contribution ratio would have to be much more than 1.50 if other dependents were not subsidized. The extent of the subsidy was not clear.

The staff representative from the Administration Department explained that all enrollment categories would continue to be subsidized by the Fund in a ratio that would move, under the staff proposal, from two thirds to three quarters. The degree of Fund subsidy of other dependents had already been reduced over the past 10-15 years in the sense that the persons covered by that category had been limited to a maximum of two persons, essentially the parents of the enrollee or the parents of the spouse, whereas at one time, there had been no limitation at all.

The Deputy Director of the Administration Department added that other dependents had been receiving a double subsidy--the usual subsidy resulting from the Fund's two-thirds contribution, and another subsidy across groups that resulted from the difference between the contribution ratio of 1.18 times that of a single person and the claims ratio of 1.47. The contribution ratio was being raised to 1.50, in line with that of the rest of the population, but other dependents still received the usual Fund subsidy; in the Bank plan, they received no such subsidy.

Mr. Monyake noted that the general guiding principles of the two-phase review that were spelled out in paragraph 28 of the staff paper, including point (c) on encouraging preventive care and a healthy life style, did not mention the principle of a no-claims bonus. Apparently, about 10 percent of participants did not make a claim under the MBP in a given year, and his question was whether such a bonus might not encourage staff to lead a healthy life style and reduce claims.

The Deputy Director of the Administration Department responded that answers to that question varied. The SAC did not believe that there was any correlation between higher deductibles and claims. By extension, it could be argued that because claims were presented strictly in accordance with medical necessity, the provision of a bonus would not affect use of the MBP. Another argument that had to be taken into account from the point of view of the Plan itself was that paying a 10 percent bonus to a certain number of staff would reduce revenue and lead either to an increase in the contribution rate for other staff or to a reduction in benefits.

In response to a question by Mr. Fuleihan, the Deputy Director said that the staff, unlike the SAC, did believe that deductibles had an effect on the value of claims presented. That was why the deductibles were being increased. Originally, the staff had had in mind much larger deductibles than those that had been proposed, in a trade-off for lower enrollee contributions. That proposal had not been supported, resulting in an in-between position.

Mr. Fuleihan remarked that if the basic financial problem of the MBP stemmed from large expenditures on a few costly claims, increasing the deductibles was not the solution.

Mr. Wright recalled that his chair had argued for some time that there was a strong case for parallelism in the area of benefits for Fund and Bank staff. Presumably, the possibility in that connection of joining forces with the World Bank medical plan in order to pool the risks or increase the population would not automatically involve a harmonization of the terms of the benefits that would be made available. Yet that might well be a suitable area for the suggested joint committee on administrative procedures to look into.

He understood that the basis for the recommendation to increase the share of employer-funded benefits was the belief that the Fund compared badly, in the selected group of comparators, including the U.S. Government, Mr. Wright said. However, based on the average contribution shares of employers in that comparator group, even the Fund's existing share was larger than the average one. An element of selectivity in the comparator group might be justifiable because the medical care was being sought in the United States and in terms of local circumstances. But he recalled that a simple average had been used when retirement benefits were discussed. The question was whether, if comparator groups were to be used for such purposes, the use made of them should not be more consistent.

The staff representative from the Administration Department said that the differences between the Fund and the World Bank medical plans were not great; they were listed in Attachment IV to the staff paper. In the process of considering an option to join the Bank plan, the staff would have an open mind on the details of the respective benefits.

Attachment III, which summarized the results of the 1989 quadrennial survey of health care benefits, included a summary table of comparator values, the staff representative noted. The postretirement and preretirement figures for the U.S. public sector were weighted averages, not within the two groups, but between them in the ratio of four to one, which was the ratio between active enrollees and retired enrollees. When applied to the Fund's existing share of two thirds, the weighted average for the U.S. public sector, which was 11 percent higher, resulted in a percentage of 75 percent. As Mr. Dawson had mentioned, the sharing in most U.S. Federal Government plans was three to one.

Mr. Fogelholm raised the procedural point of how the important issues of principle that had been raised would be followed up. If a more comprehensive amendment of the principles on which the Fund's Medical Benefits Plan was based was to be undertaken, all the available options--including rejoining an insurance company or joining the World Bank--would need to be considered at some stage. In addition, the aspect of cost containment had not been covered at all. The current situation of financial crisis called for some fairly immediate decisions, and there seemed to be no alternative to considering the proposals put forward so far by the staff.

The Acting Chairman remarked that the assumption that in effect underlay the staff paper was that the issue of the distribution of costs could be separated from that of the overall costs, partly out of necessity because work on obtaining a better understanding of how to control overall costs was proceeding slowly. The staff had, of course, been looking at the latter issue but without finding immediate clear-cut ways of reducing costs significantly. However, it was possible to proceed to consider the relative distribution of costs and in that context to deal explicitly with the fact that the system was currently running a deficit. The objective of the staff paper was thus essentially to achieve a redistribution of costs, bringing them more into line with the market, and putting the Plan on a more solid footing by not letting it run a deficit that had to be financed by ever tighter administrative budgets.

If the proposals in the staff paper were not taken up until more fundamental work on costs had been completed, the Acting Chairman added, the Medical Benefits Plan would continue to operate as at present, the contribution rates would remain the same, and the resulting deficit would, at the end of the day, have to be covered by the administrative budget. Based on the experience of the past eight months, the staff had become more cautious about predicting when a comprehensive plan could be produced for reducing the overall costs of the Plan.

The Deputy Director of the Administration Department added that whether or not an all-encompassing plan could have been presented for consideration at the present meeting--and he believed that it could not have been--the Plan needed to continue to operate. If the proposals before the Committee were not introduced, the deficit that the Plan would run on a daily basis would be larger if only because one of the proposals was for a retroactive increase in contributions of 30 percent. It would be better to introduce the cost-containment measures that had been proposed, including the increase in contribution rates, thereby reducing the deficit, and to use the time to consider broader options, including a return to an insurance company or a merger with another plan, either that of the Bank or of a commercial group.

Mr. Fogelholm asked why the Plan was running a deficit on a daily basis if, as Table 1 showed, there was a cyclical pattern to the deficits and the occasional surpluses. Were contributions too low, or were there too many large claims, and if so, why? He hesitated to take decisions in the absence of adequate information.

Mr. Dawson said that Mr. Fogelholm had made a valid point. It appeared that a large portion of the visible increase in claims in 1989 had resulted from some rather large claims. Consequently, the rate of increase in expenditure for the previous two years had risen from 18 percent to 25 percent, although it was still substantially higher than that of comparable plans in the United States.

The Acting Chairman had made a distinction between an overall analysis of the costs and the distribution of costs, noting that the staff paper dealt mainly with the latter, Mr. Dawson said. As a practical matter, he believed that implementing the recommendations in the staff paper would reduce the pressure to consider some of the fundamental, structural issues that were so clearly in need of consideration. In that connection, he reiterated that he had raised the question of structural issues because of the apparently unrealistic expectation that a paper on them would have been provided early in the year.

The question of other dependents was an example of how the distribution of costs could be improved, Mr. Dawson stated. If the Fund treated other dependents as other organizations did--with the exception of the Inter-American Development Bank and the World Health Organization--and removed the subsidy, half of the Plan's financial problem that the staff had identified would be resolved. But as a result, a less wide range of structural measures was likely to be taken up. Likewise, if the Plan had a favorable claims experience, structural measures would tend to be put on one side.

The Deputy Director of the Administration Department said that action to increase contributions to the MBP was overdue, in comparison, at least, with the World Bank's plan. Taking 1988 as the base year, and despite its claims experience, the Fund had increased its contributions by only 18 percent, compared with increases by the World Bank of more than 40 percent--30.8 percent in 1989 and 10 percent in August 1990. With the proposed 30 percent increase, the Fund would draw slightly ahead of the World Bank. Without that increase, the financial situation of the MBP would continue to deteriorate.

The Acting Chairman noted that two issues had been identified so far that indicated a relationship between the questions of distribution and overall cost. The first, that of other dependents, which had been raised by Mr. Dawson, and the second, that of the deductibles, which had been raised by Mr. Monyake, and where the SAC objected to the redistribution of costs by questioning the impact of the increase in deductibles on overall costs. A relationship between overall costs and distributional aspects could also not be excluded, which would be an argument for not taking action until the staff paper on how to reduce overall costs had been issued. At the same time, a delay in dealing with the MBP's financial problems would expose the institution to the risk of having to make a larger payment out of the administrative budget.

Mr. Fogelholm said that he agreed that if a decision was taken to await further information on the cost side, some action would nevertheless have to be taken to deal with the deficit.

The staff representative from the Administration Department added that it needed to be kept in mind that about 200 other dependents were currently enrolled in the MBP. Eliminating that cross-subsidization would result in a substantial increase in contributions for certain staff members, some of whom were at the lower end of the pay scale. The SAC had already complained about the effect on lower-paid staff of the change in contribution ratios between families and individuals. But those changes would pale in comparison with any move totally to remove the subsidy for other dependents.

As for deductibles, while it was true that raising them was not a direct answer to the growth in total costs, there would be a shift in costs to the enrollees so that Plan costs would be reduced, by about 4 percent. In addition, the proposed increase would bring the deductibles into line in real terms with the level of the original, 1967 deductibles, as well as with the practices of many other organizations.

Mr. Dawson remarked that in effect it was a question of a shift in costs, on budget, to costs, off budget. That was indeed the way the SAC viewed the matter of deductibles. It was like comparing the value of employer-provided benefits with the total value of benefits, or what was covered by the Fund's Plan and what was met directly by employees. He himself had had similar problems with the distinctions made in the report on the quadrennial review of benefits. However, it seemed that the SAC had derived greater benefit from discussions with the Administration Department on the proposals than the Committee had, which he was not sure was the right approach. Of course, the SAC naturally objected to the removal of the subsidy for other dependents, and would naturally want to see benefits increased and contributions lowered. It would be unrealistic to expect the SAC to follow any other principles; but those must not be the principles that guided either the Administration Department or the Committee. He saw the issue--particularly with respect to other dependents--in terms of fairness and equity vis-à-vis the members of the Fund, and even to staff members, although he recognized that eventually the subsidy would have to be removed.

The Director of Administration noted, in response to a question, that he could not predict how long the study would take. The studies that had been carried out so far had not been sufficiently deep to deal with the type of questions that had been raised by the Committee. Specialists would have to be brought in to undertake a number of different studies. The issues would also have to be discussed with the SAC.

The Acting Chairman, in response to a remark by Mr. Dawson, explained that there was also an internal procedure for departments and management to review administrative papers, before they were submitted to the Committee for consideration.

The Director of Administration noted that management proposals that affected staff members were thoroughly discussed with staff at the departmental level. Some aspects of such proposals were not welcomed either by the staff or by the SAC. Management had the responsibility to try to put forward a view that balanced the interests of the institution and the staff. Members of the Board might not accept that view, but to include them directly in the process of arriving at it would change totally the current relationships.

Mr. Dawson remarked that he did not expect to be involved in meetings with the SAC. However, members of the Committee should be made aware of the options that were discussed, not in the same meetings--because it was obvious that the staff had been negotiating with the SAC--but essentially at the same time. His point was particularly valid with respect to the issue of other dependents, which apparently could not be tackled immediately owing to the need to renegotiate with the SAC.

The Acting Chairman commented that it was necessary to reach a consensus on intradistributional issues of particular interest to the staff. The issue of other dependents was one such subject. Over time, there were other issues of intrastaff equity that had to be dealt with in the context of the entire benefits package. While one set of benefits might have a particular impact on part of the staff, the basic parameters of the comparisons were overall costs and comparisons with the market. If Committee members felt that the parameters underlying the proposals relating to the Medical Benefits Plan should be laid out more fully, so that the distributional considerations of the treatment of other dependents and of the deductibles could be further examined, the decision proposed in the staff paper could be postponed. Alternatively, those issues could be considered in the context of the study of the overall costs and the possibility of seeking bids from the private sector or merging the Fund's plan with that of the Bank.

In 1989, the Acting Chairman recalled, when management had put before the Committee and the Board a set of proposals that would have eliminated the MBP's deficit, the Committee had turned them down out of concern about the impact of the proposed increase in contributions on the staff. There was still a deficit. And there was still a discrepancy with other plans in the market. But the decision could be postponed again, if that was the Committee's decision.

The Director of Administration observed that the second phase of the review would not be concerned with measures of cost containment, but rather with finding more efficient ways to deliver the medical services.

Mr. Dawson said that the Committee had, of course, temporized in 1989, although it was fair to say that after the decision had been put off, the increase in expenditures had been larger than expected.

He had no difficulties with the practice to which the Acting Chairman had referred of consulting staff and the SAC on proposals that affected its benefits, Mr. Dawson said. The need for additional conversations with Committee or Board members was not a question of staff benefits but of being able to pay for the benefits that were being provided. After all, Executive Directors' offices accounted for approximately ten percent of the enrollees in the MBP.

The Acting Chairman said that the staff, Administration, and the Board had a mutual interest in reducing overall costs. To the extent that the total benefits package was compared with the market, and to the extent that that package was to be brought in line with the market, one high-cost component on account of medical benefits would of course crowd out other benefits. From the perspective of the staff, it was a question ultimately of the relative share of medical benefits in the context of a total benefits package. Thus, there was a mutuality of interest in finding ways to reduce the overall cost of medical benefits to the institution.

Mr. Fogelholm said that it was obvious that measures had to be taken to raise the MBP's revenue, but to take a decision in that respect, it was necessary to look at the distributional issues, including that relating to the beneficiaries. A difficulty seemed to have arisen because of the need to involve the staff in further discussions on issues that had already been settled between staff and management but not discussed with Committee members. Perhaps the solution would be to take a decision to increase enrollees' contributions temporarily, pending a final solution of the strategy for the longer term.

Mr. Dawson considered that Mr. Fogelholm had made a good suggestion. In hindsight, an interim arrangement in terms of an increase in contributions should have been put in place as of May 1, 1990. Recent experience indicated that the outcome of the study might not be what had been anticipated. Consequently, further temporary adjustments might be necessary, on the understanding that a number of fundamental, structural, issues of cost containment remained to be addressed by the Committee.

The Acting Chairman asked whether Committee members could accept the measures proposed in the staff paper as an interim package.

Mr. Fogelholm said that basically, the interim package should consist of those measures, but only after the Committee had fully discussed and agreed upon a solution to the problem of the subsidy effect on third parties.

Mr. Dawson said that the proposed decision would have to state specifically that an interim arrangement was being put in place, pending resolution of other issues.

The Acting Chairman noted that consideration would have to be given to whether the increase in revenue would suffice for an interim period, as well as to the effective date of the increase in contributions. A revised draft decision could be circulated to indicate the interim nature of the decision, which would extend the base for financing during a specified period, pending further examination of the overall scope of the MBP and a decision for the longer term on funding and internal distribution of the costs.

Mr. Fogelholm said that for the Committee's next meeting, which he expected would take place soon, it would be helpful to have a rough indication of how many staff members would be affected by the change in the status of other dependents with respect to contributions, together with an explanation of the factors that had been taken into account in discussions with the staff on deductibles. Those parameters would be helpful in evaluating the cost effect of the proposals.

Mr. Dawson said that he would appreciate similar information on the precise costs of the subsidization of other dependents, which was not provided in the staff paper under discussion.

The Acting Chairman said that supplementary background information on the issues of other dependents would be made available to the Committee for its consideration. Committee members would then have to decide whether to recommend to the Executive Board that it should adopt the proposed decision, revised if necessary in the light of its discussion, to introduce an interim increase in contributions/package of measures on a temporary basis until the staff had prepared a paper on how to reduce the overall costs of the Medical Benefits Plan.

The Director of Administration said that the staff would submit brief information papers on the two issues as well as a short note on the issue of interim funding on which a revised proposed decision would be needed. It should be noted that the further study on the management of the MBP in the future would be complex and take some time to complete. It would have to cover a wide range of different possibilities, which might have to be dealt with separately. The study would not be confined to measures of cost containment.

Mr. Kabbaj suggested that as the further study took shape, it might be helpful if Committee members could meet informally so that they were kept abreast of the broad lines of possible action.

Mr. Kyriazidis commented that if the general study was not ready by May 1, 1991, another interim arrangement might be necessary, pending the resolution of the fundamental issues.

The Director of Administration said that he hoped that further information could be given to the Committee at its next meeting on how the study to be prepared for the second phase of the review would be organized.

Mr. Dawson said that he would appreciate having a better idea of the expense experience of the Fund's MBP in relation to that of comparator groups. For instance, the information given in Table C in Attachment I on hospital confinements for a group of comparator organizations needed to be broken down further, or the number of organizations in the group needed to be expanded, to give a better idea of the Fund's experience. Similarly, staff members had been found to be in fairly good health based on a comparison of four or five diagnostic categories, although at the same time, the hard facts were that the Fund's costs were rising at about 20 percent a year. Again, perhaps the comparator categories were deficient.

The Acting Chairman remarked that it might be necessary to provide as much data as possible on a time series basis.

The meeting was adjourned at 5:45 p.m.

APPROVED: August 16, 1991