CONFIDENTIAL

0411

COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 89/6

10:00 a.m., December 7, 1989

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	C. S. Warner
	J. O. Aderibigbe, Temporary
	A. Napky, Temporary
	N. Kyriazidis
M. Fogelholm	
	O. Kabbaj
	M. Al-Jasser
	S. Yoshikuni

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

Also Present

C. Enoch
Zhang Z.

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

1. BENEFITS FOR STAFF MEMBERS' CHILDREN - ELIGIBILITY

The Committee members resumed from the previous meeting (CAP/Mtg. 89/5, 12/4/89) their consideration of a staff 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 clarified that the staff was not proposing a widening of eligibility for any benefits. To the extent that a relatively small number of additional children might be eligible for benefits up to 24 years of age, the cutoff age of 24 would

potentially over time have a greater restrictive effect. On balance, he hoped that the overall restriction on benefits would help to win the support of all Committee members for the staff proposal.

The staff had consulted with its counterparts in the Bank, and had received reassurance that the staff there expected to propose a $7,500 earnings limit, the Assistant Director indicated. However, he added that in the Bank there were layers of committees up as far as the President's Counsel who reviewed such proposals before they were eventually presented to the Board, and the Bank staff could therefore give no guarantee that one of those committees might not propose a higher figure.

On the cutoff age for eligibility, the Bank Medical Benefits Plan covered dependent children up to the age of 25, whereas the Fund Plan covered children up to the age of 23, the Assistant Director said. That might therefore prove a problem for the Bank in terms of agreeing on a cutoff age of 24. The Fund staff felt quite strongly that parallelism in such issues was not essential. If parallelism were an ultimate goal, all the provisions of the two plans would have to be examined, with particular attention to each plan's coverage.

He hoped that the coming discussion would be relatively short, the Assistant Director from the Administration Department concluded, and he would ask the Committee to approve the staff proposals as they stood. If and when the Bank were to take a different decision, the Fund staff would inform the Committee. However, he doubted that the staff would amend its proposal on that basis.

Mr. Warner said that, as he recalled, the staff's primary rationale for the cutoff figure of $7,500 was that such a figure would lead to few if any difficult inquiries by staff members. However, he would prefer to have a more scientific foundation for whatever figure was established so that he could explain that rationale to his authorities.

The staff representative from the Administration Department agreed that the staff's primary basis for choosing a cutoff of $7,500 had been that it expected few children to be earning more than $7,500, and few parents to be contributing more than $15,000. If a parent wished to claim eligibility for a child who earned more than the cutoff, there would then be a legitimate basis for further examination of the circumstances. Another rationale for the cutoff figure of $7,500 was that, according to the data available to the staff, a child enrolled in full-time studies at a university typically earned during the summer, as well as perhaps from part-time work during the school year, about $5,000 or $6,000. It was in such cases, where the student clearly met the requirement for full-time status, that the staff did not want to become involved in an investigation.

Mr. Warner said that he was prepared to accept the principle of delinkage between dependency and a certain amount of earnings. However, he did hope that there could be another rationale for the specific figure that had been selected.

Mr. Fogelholm asked whether there had been any cases in which the staff member had contributed less than half of the support of a student who had been earning less than $7,500.

The staff representative from the Administration Department said that most of the disputes with staff members had been over whether or not the student was a full-time student. There had been virtually no cases in which the issue had concerned parents not being the primary providers of support, except for some very rare cases in which the child earned substantially above $7,500.

Mr. Fogelholm asked whether there were no statistics available on the cost of supporting a child in the United States, which could serve as a basis for selecting a cutoff point.

The Assistant Director from the Administration Department said that the staff had not been able to find statistics on the cost of a typical dependent. Parents' outlay, in terms of tuition, for example, varied considerably. As he had indicated at the previous meeting (CAP/Mtg. 89/5, 12/4/89), the staff had found that the poverty level for 1986 in Washington D.C. had been about $6,000. However, even that did not make clear how much more the average parents would provide in support.

Mr. Warner suggested that perhaps the staff could base its affirmation that $7,500 was a reasonable figure on its experience with regard to staff income levels, demography, and what it appeared to cost to support staff members' children. If at some future date, the figure was questioned, then the staff could seek the assistance of a consultant to verify its accuracy.

The staff representative from the Administration Department indicated that in the case of a divorce or separation, the staff had had to become deeply involved in the financial affairs of the family concerned. In such cases, the amount of money earned by the child and the precise amount of support, both in cash and in kind, provided by the two parents had to be examined. The results of such investigations indicated that a total figure of $15,000 for the support of each child, which would work out to a limit on the child's earnings of $7,500, was indeed reasonable and prudent.

Mr. Warner said that he understood that the Bank's decision-making process was complex and different from that in the Fund and that therefore no firm expectation could be had of the possible outcome. On the other hand, the stronger the staff's basis for establishing the figure of $7,500, the more likely that the staff could influence its counterparts in the Bank

to agree. He himself would do his best to see that parallelism was attained. However, if the Bank did end up with a different figure, he sincerely hoped that the Fund Committee would not consider it necessary, in the name of parallelism, to make an upward adjustment to the figure selected by the Bank.

Mr. Fogelholm agreed that if the Board adopted a figure of $7,500, it should stand by that figure regardless of the outcome in the Bank. He could also go along with Mr. Warner's proposal for a further rationalization of how the figure had been arrived at. It often seemed that the Bank felt that it was behind the Fund in terms of benefits and was trying to catch up, but in those cases where the Bank was ahead of the Fund, there was rarely any mention of adjusting downward to the Fund's standards. The Fund should not approve of such an asymmetrical movement, in which the Bank was trying to catch up to the Fund in some ways without sacrificing any other elements as a counterbalance.

Mr. Kyriazidis said that he could go along with Mr. Warner and Mr. Fogelholm in firmly supporting a cutoff of $7,500 and with the suggestion that the staff provide a statement defending the selection of that figure.

At the previous meeting, Mr. Kyriazidis recalled, he had asked for information on how the education allowance would be affected by the cutoff age of 24. Was it not possible to consider some flexibility in the administration of the education allowance, as was being proposed for the issue of dependency eligibility, so that the education allowance in certain cases could be extended beyond the age of 24? For children who were required to serve in the military, an exemption of only one additional year was allowed. Given the importance that the education allowance had for expatriate staff, it seemed appropriate to introduce similar flexibility for that benefit to that available for other benefits of dependents.

The Assistant Director of the Administration Department said that the General Administrative Orders did seem to be unfair to those children who, for example, had to serve two years of military service and yet were only granted a one-year extension in the age cutoff for the education allowance. Perhaps the Acting Chairman could include in his summing up the indication that the issue would be examined when the Committee next considered the policy on education allowances.

Mr. Kyriazidis remarked that it would be appropriate to address the issue in another context since there were clearly two different decisions involved. At the same time, it was also clear that one decision could have an impact on the other. Accordingly, just as it was possible to grant dependency benefits beyond the $7,500 cutoff point, it should also be possible to be flexible in terms of the cutoff age in general, and not only in the context of military service. The education allowance was the only

benefit that was significantly affected by the decision currently being discussed, and it was an important benefit for expatriate staff.

Mr. Yoshikuni indicated that he was in agreement with the views of Mr. Warner and Mr. Fogelholm, and asked the staff to make every effort to convince the Bank staff also to support that figure.

Mr. Kabbaj remarked that he too could join the compromise solution as proposed by Mr. Warner and Mr. Fogelholm.

Mr. Al-Jasser said that he still had difficulty with the part of the proposal that allowed flexibility when a student's income was more than $7,500. It seemed simpler and more just to adhere firmly to the limit, especially given the point of Mr. Kyriazidis at the previous meeting that for those children who were studying outside the United States, $7,500 was not an easily attained earning level. However, he would not dissent if there was a consensus to retain such flexibility. Had the staff made any rough calculations of the costs that the proposal would entail?

The staff representative from the Administration Department commented that the staff's figures were very approximate. An estimate was that the inclusion of additional children under the age of 24, as a result of the higher cutoff on earnings, would amount to an annual cost of about $40,000, while the deletion of all children over the age of 24--which would take place gradually as those grandfathered moved out of the system--would lead to a savings of somewhat over $50,000 a year.

Mr. Warner said that he saw great merit in Mr. Al-Jasser's proposal to hold $7,500 as a firm cutoff point and eliminate all judgmental decisions. Perhaps the staff could express any concerns it might have with such an amendment to its proposal.

The Assistant Director of the Administration Department indicated that the establishment of a strict cutoff earnings level would have an adverse impact on accessibility to the education allowance. The staff felt comfortable with allowing exceptions to the earnings limit because, in order to qualify for the education allowance, the child had to be a full-time student. The staff's problems had arisen with children who had fluctuated between full-time and part-time status. In a few cases, a child was a full-time student and his earnings exceeded the $7,500 figure, but the parents were prepared to affirm that they were providing more than half of the support. Then, the staff did not consider it necessary to deny access to the education allowance. Any child who was a full-time student at the age of 23 or 24 was probably in university, with low potential for earnings, and the parents were likely to be paying a substantial amount to support the child in his studies. Accordingly, the staff strongly hoped that the Committee would approve the recommendation as it stood.

Mr. Al-Jasser said that while he did not want to prevent access to the education allowance, he did not understand why the $7,500 limit would apply to that benefit. As he understood it, only other benefits, such as home leave and access to the Medical Benefits Plan, were being discussed.

The Assistant Director of the Administration Department noted that the definition of an eligible dependent did have implications for other benefits. A child who was to qualify for the education allowance first had to qualify as a dependent in accordance with the rules currently being discussed. Then, there were further conditions within the education allowance policy itself which decided whether or not the child should receive an education allowance. For example, a 23 year-old son of a French staff member attending an American university would be eligible as a dependent for home leave and for Medical Benefits Plan coverage. However, he would not qualify for the education allowance because of the further restriction that only home country or third country postsecondary education was covered by that allowance. If the $7,500 earnings limit were rigidly applied, and that student or any student earned more than $7,500, he would be eliminated at the first step--by not qualifying as a dependent--and therefore would not even be considered for an education allowance. It was in an attempt to avoid such situations that the staff had proposed the exception to the earnings rule. Under the existing system, there was no limit at all on full-time students' earnings as long as they earned less than half of their annual support.

Mr. Al-Jasser noted that dependents going to university in the United States and therefore not qualifying for the education allowance could be working in order to pay their tuition, but if they earned more than the threshold they would not qualify for the dependency benefits and would therefore be penalized twice.

Mr. Fogelholm said that he had changed his mind and dropped his support for a firm cutoff point because the primary criterion was that parents should provide more than 50 percent of the support for the child. It did not seem reasonable to add a secondary arbitrary limit; the cutoff limit would simply make it easier to handle cases from an administrative prospective.

The Assistant Director of the Administration Department said that a child qualifying for an education allowance by attending a university either in his home country or in a third country first had to meet the basic qualifications for dependency as being discussed currently, and then had to qualify by the specific criteria of the education allowance policy.

Mr. Warner remarked that by recommending Board approval of the staff's proposal on the criteria for dependency eligibility, the Committee would also be passing on to a number of students the unwarranted, in his view, benefit of third-country education allowance. He would take up that issue

at a later date. Another problem was that there was the risk that, without a cap on earnings, a student with an extraordinarily high unearned income could have unjustified access to Fund benefits.

The staff representative from the Administration Department said that the parents would be asked to affirm that they were providing more than half the child's total support. The staff member, in that context, would be expected to include any unearned income. The cap of $7,500 on earned income would be a demarcation line between automatic approval and the consideration of exceptional cases. However, in the context of the 50 percent support requirement, unearned income would be included.

Mr. Warner, in response to a question by Mr. Kyriazidis, observed that the absence of a cap would allow for the unlimited earning power of a student who was already benefiting from third-country education.

The Assistant Director of the Administration Department said that, under the present system, full-time students had no limit on their earning capacity and qualified for all benefits regardless of income as long as the parents could certify that they provided more than one half of the child's annual support. There could be the odd case of a child earning significant unearned income or of a child having very high earnings combined with very high expenses, but those were unusual. On the other hand, there were children earning more than $7,500 at a summer job and yet their parents were paying even more than that for tuition and quite justifiably claimed that they provided more than 50 percent of the child's support. If a child was receiving an education allowance either in a third country or in the home country, the parents would have less expenses included as part of their support. However, there was currently no limit on the earning capacity of full-time students. Accordingly, the staff felt justified in requesting a degree of latitude in classifying some certified full-time students who earned more than $7,500 as dependents.

The effect of a firm $7,500 cap would be that a few full-time students whose parents were paying more than half of their annual support would not qualify for the education allowance because they earned more than the cutoff figure and therefore were not classified as dependents, the Assistant Director of the Administration Department noted. There could also be cases in which the parents of a child who was not receiving the education allowance and earned more than the $7,500 limit were still able to claim that they provided more than half the child's support.

Mr. Kyriazidis said that he would be prepared to go along with the suggestion that the $7,500 limit be absolute, although he agreed with the staff that the flexibility the staff was proposing was reasonable. He was more concerned about the effects of the age limit on access to the education allowance, which was far more serious a restriction. As he had said at the previous meeting, for those children who were studying in their home country or in a third country, the possibility of earning an income over $7,500 a

year was far less than for those who were living in the United States. In that respect, the absolute cap on earnings could be more harmful to students studying in the United States.

Mr. Al-Jasser remarked that he did not want dependents to be cut off from both the education allowance and other dependent benefits. He would be willing to consider a qualification to ensure that that did not happen as a result of the earnings limit.

The staff representative from the Administration Department gave the example of a 23-year old graduate student earning $8,000 and paying school fees of $20,000. Even if that student was receiving parental support of $25,000, which was clearly more than 50 percent of the child's support, the $7,500 cap would mean that the student would lose the education allowance, home leave, and access to the Medical Benefits Plan. As he understood it, the suggestion of Mr. Al-Jasser was that if a child just marginally missed having access to all benefits, the staff would have the authority to override the criteria and allow access to the benefits.

Mr. Al-Jasser said that he had simply been trying to avoid a double penalty. For a student who did not qualify for the education allowance because he was going to school in the United States and who earned $8000, but whose parents were providing much more than that, he would be willing to permit access to dependent benefits. Of greater concern, though, was the case in which a student was going to school overseas and earned slightly more than $7,500, in which case not only would he not qualify for the other benefits but he would also be prevented from having access to the education allowance. He considered it fair that such a student would have access to the education allowance, but not to the other benefits of a dependent child.

The Assistant Director of the Administration Department said that the staff would be inclined not to draw such distinctions, since for some families home leave was as important a benefit as the education allowance. He would still urge the Committee to accept the staff proposal as it stood.

The staff representative from the Administration Department, in response to a question from Mr. Warner, indicated that the education allowance was not considered part of parental support in the calculation of a child's total support. If the parents provided more than 50 percent of the student's support, excluding that covered by the education allowance, a full-time student and child of an expatriate staff member would qualify for the education allowance.

Mr. Warner requested that, after a year's experience in managing the benefits program under the conditions proposed by the staff, the staff should describe its experience with those cases in which it had had to pass judgment when a student did earn more than the cap of $7,500. That would help to clarify whether adjustments might be necessary at a later date.

The staff representative from the Administration Department indicated that the staff could indeed do so.

Mr. Al-Jasser said that he would welcome such a report. One of his concerns was that parents could include in their total support for the child such extravagances as expensive cars, in which case it would not seem justified for the Fund to classify that child as a dependent.

Mr. Yoshikuni and Miss Napky said that they could support Mr. Warner's proposal.

Mr. Kyriazidis recalled his proposal that the age limit on access to dependent benefits, and hence to the education allowance, be reconsidered. He could go along with the suggestion made by Mr. Warner for a $7,500 earnings limit. As long as the cutoff age would be discussed in the framework of the education policy, he could go along with the staff proposal, but he did not want any decision made at the current meeting to prejudge the outcome of the education allowance policy discussion.

The Acting Chairman said that he would circulate the text of the decision as it would be presented to the Board for its consideration, a revised paragraph to EB/CAP/89/5 (12/14/89) dealing with the justification for the $7,500 limit on earnings, and his draft summing up of the discussion. 1/

The Acting Chairman's summing up read as follows:

> I understand from the discussion of the Committee that members are prepared to recommend that the Executive Board adopt the staff proposals incorporated in EB/CAP/89/5. In reaching this conclusion, members noted the consultations between the Fund's staff and their counterparts in the World Bank, and the indication that the latter intended strongly to support similar changes in the Bank. It was understood that Fund management would point out to Bank management the circumstances of CAP action and that difficulties might ensue if the changes recommended to the Executive Board of the Bank were to be different from those recommended to the Executive Board of the Fund. There have been concerns expressed on the rationale for the proposed limit of $7,500 on a child's earnings and the staff will revise the relevant section of the paper to show that this figure can be justified on the basis of the experience in implementing those aspects of the existing policy that require assessments of the costs of parental support to children. There has also been some concern about the staff's proposals for exceptions in those few cases of full-time students where earnings might exceed $7,500 but nevertheless the staff members are providing more than one half of the child's support.

1/ See EB/CAP/89/5, Supplement 3 (12/8/89) and Supplement 4 (12/12/89).

Committee members asked that the staff report back to the Committee after a year on the operation of the new criteria and give particular attention to the incidence of any such exceptions. Finally, in response to some continuing doubts on the part of one Committee member on the relationship of the proposed cutoff age to eligibility under the education policy, in particular in relation to the exception for military service, it was agreed that this relationship would be looked at when the Committee next considered the policy on education allowances.

The Committee adjourned at 11:15 a.m.

APPROVED: July 24, 1990