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COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 89/5

10:00 a.m., December 4, 1989

R. D. Erb, Acting Chairman

Executive Directors

M. Fogelholm

Alternate Executive Directors

C. W. Warner
L. B. Monyake
A. Napky, Temporary
N. Kyriazidis

O. Kabbaj
M. Al-Jasser
S. Yoshikuni

C. Brachet, Secretary
M. J. Primorac, Assistant

Also Present

C. Enoch
Zhang Z.
L. E. N. Fernando

Administration Department: G. F. Rea, Director; C. Ahl,
S. L. Chung, D. S. Cutler, U. P. Dimitrijevic, S. L. Dove,
D. R. Hutton, N. S. Jackson. Legal Department: J. S. Powers.
Secretary's Department: B. R. Hughes, M. J. Papin. Assistants to
Executive Directors: N. Morshed, A. Rieffel.

1. BENEFITS FOR STAFF MEMBERS' CHILDREN - ELIGIBILITY

The Committee members considered a paper on the eligibility of staff members' dependent children for certain benefits (EB/CAP/89/5, 10/31/89; and Sup. 1, 12/6/89).

The Assistant Director of the Administration Department said that the intention of the staff paper under discussion was to simplify the process of determining children's eligibility for certain benefits. Currently, three aspects of the eligibility requirement posed problems. First, the criterion

that the parent provide more than half of the child's support was difficult to enforce, in particular in cases of divorced couples when the children moved back and forth between the two households. Another problem was the definition of full-time and part-time students, where the staff had had to rely on the schools' judgment as to their definition of those terms. The third criterion that had presented difficulties was the limit on earnings of \$1,000 for children who were not full-time students. It was difficult to keep track of how much a teenager earned, and, in any event, \$1,000 was hardly a level that would allow a child to become independent.

In making its recommendations, the staff had not aimed in any way to widen or narrow either the benefits or the number of people who were entitled to those benefits, the Assistant Director indicated. The recommendation would result in up to 20 additional children being entitled to benefits in the two age groups of below 19 and 19-24. The cost of benefits for those additional children would come to about \$24,000 a year. The staff proposal would have an impact on access to the Medical Benefits Plan in that, currently, children ceased to be eligible for family coverage at age 23 and had to pay a separate premium as "other dependents," while under the proposal, children who were 23 but not yet 24 years old and qualified as dependents could continue to qualify for family coverage. At the same time, however, the staff was proposing a cutoff age of 24 for the eligibility of dependent children. Currently, the Fund population included 50 children over 24 years of age who were in fact receiving benefits as dependents. While those children would be grandfathered, there would eventually be a saving to the Fund as the number of children over 24 qualifying for benefits as dependent children was reduced to zero. That saving would outweigh the expenses incurred by widening eligibility for the two age groups under 24.

The staff's understanding was that the Bank staff was in agreement with the proposal currently before the Committee, the Assistant Director of the Administration Department said. However, the Bank Staff Association had commented that the age limit should be 25 years and that the maximum allowable earnings should be \$10,000, rather than the \$7,500 proposed by the Fund staff. The Fund staff considered that the age of 25 would lead to an excessive number of additional children qualifying for the family coverage under the Medical Benefits Plan, and that a \$10,000 earnings limit was on the high side.

Mr. Kyriazidis asked why the current issue had been raised independently of the general review of benefits that would be taking place in the coming year. In addition, he did not understand why there was any need to combine the Medical Benefits Plan's criteria with those for other benefits. Dependent children who reached the age of 23 should be placed on "other dependent" status for the purpose of the Medical Benefits Plan, but the education allowance should continue to be available to those same children; the education allowance was a more important benefit than was

access to family coverage under the Medical Benefits Plan. Since in a number of countries children had to fulfill a military service obligation, an age limit of 25 was quite reasonable.

The Assistant Director of the Administration Department indicated that the quadrennial review of benefits would not include expatriate benefits, which were the subject of discussion at the current meeting, with the sole exception of eligibility for the Medical Benefits Plan. The staff had hoped to standardize the age of eligibility for all benefits for the sake of simplification. The staff had also hoped to reduce some of the administrative burden posed by unclear definitions of eligibility, such as the definition of a full-time or a part-time student. When determining the eligibility of children, the staff had become involved in many disputes with staff members that had led to lengthy investigations. In those cases, it often turned out that there was a conflict between the letter and the spirit of the rules that did not allow the staff any room for judgment.

Mr. Kabbaj said that, as he saw it, the proposed changes did not affect the net amount of benefits, and their impact on the system was marginal. Accordingly, he could go along with the staff proposals. However, if the World Bank approved more lenient criteria, then the Fund ought to do the same.

The Assistant Director of the Administration Department remarked that if the Committee recommended that the Board adopt the changes set out in the paper, the Fund ought to proceed promptly with implementation. The Administration Department traditionally issued a staff bulletin in December of each year regarding applications for spousal dependency allowances for the coming year, and the staff wanted to inform staff members of the delinkage between education allowance and dependency allowance. It was expected that, on the margin, there would be a reduction in the number of people who would apply for dependency allowances once eligibility for the more important benefits did not depend on a child receiving a dependency allowance. As the staff understood it, it would be some months before the Bank addressed the issue at hand. The customary procedure was that if the Bank adopted a proposal that differed from the Fund's before implementation, the Fund would have the opportunity to reconsider its position. His feeling was that the Bank staff would recommend the same changes that the Fund staff had proposed. However, even if the Bank staff had favored a different solution, the Fund staff would stand behind its proposals, which it considered to be sensible and reasonable.

Mr. Monyake said that he could go along with the staff proposals. However, he would suggest that the reference to "all natural children" in the staff paper be defined more clearly.

The Assistant Director of the Administration Department indicated that the term had been used to distinguish between adopted and natural biological children.

Mr. Yoshikuni said that while he agreed that the cutoff for dependent children's maximum allowable earnings of \$1,000 had been too low. He would like to know how the staff had arrived at the figure of \$7,500.

The Assistant Director of the Administration Department remarked that the figure was, to some extent, the result of judgment. The staff had tried to select a figure that allowed students who were living at home without regular employment to earn a certain amount of money without being considered independent. One guideline for the figure that the staff had arrived at was the poverty level in the Washington, D.C. area, which in 1986 had been \$6,000 for a single person. However, the staff did not pretend that such a formula was based on scientific accuracy. On the other hand, the suggestion by the Bank Staff Association Committee that the level be set at \$10,000 could be refuted by the fact that it was feasible for a child to live an independent existence with an income of \$10,000.

Mr. Warner said that he accepted the principle that the maximum allowable earnings for dependent children should be increased. It was important that the conditions for eligibility not interfere with the work ethic of students. He supported wholeheartedly the desire of students to earn an income, particularly given the high cost of education. However, he was concerned about the delinkage that the staff was proposing between the dependency allowance and other benefits. He was also concerned about the proposal that the test of the parents providing one half of a child's support might be eliminated, not just because that was a criterion in U.S. tax laws but also because it was a reasonable test in the context of the Fund's benefits system.

He agreed with Mr. Monyake that before the Committee presented its report to the Board, a clear definition of which children were eligible for benefits should be set out, Mr. Warner commented. For example, the various circumstances, such as those of natural, adopted, and foster children, had to be taken into account with clarity so as to avoid future requirements for judgmental interpretation.

The Assistant Director of the Administration Department, in response to a question by Mr. Warner, indicated that the Ombudsman had not prepared a report on the eligibility of staff members' dependent children for benefits. However, Mr. Harris--the former Ombudsman--had discussed those issues with the staff on numerous occasions during his five-year term of office. A number of the cases that had come before the Ombudsman had concerned problems of definition of the eligibility criteria, including full-time versus part-time earnings, and the provision of more than half of a child's support, particularly in divorced households where one then had to place a monetary value on such items as accommodations and food. The former Ombudsman had made it clear that the question of eligibility was an area of considerable weakness in the administration of Fund benefits and one in which clear criteria were necessary, as opposed to the existing ones, which required substantial judgment.

Mr. Warner remarked that, given the work expended in achieving parallelism with the Bank in other areas of compensation and benefits, it seemed important that there be an understanding with the Bank on the limit to allowable earnings by dependent children, in order to avoid a ratcheting effect. Was it possible that the Fund decision would be subject to further amendment or recommendations subsequent to the Board decision?

The Assistant Director of the Administration Department said that the Bank staff supported the Fund staff's proposal for a cutoff of \$7,500. The fact that the Bank staff had considered the alternative of \$10,000 and a higher age limit of 25 did not mean that that would be the proposal made to the Bank Board.

Mr. Warner commented that the Committee ought to take into consideration the fact that it might be faced with a different set of numbers if the Bank did, in the end, approve different criteria. It was his understanding that the Fund staff had consulted extensively with the Fund Staff Association, and that that organization had indicated its agreement with the recommendations.

The Assistant Director of the Administration Department, in response to a question from Mr. Warner, indicated that the benefits listed on page 1 of the staff paper included all benefits that would be affected by the staff recommendation. The increase in the cutoff for earnings by dependents would also affect non-child dependents of staff members.

The staff representative from the Administration Department noted that, accordingly, the earnings limit of \$7,500 would also apply to other dependents, such as staff members' dependent parents, in determining whether the staff member could, under the home leave points system, allow that dependent to use the tickets gained. They would be similarly affected in the context of the eligibility for coverage under the Medical Benefits Plan.

Mr. Warner observed that the cost of administering the current policy was probably very significant. Could the staff inform the Committee by how much it expected to reduce costs by implementing the new recommendations?

The Assistant Director of the Administration Department remarked that the staff was not in a position to quantify the reduction in cost. While the new recommendations would not result in a change in the number of staff administering the associated benefits, it would decrease the amount of attention that more senior staff had to give to settling disputes on eligibility. In fact, the real benefit would be the releasing of staff members' time to perform more important tasks.

Mr. Warner sympathized with the staff on the difficulty in making judgmental decisions, but cautioned that, over time, similar decisions would have to be made even with the new recommendations in place.

The Assistant Director of the Administration Department mentioned that the \$7,500 limit would be indexed against the Washington consumer price index, which would at least avoid the risk that the earnings limit would rapidly become outdated.

The staff representative from the Administration Department, in response to a question from Mr. Warner, said that the one half support rule required a staff member to indicate, in the case of a child living outside the household, to what extent he was providing support for that child. The staff then weighed the actual evidence of support against the likely total financial needs of the child. In addition, a child who was not a full-time student was limited to \$1,000 in earnings, beyond which he was not considered a dependent.

The staff proposal would eliminate the necessity of the one half rule, and the fact that a child earned less than \$7,500 would be taken to imply that the child was indeed the dependent of the staff member, the staff representative from the Administration Department explained. If the child's income was over \$7,500, the staff member would have to provide evidence, as under the old system, that he was the primary provider of support for that child.

Mr. Warner said that, as he understood it, the reason that there had historically been no limit on the earnings of full-time students was that such a student would have insufficient time to earn more than half of his total financial needs. However, it was clearly possible for even a full-time student to earn more than the current \$1,000 limit. As he had mentioned before, he did not want to contradict the solid work ethic of students, particularly at the graduate level, who wished to help their parents by earning an income. That was particularly important for students at U.S. universities, who did not benefit from the Fund's education allowance system. However, should full-time students be fully exempted from the cap that the Committee would now be setting, it was conceivable, although unlikely, that a full-time student could earn more than the \$7,500. If those earnings were significantly higher than \$7,500, it would then be unlikely that the staff member was providing more than one half of the child's financial support. His conclusion was that if the threshold was raised, it should apply to full-time students as well.

The Assistant Director of the Administration Department observed that the origin of the earning requirement for part-time students was rooted in U.S. tax law. It seemed reasonable to him that a full-time student should be allowed to earn as much as possible. For example, there had been cases in the Fund of graduate students whose tuition was as high as \$18,000 a year, and whose teaching appointments paid as much as \$12,000 a year. The student was coming home for vacations and was essentially being supported by his parents, since whatever he was earning, although it was more than even the proposed new cap on earnings, was significantly less than the cost of

tuition. The goal of the staff was to establish clear-cut tests that would unilaterally decide on the eligibility of a child for benefits.

There were, of course, certain cases that would fall through the cracks, the Assistant Director continued. For example, a few children probably had private income from a trust fund, and it was up to the staff member whether he informed the Fund of that income. If he was honest and did tell the Fund about the unearned income, under the present system the staff had to exclude that child from eligibility. The staff's proposals would change that situation, and while some students with inordinately large incomes would then qualify if they were full-time students, that would not concern the staff, since such rare cases were more than compensated by the fact that disputes with a number of other families would be eliminated. Accordingly, if a child was a full-time student, the amount of earnings of that child would not be of concern to the Fund. In that respect, no change was being made in the general policy.

As the staff indicated on page 3 of the staff paper, if in the odd case a child's income were to be above the ceiling and the staff member still wished to request benefits, acceptable proof of full-time student status together with affirmation of the provision of more than half of the child's support would result in continued eligibility, the Assistant Director of the Administration Department said. At present, such a situation would probably arise in a few cases involving full-time graduate studies. As long as there was more than one half support by the parents, it was wholly in line with U.S. tax practice that the child should be regarded as a dependent.

Mr. Al-Jasser noted that in the age group of 19-24, there were two groups of students: those who earned less than \$7,500 who were automatically eligible, and those whose income was above \$7,500 but whose parents had affirmed that they still provided more than one half of the child support. How did the student status in the latter case affect eligibility?

The staff representative from the Administration Department said that since there had been problems with defining full-time student status, the staff proposed to make the \$7,500 limit the primary criterion. In those cases in which a child earned more than \$7,500, in order for him to maintain eligibility he would have to be a full-time student, and the parents would have to affirm that they were still the main providers of support.

Mr. Al-Jasser noted that the number of students in the latter category who would be eligible for dependent benefits would be very small. It would significantly reduce the staff's efforts if the criteria were more objective and any students who earned more than \$7,500 were considered ineligible. Why was the staff eager to allow a judgmental element for children in that category?

The staff representative from the Administration Department indicated that the staff had set the \$7,500 limit in an attempt to narrow down as much

as possible the number of cases in which the staff would have to pass subjective judgment. On the other hand, it realized that wherever the cutoff line was drawn, there would remain what the staff considered to be genuine cases of dependency--for example, students at an expensive graduate school, or students who earned more than the cutoff limit but still very clearly depended primarily on the parents for financial support. The staff did not want to completely eliminate the subjective judgment in those few cases in which dependent status might be justified.

Mr. Al-Jasser said that he doubted whether all genuine cases of need could be covered. It was a question of reducing the subjective element and increasing the objective criteria, and he did not see how objectivity was being increased by retaining the category of eligible students who earned more than \$7,500.

The staff representative from the Administration Department said that the staff expected that the cases falling into that category would be very limited in number and would not be complicated. Accordingly, the staff was willing to take upon itself the limited burden of passing judgment in those cases, in order to ensure equity for the staff members concerned.

Mr. Monyake asked whether the affirmation of the provision of more than half the child's support was necessary. Could the criterion not simply be full-time status? It was only when students were in graduate school that they realistically had an opportunity of earning more than \$7,500, and it was difficult for a staff member to realistically quantify the costs of supporting the child. He would therefore suggest that all full-time students be allowed continued eligibility.

The staff representative from the Administration Department remarked that an affirmation that the staff member provided more than one half of the financial support simply required a declaration that that was the case, and not an elaborate financial statement.

Mr. Fogelholm said that he had had difficulty with the concept of quantifying the amount of support that parents offered to graduate students. He therefore supported Mr. Al-Jasser's proposal that it would be easier to make the cutoff point of \$7,500 universal. The Fund benefits system had other examples of clear-cut ceilings--such as the amount paid for the education allowance--and there was no need for a subjective element to the criteria for dependency eligibility.

Mr. Kyriazidis noted that university students in the United States were not eligible for the education allowance. Accordingly, the Committee ought to be considering the conditions prevailing outside the United States when determining both the cutoff level for income and the eligibility criteria in general. It was not his impression that a full-time student could earn as much as \$7,500 a year outside the United States. Accordingly, he considered the \$7,500 cap on earnings to be generous.

The staff representative from the Administration Department said that the staff paper covered both students in the United States and those in home countries or in third countries abroad. While it was true that post-secondary students in the United States were not eligible for the education allowance, the definition of dependency also affected eligibility for home leave and for medical benefits coverage.

Mr. Warner noted that while he saw the appeal of a single \$7,500 cutoff criterion, the staff, which had an intimate understanding of the issue, was concerned that the elimination of the subjective element would have an impact on a number of students who went on to graduate school and incurred significant expenses while earning, through a teaching fellowship or other means, more than \$7,500.

The staff representative from the Administration Department remarked that Mr. Warner had summarized well the concerns of the staff. While the primary objective was simplicity, at the same time the staff did want to have the flexibility of considering the small number of cases that Mr. Warner had described. Even in those cases in which decision making would be necessary, that process would be fairly simple, requiring a straightforward affirmation from the staff member on the proportion of support provided as well as evidence of full-time student status and information about the child's earned income.

The Assistant Director of the Administration Department commented that establishing a rigid earning cap would also raise problems with respect to the appropriateness of the single figure selected. The staff wanted to avoid situations in which a child earned slightly more than the limit and was automatically excluded from eligibility.

Mr. Warner asked the staff to clarify the impact of the staff proposals on nonresident children and married children who resided in the staff member's home.

The staff representative from the Administration Department said that as long as a child was spending time away from the staff's duty station for the purpose of studying, he would still be considered a resident of the staff member's household. It was only in the case of children whose parents were divorced or separated, for example, and who were spending the bulk of their time with the other parent, that the residency requirement became a limitation. In the 19-23 age bracket, it was an absolute criterion for eligibility that the child be unmarried.

Mr. Warner noted that there were certainly valid cases of students living away from home and still considering the staff member's home to be their official residence, since they still had close ties to their parents. However, did the staff investigate the child's ties to the duty station home when determining eligibility?

The staff representative from the Administration Department indicated that the staff did not investigate such cases.

The Assistant Director of the Administration Department, in response to a question from Mr. Yoshikuni, indicated that even if the Bank staff proposed a \$10,000 earning ceiling, it would still retain the exceptional provision for those students who earned over \$10,000.

In response to a question from Mr. Warner, the Assistant Director of the Administration Department said that full-time students who were eligible for the allowance for education in a third country could also be eligible for the other benefits of dependent children.

The Acting Chairman noted that it was not the fact that students were studying in a third country that made them eligible for other benefits; rather, students who met the criteria--such as the earning limitation and the full-time student status requirement--were eligible regardless of where they were being educated.

Mr. Warner commented that while the education allowance program was not being discussed at the current meeting, there was a problem in delinking various benefits and determining eligibility for each benefit in an isolated fashion. For example, it would not seem reasonable that a student who was enjoying the advantage of an education allowance in a third country also be entitled to other dependent benefits if his earnings at the same time were unusually high. Such a situation could not in good conscience be rationalized.

The staff representative from the Administration Department remarked that because of difficulties with work permits, many children who studied in the United States could only work outside the United States, during the summers.

Mr. Warner said that he was concerned about compounding the existing problem, as he saw it, of third country education allowances, which was the result of making it easier for those children who were already benefiting from such an allowance to qualify for other important benefits.

Mr. Kyriazidis noted that while the education allowance was not being discussed directly, the staff's recommendations would affect that allowance, particularly in third countries. For example, the age limit of 24 could have an impact on children whose postgraduate education extended beyond that age.

Mr. Fogelholm withdrew his earlier proposal and said that he could go along with the staff proposal as it stood.

Mr. Warner indicated that he had difficulty with the selection of a \$7,500 threshold. The staff had said that the figure was close to that of

the poverty level in Washington D.C., but he did not consider that to be a relevant fact. The objective of the Committee should be to determine a reasonable ceiling on earnings that would lower to the degree possible the number of administrative decisions that the staff had to make. Indexing the earnings limit would help to maintain the appropriateness of the ceiling, but over time it might well be that even the new figure would require judgment in many cases. In elevating the earnings ceiling, it might be appropriate to include unearned as well as earned income, since the total disposable income available to a student was a relevant factor.

The staff representative from the Administration Department noted that, in the past, the Fund had enforced rules whereby dollar limits for eligibility purposes had included unearned income. That had presented the staff with great difficulties regarding the determination of a family's financial situation. The staff preferred to set an earned income limit of \$7,500, combined with the expectation that if the student did also have other earned income, the parent would take that fact into account when deciding whether he in fact was the main provider.

Mr. Al-Jasser said that he agreed with the staff's view on the inclusion of unearned income. The goal was to simplify the administration of benefits, and including unearned income would simply complicate the process. He still did not agree that it was necessary to allow exceptions to the \$7,500 earnings limit. While he could go along with the rest of the staff proposal, he did not support the suggestion that students who earned more than the ceiling could be eligible for benefits in certain circumstances.

Ms. Napky said that she could go along with the staff proposals.

Mr. Warner remarked that while his chair recognized that the current earnings limit of \$1,000 was totally impractical, he was not convinced that \$7,500 was a justified figure. Was it possible to adjourn the current meeting, so that he could reflect on the discussion, and return for a very brief meeting of the Committee when he would offer an alternative? In addition, some consultation between himself and his colleague at the Bank might help him to arrive at a sound decision.

Mr. Yoshikuni indicated that he could go along with the staff proposal. At the same time, it was important that parallelism between the Fund and the Bank be maintained, and accordingly he was open to Mr. Warner's suggestion to defer a final decision on the Committee's recommendation to the Board to a later date.

Mr. Warner indicated that he would be ready for a follow-up meeting in as little as two days. In response to a question from Mr. Fogelholm, he considered the figure of \$7,500 to be on the high side, but he would welcome the opportunity to consult with his Bank counterpart on the rationale behind any figure that was finally selected.

Mr. Fogelholm commented that he had withdrawn his proposal that the \$7,500 figure be considered an absolute criterion because that figure was arbitrary and did not necessarily distinguish between a staff member's child who was essentially supported by the staff member himself and one who was independent. That was why the staff needed the flexibility to decide that a child who was earning, for example, \$7,600, should still be eligible for the benefits. Accordingly, he urged the U.S. chair to take the perspective that the closer the cutoff figure was to a realistic level, the fewer the subjective decisions the staff would have to make.

The Assistant Director of the Administration Department noted, in the context of the suggestion to postpone the recommendation to the Board, that the staff would have to circulate the staff bulletin on applications for spouse and dependency allowances for 1990 very soon. The staff paper had been out for one month, and the staff had received a minimum number of questions from Executive Directors' offices. The staff now had to decide whether it would issue the usual staff bulletin, or whether it should wait for the Board's decision, when it would be able to inform the staff that there was no longer a link between eligibility for dependency allowances and that for other benefits. Accordingly, the staff hoped that any subsequent meeting could be held in the coming week, if possible.

The Committee members agreed to continue their discussion at 10:00 a.m. on December 7, 1989.

Mr. Kyriazidis asked that the staff study the relationship between the staff proposals and the impact those proposals would have on third country education allowances.

The Committee adjourned at 11:40 a.m.

APPROVED: July 24, 1990