CONFIDENTIAL

COMMITTEE ON ADMINISTRATIVE POLICIES

Meeting 82/2
10:30 a.m., April 6, 1982

W. B. Dale, Acting Chairman

Executive Directors	Alternate Executive Directors
	A. Yasseri, Temporary
	T. Yamashita
	F. A. Tourreilles, Temporary
R. K. Joyce	
	C. P. Caranicas
	S. El-Khouri
A. R. G. Prowse	
	L. Vidvei

L. Van Houtven, Acting Secretary

Also Present

R. D. Erb	
B. Kharmawan	V. Supinit
	G. Winkelmann
	A. S. Jayawardena

Administration Department: R. Tenconi, Director; M. Russo, Deputy Director; C. Ahl, D. A. Anderson, P. A. Coffey, S. L. Dove, G. E. Gondwe, J. G. Keyes, J. D. Huddleston. Secretary's Department: R. S. Franklin. Treasurer's Department: R. Noë. Advisor to Executive Director: P. D. Peroz. Assistants to Executive Directors: E. M. Ainley, R. J. J. Costa, J. A. K. Munthali, Y. Okubo.

1. 1982 COMPENSATION REVIEW - PROCEDURES

The Committee considered a memorandum from the Managing Director on the procedures for the 1982 compensation review (EB/CAP/82/2, 3/19/82), together with observations by the Staff Association Committee on the same subject (EB/CAP/82/3, 3/29/82).

Mr. Prowse stated that he had no difficulty with the proposal in the Managing Director's memorandum, although he had been intrigued by the concerns of the Staff Association Committee, which apparently felt that the proposal to move the effective date of the salary adjustment from March 1 to May 1 was somehow related to the possibility of merging merit increases with the general salary increase.

The Director of the Administration Department remarked that there was no link between a change in the effective date of the salary adjustment and a possible merger of merit increases and the general salary increase. The World Bank had expressed a desire to eliminate retroactive payments for salary increases and had originally proposed that the effective date of the increase should be July 1, which coincided with the Bank's fiscal year. Fund management and administration had had little interest in such a move but, in the spirit of cooperation with the World Bank, they had agreed that the effective date might be moved to May 1, which happened to coincide with the beginning of the Fund's budget year and with the date on which merit increases in the Fund became effective. The Staff Association Committee, recognizing that the World Bank was studying ways of merging the merit and general salary increases, apparently feared that the Fund was considering a similar move and was simply laying the groundwork to facilitate such a merger. However, there was no such intent on the part of the Fund, nor was the possibility of a merger even being studied in the Fund at present.

The Deputy Director of the Administration Department added that he had held several meetings with the Staff Association Committee in which he had explained that the proposed change in the effective date for the general salary increase should not in any way be taken as an indication that the Fund was considering a merger of merit and general salary increases. Indeed, if there were to be a policy change along the lines of that being considered in the World Bank, it could certainly be implemented easily no matter what the effective dates for general and merit increases at the time. Unfortunately, the ongoing study of the merger in the World Bank had made it difficult to allay the fears of the Staff Association Committee regarding the intentions of the Fund.

The Acting Chairman recalled that, at one time, the general salary increase had become effective on May 1 in the Fund, although there had been some pressure from the Executive Board to move the date forward so that, as far as possible, the increase could be included in the Administrative Budget. While the idea had been sound in principle, it had not always been feasible in practice because lags in the availability of data had made it difficult for the Executive Board to take a decision on the general salary increase within the envisaged time frame.

As to the fears of the Staff Association Committee about the possibility of merging the general and merit increases, the Acting Chairman noted that he had had occasion informally to mention to the Managing Director that the issue was being studied in the World Bank. While he would not wish to state that the Managing Director had a firm view on the matter, he could say that the Managing Director's initial reaction had not been positive.

Mr. Erb remarked that, as he understood the remarks of the Staff Association Committee, the staff was not opposed to an examination of the issue. The final sentence of EB/CAP/82/3 read: "This is an important and complicated issue, and a proposal to change the effective date of the general salary increase at this time would be broadly seen by the staff as an inappropriate effort to prejudge the question before it receives the careful examination and debate at all levels which it requires." In the circumstances, perhaps the Fund should at some point undertake a more explicit examination of the issue so that it could be resolved on its merits. He had no difficulty with the proposal to move the effective date of the salary increase from March 1 to May 1 so long as it was clear that the move did not prejudge the issue of the merger.

Mr. Joyce said that, as he understood it, the Staff Association Committee did not want any decision with respect to a possible merger of merit and general salary increases to be rushed; the Association was concerned that a shift in the date for the general salary increase to May 1 might give a wrong signal about such a merger because it would create a coincidence of effective dates for the two types of increase.

Mr. El-Khouri wondered whether the Administration Department could clarify the statement by the Staff Association Committee that "the proposals to that effect (namely, to facilitate a future merger of merit and general salary increases) which have to date been put forward, have been almost universally criticized by staff and supervisors." He was curious about what proposals, if any, had been put forward to date.

The Director of the Administration Department recalled that a working group, which had included representatives from the Staff Association Committee, had some months previously undertaken a study of the performance appraisal system and salary structure in the Fund. Among the many items mentioned in the report of that working group was the suggestion that the possibility of changing the ratio of merit increases and general salary increases should perhaps be studied. The report had gone no further into the issue; it had not been taken into consideration by management and had finally been dropped from the report issued to the staff. In the circumstances, the word "proposals" in the sentence quoted by Mr. El-Khouri was perhaps somewhat strong.

Mr. Tourreilles stated that he was in broad agreement with the Managing Director's conclusions on procedures for the 1982 compensation review. In particular, he could support the proposal to collect three different types of data from the comparators, and he agreed that the effect of the tax reductions in the United States and the tax increase in France should be taken into account in the comparisons of net salary increases.

On other matters, Mr. Tourreilles indicated, he had no difficulty with the proposal to put off the next comprehensive review until 1984, especially given the cost of such an exercise. Finally, given the explanation by the Director of the Administration Department, he could also accept the proposal to change the effective date of future general salary adjustments from March 1 to May 1.

Mr. Erb inquired whether, in the comparison with U.S. public sector pay changes, account would be taken of the recent change in the cost of medical benefits for U.S. Government employees. On another matter, he noted that the results of the New York Survey for staff in Ranges A-E had shown that the Washington comparators paid somewhat higher salaries than those in New York. It was apparently not intended to incorporate a check of New York private comparators as part of the 1982 review, and he was not proposing such a move. However, he wondered whether management's decision about whether or not to include a survey of New York comparators in the 1982 review would have been different if the results of the survey had shown higher rates of compensation in New York than in Washington.

The Director of the Administration Department noted, first, that the Fund's compensation survey was based only on direct compensation, which meant that any change in the cost of medical benefits would be excluded from the survey. He had no way of responding to Mr. Erb's second question.

Mr. Schneider recalled that, when the Executive Board had held its most recent comprehensive salary discussion, some Directors had suggested the New York survey as one possible way of ironing out the rather uneven increase between the support staff and the professional staff of the Fund. If he recalled the discussion correctly, the intention of those Directors in making such a suggestion had been only to increase the level of salaries of the A-E staff, not to reduce it.

Mr. Joyce observed that the Staff Association Committee apparently felt that, for presentational purposes, it might be wise to disaggregate the portion of any increase in remuneration due to the tax cuts in the United States from that due to increases in the comparators. He wondered, first, whether there was any precedent for such a move and, second, how the Administration Department intended to deal with the recommendation of the Staff Association Committee.

The Deputy Director of the Administration Department responded that tax cuts or increases in the past had implicitly been taken into account because the tax schedule in force had been used to net down salaries for the purposes of Fund compensation; there had been no need in the past to disaggregate the figures in the way recommended by the Staff Association Committee because the changes in the tax schedule had not been large enough to warrant doing so. For the 1982 review--and beyond, if proposed U.S. tax cuts for later years were implemented--the tax cuts would have a fairly significant effect on net salaries. It was the intention of the Administration Department, based on a report by Arthur Andersen, to show what would have been the net increase at the unchanged tax rate and what the net increase would be after the change in the tax rate was taken into account. The difference between the two would show the effect of the tax cut, which would probably be within the range mentioned in EB/CAP/82/2. In that respect, the Administration Department would be following the Staff Association Committee's recommendation to disaggregate the effect of the tax cut from the increase in comparators' net pay.

The Acting Chairman, in response to questions by Mr. Caranicas, noted that, if Committee members agreed, the proposals in EB/CAP/82/2 would be sent to the Executive Board for approval, perhaps on a lapse-of-time basis. The Committee's counterpart in the World Bank would be reviewing similar proposals for submission to the Executive Board of the World Bank. In order to alleviate the fears expressed by the Staff Association Committee in its memorandum, he proposed to contact the Chairman of that Committee and assure him that the staff's concerns had been properly aired. He might even go so far as to indicate that, at present, Fund management was not attracted to the idea of merging merit increases and general salary increases in the Fund.

The Committee accepted the proposals in EB/CAP/82/2 and agreed to the procedure outlined by the Acting Chairman.

2. MEDICAL BENEFITS PLAN - REVIEW

The members of the Committee considered a staff paper reviewing the Fund's medical benefits plan (EB/CAP/82/1, 3/19/82).

Mr. El-Khouri stated that he could support the proposals in the staff paper to deal with the problem of rising medical costs. Noting that claim payments had increased by 35 per cent in 1981, while only a 22 per cent increase was projected for 1982, he wondered whether the 1981 increase should be considered an aberration.

The staff representative from the Administration Department indicated that confidentiality of medical records made it difficult to know very precisely why medical claims had increased by 35 per cent in 1981, and the staff could only hope that the increase had been an aberration. The 22 per cent increase projected for 1982, which happened to be the average of rates in the five previous years, was based on discussions with the Fund's insurance manager and others in the medical insurance business, who had estimated a per capita cost increase of 20 per cent, to which had been added a 2 per cent increase in enrollment. It was of course always possible that the increase in 1982 could turn out to be more than 22 per cent, particularly given the evidence of recent runaway costs in medical care generally. Moreover, the recent reduction in medicare benefits to the indigent might require hospitals to offset a reduction in revenue from such sources by increasing charges to other patients. It should perhaps be noted that, while medical insurance claims in the Fund were above the national average, there were a number of instances in which rates of increase had been of the same order of magnitude as that experienced in the Fund; and the medical insurance industry had itself been at a loss to explain the phenomenon.

Mr. Prowse wondered whether there was any evidence from the data on types of claims that would help to explain the 1981 increase. Had the staff given consideration to ways of containing the cost of medical claims in future?

The Director of the Administration Department observed, first, that the 35 per cent increase had been due partly to an increase in the number of enrollees. The manager of the medical insurance plan had been asked to make a study of the 1981 experience by type and size of claim in order to isolate the areas in which the increases had been greatest, and the study had indicated several areas in which efforts could be made to limit costs in future. The data showed, for example, that 6 per cent of those covered under the medical plan were classified as "other dependents," yet their claims represented approximately 12 per cent of the total. While confidentiality of records made it difficult to determine with any precision why the claims had been so large for that particular category, the staff had certainly given thought to the possibility that enrollees might be changing dependents from time to time in order to cover the medical expenses of different people as needed.

Another area in which fairly large claims had been made was in the coverage of psychiatric treatment, the Director continued. Unlike plans for some other organizations, the Fund plan had no limit in one year on claims for such treatment, which might account for a large portion of the increase in 1981. Efforts to identify other areas in which cost-saving might be effected were continuing, but at the moment the two areas he had mentioned were the main candidates for further consideration.

Mr. Prowse inquired about the plan's coverage of elective or cosmetic medical care, in dental work, for example.

The Director of the Administration Department replied that the Fund plan reimbursed only 70 per cent of dental costs, which in fact was lower than the percentage reimbursed in some other organizations, including the World Bank. Orthodontia was covered only up to a lifetime maximum of $1,000 per person, and other types of cosmetic surgery—a face lift, for example—were not covered unless such surgery was required to repair damage from an accident or for other medical reasons.

Mr. Winkelmann remarked that his own experience with the coverage under the plan for dental work seemed to show that the plan was not particularly generous. The cost of replacing a bridge, for example, was not covered unless the individual had worked at the Fund for at least five years or unless teeth were first extracted and then replaced by the bridge. Particularly for members of the Executive Board, who were often covered under the plan for less than five years, the rules seemed somewhat strict.

The Director of the Administration Department noted that the rules had been drafted by the insurance company managing the medical plan and generally followed the rules in other plans industry-wide.

Mr. Winkelmann stated that, while he could understand the reasons for basing the Fund plan on plans throughout the industry in the United States, there was a special problem experienced by those coming to work for the Fund from other organizations. If the Fund was indeed a special case, perhaps the matter could be studied further.

The Acting Chairman remarked that the concerns expressed by Mr. Winkelmann would be looked at as part of the ongoing study of the plan. On another matter, he recalled that some saving had already been effected several years previously when the Fund had shifted to an in-house plan, keeping the John Hancock Company only as an administrator. That shift had saved the Fund approximately $100,000 a year because it avoided the 2 per cent tax levied when a plan was in the hands of an insurance company.

Mr. Caranicas inquired, first, how claims had been paid by the Fund since the establishment of the in-house plan. He had been given the impression by a specialist who had done some shoddy work for him--and whom he had refused to pay--that the specialist had been reimbursed directly by the Fund. On another matter, he wondered why family medical insurance premiums were set at a single figure, irrespective of the number of dependents claimed by the enrollee. Perhaps some cost saving could be effected if different rates were charged for different numbers of dependents.

The Director of the Administration Department, responding to Mr. Caranicas' first question, observed that claims were paid by the Fund only when presented directly by the enrollee. In the circumstances, he would be surprised if the specialist in question had been reimbursed for his work. As for the possibility of graduated premiums according to the size of the family, he understood that the United Nations had three levels of premium: one for the enrollee and one child; another for the enrollee, spouse, and up to one child; and a third for the enrollee, spouse, and two or more eligible children. However, even the minimum premium in the United Nations was much higher than that proposed in the Fund, and the differences between the three premiums were limited, which suggested that there might be little cost saving in moving to such a system. Moreover, he knew of no other plan within the U.S. insurance industry that offered graduated premiums.

Mr. Yamashita, commenting on the proposed level of the reserve in the plan, said that he found no specific basis for the assessment that a reserve of 25 per cent of estimated claims was within the balance of financial prudence. He was interested in knowing the justification for reducing the reserve from 30 per cent to 25 per cent, and he wondered how the level of reserves in other plans compared with that proposed for the Fund.

The Director of the Administration Department noted, first, that the concept of the reserve was based on the perhaps farfetched assumption that the plan would come to an end at some point, and that there would be a number of claims outstanding that would have to be paid. When the Fund had established its in-house or self-insurance plan, it had operated on a 25 per cent reserve although, because of a large dividend at the end of the year, it had been decided to increase the reserve to 30 per cent to be on the safe side. Nonetheless, the insurance company managing the plan continued to maintain that a 25 per cent reserve was adequate, so that the proposal to return to that level was not a radical one. Moreover, the World Bank medical plan, carried by an outside insurer, had a reserve of only 25 per cent, so that the new proposal would do no more than put the Fund in line with the practice of its sister organization.

Mr. Erb wondered whether, if the Fund happened to have a particularly good year with respect to the payment of claims, a further addition might be made to the reserve.

The Director of the Administration Department responded that the situation described by Mr. Erb would provide the opportunity to raise reserves as a proportion of claims, thereby permitting some leeway in the event of a future adverse claims experience.

Mr. Prowse proposed that the staff prepare for the Committee a report on the possible ways in which the growth in the cost of the medical insurance scheme might be contained. In light of that report, the Committee might then consider whether further examination by outside consultants would be appropriate.

The Director of the Administration Department stated that the staff--with the help of John Hancock--could certainly provide the sort of study requested by Mr. Prowse, and he doubted that an outside consultant would be needed. However, it might be best to hold off on producing the study until it was known whether the proposed changes in the plan helped to keep the cost within the forecast. Certainly, if there appeared to be a trend toward exceeding the forecast, the study would be launched immediately, but full data for the study would not really be available for at least six months.

The Acting Chairman observed that the ongoing breakdown of data by size of claim and broad nature of illness that was being provided by John Hancock might suggest certain areas that could be looked at in greater detail. For example, it had already been noted that, in a number of other plans, annual and lifetime limitations were placed on reimbursement for psychiatric treatment.

Mr. Erb added that the data referred to by the Acting Chairman might also suggest a review of the effect of the deductible on the cost of claims. It was his understanding that some studies of medical costs had shown that an increase in the deductible--up to a certain limit--could significantly reduce the number of claims and thus the total cost.

The Director of the Administration Department observed that one of the proposed changes in the plan was to increase the deductible by 20 per cent, which would place it at a level higher than that in the World Bank and certainly in line with deductibles in the U.S. public sector and in other institutions. It was true that many insurance companies felt that one way of containing costs was to increase the deductible, although it was difficult to increase it too drastically in any one year.

The Acting Chairman commented that, on the other side of the coin, the deductible should not be increased to such an extent that it prevented individuals from seeking necessary medical care.

Mr. Joyce inquired whether the data provided by John Hancock might be able to identify groups of individuals making claims more often than the average. If so, consideration should be given to ways of remedying the situation.

A staff representative from the Administration Department replied that it was difficult to detect the hypochondriac and perhaps even more difficult to slow his use of medical facilities. Certainly an effort was being made, within the constraints of confidentiality, to identify concentrations of usage, because the Administration Department recognized that cost containment was important. There were those who believed that high deductibles might be a deterrent to the sort of "excessive" use of medical facilities referred to by Mr. Erb, although there were others who recognized that, once the deductible had been reached, even those not prone to hypochondria might seek medical attention more often and without concern for costs because most of the cost would be covered under the plan. The situation might indicate a need for looking at the co-insurance ratio. In any event, the problem was not one about which the Fund could be complacent, and the staff was discussing the matter with the insurance manager. Given the data that were available, the Administration Department could perhaps produce reasonably quickly a listing of areas requiring further study, although, as noted by the Director of the Department, a detailed study with proposals could not be produced for some time.

Mr. Tourreilles wondered whether the staff had given any thought to the possibility of providing incentives to those who did not make use of the plan.

The Director of the Administration Department replied that the issue raised by Mr. Tourreilles had been discussed within the Department, which had considered the idea that, in the event that the Plan turned out to be in surplus, a portion of the participants' contributions might be returned to those who had not claimed from the plan. The idea had gone no further because there had been no dividend in 1981 and there was no way of knowing whether there would be one in 1982. He had no doubt, however, that the matter would be raised again in future.

Mr. Prowse wondered whether consideration had been given to the possibility of channeling all plan participants first through the in-house medical services for a preliminary diagnosis. Certainly, such a move would reduce the problem of hypochondria to which others had referred, although he recognized that such a step might be too dramatic and might raise philosophical issues regarding an individual's right to choose his own physician.

The Director of the Administration Department said that, in the past, the Fund had offered the option to staff members to use the services of a group health clinic at lower cost. Even after the Fund had taken over the plan, those who had originally chosen the group health clinic option had been allowed to keep it. While one or two members of the staff had chosen to do so, there had generally been little interest in the option.

On another matter, the Director observed that the maximum rate of contribution shown in the attachment to the staff paper was, as had been the case in the past, based on the minimum salary at Range I. It should be noted that the rate would be increased pari passu with any general adjustment to salaries that might affect the minimum at that range.

The Acting Chairman remarked that Committee members appeared to be in agreement with the proposals in EB/CAP/82/1. He suggested that the report of the Committee and its recommendations should be submitted to the Executive Board for approval on a lapse-of-time basis.

The Committee agreed to the procedure outlined by the Acting Chairman and adjourned at 12:05 p.m.

APPROVED: September 20, 1982