

**FOR
AGENDA**

EBAP/07/60

CONFIDENTIAL

April 19, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Staff Compensation—2007 Review**

Attached for the consideration of Executive Directors is a paper on the 2007 review of staff compensation, which will be brought to the agenda for discussion on **a date to be announced**. A draft decision appears on page 15. A proposed salary structure is on page 16.

Questions may be referred to Ms. Brookbank (ext. 36764) and Mr. Vicini (ext. 34474) in HRD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

2007 Review of Staff Compensation

Prepared by the Human Resources Department

In consultation with the Finance and Legal Departments
and the Office of Budget and Planning

Approved by Liam P. Ebrill

April 19, 2007

Contents	Pages
Executive Summary	2
I. Introduction	3
II. Indexation Formula	4
III. Merit Pay.....	6
IV. Key Findings of the A1–A8 Study	10
V. Draft Decision.....	15
Tables	
1. Projected Comparatio as of April 30, 2007	8
2. Projected Decline in the Comparatio During FY 2007.....	9
3. A1–A8 Payline Over Comparator Market Benchmarks	12
4. A1–A8 Payline Over Each Market Average.....	13
5. A1–A8 Payline Over General Industry at Various Pitches.....	13
6. A1–A8 Payline Over (Under) Market by Broad Occupational Group	14
Figure	
1. Euro Per Dollar Exchange Rate	6
Attachment	
Proposed Salary Structure, May 1, 2007	16

EXECUTIVE SUMMARY

This paper presents proposals for the 2007 review of staff compensation and reports on the feasibility of establishing a local comparator market for grades A1–A8. The compensation proposals are presented in the context of the Executive Board decisions adopted in April 2006 as part of the Employment, Compensation, and Benefits Review (ECBR), which *inter alia* established a three-year compensation cycle and initiated a feasibility study for setting A1–A8 salaries based on a local comparator market.

The key points of the paper are:

- **A1–A8 payline.** Having analyzed a combination of published surveys of public and private sector salaries and custom surveys of salaries in international organizations and local embassies, it has been concluded that it is feasible to develop a local comparator market for grades A1–A8. However, the survey data raise complex issues that would need to be resolved before a payline derived from this comparator market could be introduced. Important among these issues are the wide differences in market salaries of occupations represented among A1–A8 staff. In order to allow adequate time for consultation and resolution of these issues, it is proposed that a decision on the new A1–A8 payline be deferred until the 2008 review of staff compensation.
- **Salary structure.** The 2007 adjustment in the salary structure for grades A9–B5 is to be determined on the basis of an indexation formula comprising public and private sector salary indexes for the United States. The formula indicates an increase of 3.3 percent. With deferral of a decision on the salary system for staff in grades A1–A8, it is proposed that the indexation formula be applied also to the A1–A8 salary structure. On this basis, the application of the indexation formula results in a uniform 3.3 percent increase in the A1–B5 salary structure. The resulting May 1, 2007 salary structure is shown in the Attachment.
- **Merit pay.** It is proposed that the budget for merit pay continue to comprise the salary structure increase and a comparatio adjustment. As reported to the Executive Board in March, the weighting scheme used to calculate the comparatio would be modified to improve transparency and facilitate coordination between the budget for merit pay and the administrative budget. In addition, more information on the factors affecting movements in the comparatio would be provided with a view to clarifying the linkages between the approved structure increase, the merit budget, and the increase in average salaries. Provision has been made in the administrative budget for FY 2008 for a Fund-wide merit allocation of 4.0 percent, which reflects the proposed structure increase and a comparatio adjustment of 0.7 percent.

I. INTRODUCTION

1. **This paper presents proposals for the 2007 staff compensation review.** The proposals have been developed in the context of the three-year compensation cycle approved by the Executive Board in April 2006 as part of the Employment, Compensation, and Benefits Review (Box 1).¹ The paper also reports the key results to date of the analysis of market-based salary comparators for staff in grades A1–A8. Board discussion of the 2007 staff compensation review, together with a companion paper to be issued on recruitment and retention experience in 2006, is tentatively scheduled for May 9.

2. **Work on developing the compensation system for A1–A8 is under way.** As part of the ECBR, it was intended that, subject to the development of an appropriate information base, the level of and adjustments to the salary structure for grades A1–A8 would be derived from comparator-based reviews using a comparator market consisting of employees in the Washington-Baltimore metropolitan area with the requisite qualifications and skills. These changes were to be implemented in the current (2007) compensation round, followed in 2008 by application of the indexation formula to all staff in grades A1–B5, with all elements of the compensation cycle synchronized at the time of the next comparator-based review in 2009.

Box 1. The Compensation Cycle

The new compensation system operates on a three-year cycle. In the first year of the cycle, decisions on staff compensation are based on a customized survey of A9–B2 salaries in the United States, with the results tested for international competitiveness against salaries in France and Germany. The potential addition of academic and Asian comparator markets is under consideration for 2009. Salaries at B3–B5 are set in relation to A9–B2 salaries. Specific details of the method for setting the A1–A8 salary structure have not yet been determined. In the second and third years of the cycle, the entire A1–B5 salary structure is to be adjusted on the basis of an indexation formula, which is comprised of published indices of salary movements in the U.S. public and private sectors. In comparator-based years, the salary structure can be adjusted either uniformly or on a grade-by-grade basis. In indexation-based years, the entire structure is adjusted uniformly by the percentage indicated by the formula, subject to certain safeguards.

The first three-year cycle reflects the transitional state of the system. The three-year cycle began in 2006, with A9–B2 salaries set on the basis of a comparator-based review and B3–B5 salaries set in relation to A9–B2 salaries, as envisaged under the new system. The A1–A8 salary structure was adjusted using a transitional method, pending a decision by the Executive Board on the system for determining A1–A8 salaries. The 2007 compensation review, which is the subject of the present paper, includes the application for the first time of an indexation formula to determine the adjustment in the salary structure. The indexation formula will be applied again to A9–B5 salaries in 2008, at which time the Board will be asked to consider a decision on the new comparator market and payline for setting A1–A8 salaries. The next three-year compensation cycle will begin in 2009.

¹ *Employment, Compensation, and Benefits Review—Proposed Decisions* (EBAP/06/38, Cor. 1, 4/18/06).

3. **An interim decision on A1–A8 compensation for 2007 is required.** At an informal Board briefing on March 27, management reported that, although staff analysis indicated that it is feasible to establish a local comparator market for grades A1–A8, issues identified during the market data collection phase argued for postponing until 2008 the introduction of a payline derived from that market pending further study and consultation. As a consequence of this postponement, this paper proposes that the 2007 adjustment to the A1–A8 salary structure be based on the indexation formula used to adjust the A9–B5 structure. To determine a merit pay budget for staff, the structure increase would be combined with a comparatio adjustment calculated on the basis of A1–B5 salaries.

4. **The remainder of the paper is organized as follows.** Section II presents the results of the indexation formula for 2007, which determines the size of the increase in the salary structure. This section concludes that no additional increase beyond that indicated by the formula is warranted under the safeguard provisions for indexation. Section III discusses the determination of merit pay, reflecting proposed changes recently reported to the Board in the calculation and presentation of the comparatio. Section IV highlights the key findings to date of the A1–A8 salary feasibility study and identifies outstanding issues that warrant further reflection and consultation, including the broader work program for compensation issues. Section V contains a draft decision for approval by the Executive Board.

II. INDEXATION FORMULA

5. **The indexation formula comprises two publicly available indices.** The public sector component is the announced percentage salary increase for the U.S. Civil Service, including locality pay for the Washington metropolitan area for the current year. The private sector component is the percentage change forecast for the current calendar year in the annual WorldatWork Salary Budget Survey for the category of Exempt Salaried employees.² The two components are given equal weight in the indexation formula.

6. **The indicated increase in the salary structure is 3.3 percent.** The public sector component for 2007, as reported by the U.S. Office of Personnel Management, is 2.64 percent.³ The private sector component for 2007 is 3.9 percent, as reported by WorldatWork.⁴ Weighted equally, the combination of the public and private sector salary increases indicates a 3.3 percent increase in the Fund’s salary structure for 2007.

² Following further staff analysis, the Executive Board approved a change in the private sector index from the Employment Cost Index published by the Bureau of Labor Statistics to WorldatWork (EBAP/07/37, 3/20/07).

³ The approved salary increase is published on the agency website at www.opm.gov/oca/07tables/html/dcb.asp.

⁴ The headline number is published on the WorldatWork website under Library at www.worldatwork.org.

7. **The application of the formula is subject to safeguards.** In adopting the indexation formula approach in April 2006, the Executive Board recognized the inherent risk that increases indicated by the formula could deviate from salary movements in the Fund's comparator markets, with potentially adverse consequences for the Fund's competitiveness. To mitigate this risk, management may propose an upward adjustment to the salary increase indicated by the index under certain conditions (EBAP/06/38, paragraph 43):

- compelling evidence to suggest that movements in the index are unrepresentative in a material way of general salary trends in the U.S. comparator market;
- changes in U.S. tax policy that make it likely that there will be significant increases in net salaries at the Fund at the time of the next comparator-based review; or
- movements in the euro-dollar exchange rate that create significant competitiveness problems for staff recruitment and warrant remedial action prior to the next comparator-based review.

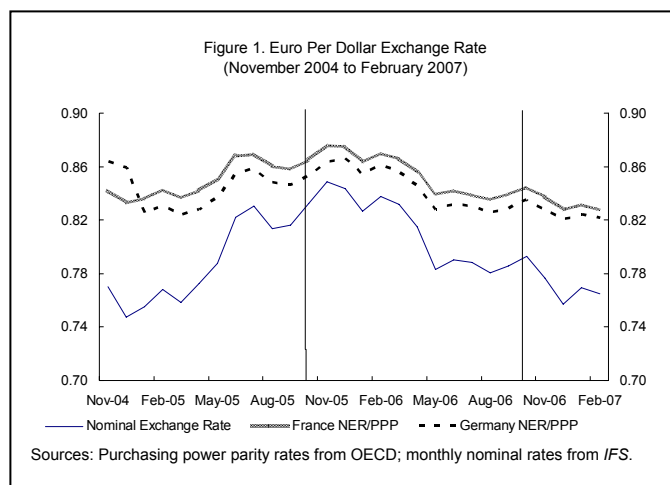
8. **No safeguard adjustments are proposed for the current compensation review.** The two safeguards relating to U.S. salary and tax developments offer no reason to adjust the results of the indexation formula in 2007. On salary developments, there is no compelling evidence to suggest that the 3.3 percent salary increase indicated by the indexation formula is unrepresentative in a material way of general salary trends in the United States. With respect to U.S. tax policy, the effective tax rates applicable to the Fund's comparator market for A9–B2 salary ranges have not materially changed relative to their 2006 levels. Moreover, no changes in U.S. tax policy are currently in train that would lead to significant increases in net salaries at the Fund at the time of the next comparator-based review in 2009.⁵

⁵ Prospective changes in the Alternative Minimum Tax cannot be ruled out, although neither the direction nor magnitude of any such changes are known at this time.

9. **The safeguard for international competitiveness points to possible risks ahead.**

Figure 1 offers two perspectives on recent euro-dollar exchange rate movements. Using the reference period and exchange rate definition embodied in the international competitiveness test that is applied in comparator-based reviews every three years, exchange rate movements suggests little risk of significant competitiveness problems at the time of the comparator-based review in 2009.⁶ In particular, the

combined nominal exchange rate and purchasing power parity rate appreciated by 0.6 percent for France and depreciated by 1.8 percent for Germany during the reference period of November 2005–October 2006 relative to the corresponding period in the preceding year. From a recruitment perspective, however, movements in nominal exchange rates may be more telling. The U.S. dollar depreciated by about 4.7 percent



against the euro during November 2005–October 2006, and by a further 3.5 percent through end-February 2007. The forthcoming companion paper indicates that although the Fund continues to attract suitably qualified and diverse staff, there are indications of recruitment challenges on the horizon, including those related to perceived job insecurity and the changing mission of the Fund. These developments will be monitored closely in the coming year.

10. **It is proposed that the A1–B5 salary structure be increased by 3.3 percent.** The 3.3 percent increase indicated by the indexation formula would be applied uniformly to the salary range minima, midpoints, and maxima for all grades, as shown in the Attachment.

III. MERIT PAY

11. **Two related principles are involved in determining the budget for merit pay.**

First, the amount of the merit allocation should ensure that the actual salaries of staff are aligned, on average, with the designated level of compensation in the applicable comparator market; this ensures that staff members' actual pay, and not only the salary structure, remains competitive. Second, the ECBR concluded that the amount of the merit allocation should also ensure that average salary levels grow broadly in line with the increase in salary structure,

⁶ In comparator-based reviews, and by extension in indexation-based years, the period average exchange rate over the 12-month reference period (November–October) is compared with the period average rate for the same period in the previous year. The exchange rate definition is the simple average of the nominal euro-dollar exchange rate and the purchasing power parity rate for France and Germany.

taking into account actual and projected shifts in staffing across grades (EBAP/06/38, paragraph 51).

12. **A comparatio methodology is an integral part of this process.** As explained in the recent paper on indexation and merit pay (EBAP/07/37), the merit pay budget consists of two components: (i) a structure adjustment that aligns the midpoints of the Fund's salary ranges with the indicated level of compensation in the comparator markets; plus (ii) a comparatio adjustment that ensures that actual staff salaries are aligned, on average, with the range midpoints and, through them, the indicated level of comparator pay (Box 2). The comparatio adjustment and the resulting merit pay budget are the method by which the Fund provides resources needed for staff salaries to progress, based on performance, within salary ranges.⁷

Box 2. Maintaining Competitive Staff Salaries

The structure adjustment and comparatio adjustment work in tandem to maintain staff salaries at competitive levels relative to the Fund's comparator markets:

- The **structure increase** adjusts the Fund's payline (i.e., the midpoints of its salary ranges) to the level indicated by the comparator markets. The size of the structure increase is based on a full comparator review every three years and on the indexation formula in the intervening years.
- The **comparatio** is an indicator of the extent to which actual salaries are above, below, or in line with the intended market levels. The comparatio measures the ratio between average staff salaries and the Fund's salary range midpoints, with the midpoints representing the target level of salaries in the comparator markets. A comparatio of 100 indicates that average salaries are equal to the average of the range midpoints.
- The **comparatio adjustment** ensures that average actual salaries remain broadly competitive and provides resources for in-range, performance-based salary progression. In the absence of a comparatio adjustment, average salaries that are set at the average of the midpoints (i.e., comparatio = 100) at a point in time would fall below the average of the midpoints over time (comparatio < 100), pulling average salaries below indicated market levels. Over time, the level of the comparatio typically falls as a result of the normal dynamics of staff turnover: as staff separate during the year, the comparatio will tend to decline as departing staff are replaced (through external recruitment or internal promotion) by staff with salaries lower in the range. The comparatio is therefore a technical mechanism to offset the decline in average salaries relative to the average of the midpoints during the year. All else being equal, maintaining a comparatio of 100 from year to year would indicate that average staff salaries are growing in line with the rate of increase in the salary structure.
- The **merit pay budget** is normally determined as the sum of the structure increase and the comparatio adjustment. The entire amount is distributed to staff on the basis of performance.

⁷ The comparatio adjustment is thus broadly comparable to step increases that allow in-grade salary progression in traditional civil service systems. In the Fund, however, these increases are based on merit rather than service.

13. **A technical revision is proposed to the method for calculating the comparatio.** Reflecting a technical change recommended in EBAP/07/37, the comparatio would be calculated as a simple ratio of total actual salaries to total notional salaries based on salary midpoints. In these calculations, actual salaries and the salary midpoints would be those projected (salaries) or in place (midpoints) before the structure is adjusted on May 1. The draft decision in Section V provides for Executive Board approval of the revised method for calculating the comparatio as part of the determination of the merit budget.

14. **The immediate impact of the revised method is expected to be modest.** In previous years, the comparatio was calculated based on an average, weighted by the number of staff in each grade, of the percentage differences between actual salaries and salary range midpoints at each grade. The new method places more weight on salaries at the upper end of the salary structure. As senior staff salaries tend to be positioned above the salary range midpoint, the new method generates a slightly larger comparatio and therefore a slightly lower comparatio adjustment. Table 1 shows that the projected end-April 2007 comparatio for grades A1–B5 is 99.3 using the new method and 99.2 under the previous method.

Table 1. Projected Comparatio as of April 30, 2007

Grades	Total Payroll	Total Midpoints	Comparatio	
			Old Method	New Method
	(In U.S. dollars)		(In percent)	
A1–A8	39,474,340	3,947,670	99.6	99.9
A9–B5	270,847,760	273,086,110	99.1	99.2
A1–B5	310,322,100	312,583,780	99.2	99.3

15. **The comparatio is thus projected to decline in FY 2007.** As shown in Table 2, the comparatio for grades A1–B5 is projected to have fallen from 100.5 to 99.3 over the course of the financial year.⁸ The comparatio exceeded 100 on May 1, 2006 as a result of the ECCR-based adjustments to the Fund’s payline and the supplementary 2.0 percent merit allocation for grades A14–B5.⁹ This indicates a decline in the comparatio of 1.2 percentage points, and, for the reasons set forth below, would call for a more modest comparatio adjustment of 0.7 percent to restore the comparatio to 100. Over the past 15 years, the comparatio adjustment has averaged 1.8 percent a year.

⁸ The comparatio calculations are based on the revised calculation method formally proposed in this paper.

⁹ The supplementary allocation reflected an upward shift in the A14–B5 payline (EBAP/06/44, 4/5/06).

Table 2. Projected Decline in the Comparatio During FY 2007
(In percent)

	Comparatio 05/01/06	Contributing Factors			Comparatio 04/30/07
		Appointment	Separation	Promotion	
A1–A8	101.1	(0.3)	(0.3)	(0.6)	99.9
A9–B5	100.5	(0.1)	(0.1)	(1.0)	99.2
A1–B5	100.5	(0.1)	(0.2)	(0.9)	99.3

16. **Normal staff turnover contributed modestly to the decline in the comparatio.** Appointments of new staff and separations of existing staff tend to lower the comparatio, because new staff normally have salaries below the salary range midpoints, while staff separating due to retirement and the like are likely to have salaries closer to or above the midpoints. This “turnover” effect on the comparatio occurs in external comparator markets as well, and is reflected in the average salaries of the market comparators. Given the modest turnover at the Fund, its impact on the Fund’s comparatio is no more than what would be expected in the external market.

17. **Promotions had a larger impact on the comparatio.** This mainly reflects the fact that promotion increases awarded at the Fund are modest, generally in the range of 2–5 percent. These modest promotion increases affect the comparatio by lowering average salaries in the grades into which staff enter and exit. The “savings” from promotion increases throughout the year are translated into a larger comparatio adjustment at the end of year, which is distributed to all staff through performance-based merit increases.¹⁰

18. **Average salary is projected to increase slightly faster than the salary structure.** As noted above, restoring the comparatio to 100 could be achieved with a comparatio adjustment of 0.7 percent. A merit allocation of 4.0 percent on May 1, 2007 would raise average salaries by some 3.5 percent from their May 1, 2006 level. The difference between the projected May-to-May increase in average salaries (3.5 percent) and the proposed structure increase (3.3 percent) reflects in part a shift in the grade distribution of staff; during FY 2007, the proportion of A9–B5 staff is projected to rise from 74.5 percent to 75.0 percent.

19. **Changes in average salary are being monitored more closely.** This will require a greater focus on the impact of staffing decisions on the average grade level, taking into

¹⁰ The balance between merit and promotion increases varies across organizations. Promotion increases in the Fund are smaller than typically provided in the U.S. private sector. If the Fund were to move toward larger promotion increases, the amount available for merit would be similarly reduced within an unchanged budget.

account HR policies and practices such as starting grades and salaries for new hires. Staffing developments will be monitored during the year and considered as part of the 2008 review of staff compensation to determine whether the impact of outsourcing and the like warrant separate treatment in determining the merit budget.¹¹

20. **The comparatio adjustment for 2007 will therefore be set at 0.7 percent.** An adjustment of this amount will ensure that, on average, actual staff salaries remain broadly in line with the proposed increase in the salary structure. Together with the proposed 3.3 percent increase in the salary structure arising from application of the indexation formula, the comparatio adjustment would set the Fund-wide merit budget at 4.0 percent. The necessary resources for merit pay have been provided in the FY 2008 administrative budget.

IV. KEY FINDINGS OF THE A1–A8 STUDY

Background

21. **Development of a comparator market for A1–A8 salaries is well advanced.** As part of the ECBR, the Executive Board indicated that, subject to the development of an appropriate information base, and beginning with the 2007 compensation review, the level of, and adjustments to, the salary structure for grades A1–A8 would be derived from comparator-based reviews in a market consisting of employees with the requisite skills and qualifications in the Washington-Baltimore metropolitan area.¹² As noted in the Introduction of this paper, issues identified during the second phase of the study argue for postponing until 2008 the introduction of a payline derived from that market pending further study and consultation.

22. **The first phase of the study has been completed.** The results of the first phase study were reported to the Executive Board in January 2007.¹³ At that time, the Board agreed that the second phase of the study should proceed; this involved data collection and analysis on the basis of two parameters:

- **First, the local comparator market was defined broadly.** The comparator market consists of two main sectors: (i) general industry, comprising mainly private sector employers; and (ii) international organizations and embassies. The weight of each

¹¹ Such was the case in 2001, when a surge in appointments driven by the conversion to staff of a large number of contractual positions sharply lowered the comparatio, and would have resulted in an artificially large comparatio adjustment and merit budget. At that time, the Board decided to allow the comparatio to remain below 100 for an extended period in recognition of this large and unintended impact of the conversion exercise.

¹² EBAP/06/38 (3/31/06), paragraph 47. The study is being conducted by a working group of senior staff.

¹³ *Development of the A1–A8 Comparator Market* (EBAP/07/5, Rev. 1, 1/16/07).

sector broadly reflects the sourcing of new A1–A8 staff in recent years: 65 percent from general industry and 35 percent from international organizations and embassies.

- **Second, market data sources were identified for each sector.** For general industry, six published surveys were identified as potential sources of relevant data. These include both local surveys and national surveys with specific data on the Washington-Baltimore metropolitan area. For international organizations and embassies, a custom survey was necessary, because published surveys do not cover these employers. A total of four international organizations and ten embassies agreed to participate in the custom survey.¹⁴

23. **The preliminary data are presented in this paper in several ways.** The large amount of data included in the general industry surveys allow illustrative salary pitches (e.g., average and the 75th and 90th percentiles) to be reported.¹⁵ For international organizations and embassies, only average salary levels can be determined and reported, reflecting in part confidentiality considerations stemming from the small number of participants in the custom survey. That said, for international organizations, average salaries could be considered the appropriate benchmark for the Fund, as these organizations can be viewed as peers, their staffs share many of the same characteristics, and they generally position their salary structures above the average for general industry.¹⁶

24. **General industry data were also considered using the average plus a premium.** Data for A1–A8 salaries at higher pitches (e.g., 75th and 90th percentiles) tend to be less stable over time than data at the average level, and it is common practice for companies to target average market levels for their support staff. Use of the average plus a premium rather than a percentile to evaluate market pitch therefore provides an additional safeguard against data volatility. As noted above, salary data for international organizations already reflect a

¹⁴ The four participating international organizations are the Inter-American Development Bank (IDB), the Organization of American States (OAS), the Pan American Health Organization (PAHO), and the World Bank. Eighteen embassies were invited to participate in the custom survey, ten of which agreed to participate.

¹⁵ It is a common practice in the market to calculate percentile statistics in order to determine the relationship between an organization and its chosen comparator market. Historically, the Fund's testing range for the market pitch to which it relates its A3–A7 salaries has been the 75th and the 90th percentiles for selected firms in the private sector office secretarial market in the Washington-Baltimore metropolitan area.

¹⁶ The World Bank has developed a salary structure derived from comparable jobs in selected firms in the Washington D.C. private sector, and pitch salaries to the 75th percentile of this market. The IDB has historically used the Fund and the World Bank compensation systems as the primary comparator market to determine movements in its salary structure, which implies a pitch above the average. The United Nations support staff based in Washington (PAHO) are paid on a local basis; salaries are established through salary surveys conducted by the United Nations and certain agencies of the UN common system. The OAS has a smaller support staff than the World Bank and the IDB, and uses the UN compensation system and salary scales.

premium relative to general industry. Accordingly, when aggregating data for these two sectors on an average plus premium basis, the average was used for international organizations and average plus 15 percent was used for general industry. This approach helps to ensure that comparisons across sectors are based on a broadly consistent pitch.

25. **The point of reference for the Fund is its payline, not actual salaries.** In all cases, the market data are compared with the 2006 Fund payline—that is, the A1–A8 salary range midpoints established on May 1, 2006. The results are reported as the weighted average percentages of the Fund payline (with weighting based on the grade distribution of staff) over (under) the indicated reference point in the market.

Key Findings

26. **The Fund payline for A1–A8 staff consistently exceeds the market.** Table 3 shows these results under several scenarios, based on different market pitches and sector weights. Relative to the market average, the Fund payline is above market by about 20 percent. With respect to other market benchmarks, the Fund’s payline is about 15 percent above the 75th percentile, 5–7 percent above the 90th percentile, and about 10 percent above the average plus a 15 percent premium.

Table 3. A1–A8 Payline Over Comparator Market Benchmarks
(In percent)

General Industry (GI) International Organizations (IO) Embassies (E)	Pitch Level			
	Average	P75	P90	Average +15%
	Average	Average	Average	Average
	Average	Average	Average	Average +15%
GI at 65 percent and IO/E at 35 percent	22.5	15.6	7.3	9.9
GI at 75 percent and IO at 25 percent	22.4	14.5	5.2	10.4
GI at 65 percent and IO at 35 percent	20.7	14.0	5.9	10.4

27. **The data indicate that Fund pay is above the market average for all sectors.** Fund salaries are above corresponding average salaries in general industry and the international organizations/embassies by 26.8 percent and 15.4 percent, respectively (Table 4). Reflecting the higher pitch of their paylines, the difference between the Fund payline and salaries of international organizations viewed on their own is a more modest 10.8 percent.

Table 4. A1–A8 Payline Over Each Market Average
(In percent)

General Industry	International Organizations and Embassies	International Organizations	Embassies
26.8	15.4	10.8	23.2

28. **Fund pay exceeds general industry at higher pitches as well.** When the salary structure for grades A1–A8 is compared to higher pitches for general industry, there is still a margin above the market—for example, the Fund payline is 15.8 percent above the 75th percentile and 3.5 percent above the 90th percentile (Table 5). The data indicate that the average for general industry plus a 15 percent premium lies between the 75th and 90th percentiles.

Table 5. A1–A8 Payline Over General Industry at Various Pitches
(In percent)

Average	P75	P90	Average + 15 percent
26.8	15.8	3.5	10.3

29. **The market data are robust across multiple dimensions.** The Fund payline is above the payline for every sector, and the aggregate results relative to the average and to the higher pitches are consistent, irrespective of the weights attached to each sector. This suggests that the choice of weights in establishing an aggregate comparator market may not be of great concern. In addition, the results of the general industry survey limited to large employers were essentially identical to those stemming from broader surveys including employers of all sizes. In particular, the Fund payline is 26.9 percent above the average for large employers and, as noted above, 26.8 percent above the average for all employers.¹⁷

30. **Embassy data have little impact on the results and raise data quality issues.** Based on recruitment patterns, embassy salary data have only a small weight in the aggregate comparator market. Moreover, the quality of embassy data is generally poor; for example, only about half of the benchmark jobs in the Fund could be matched accurately to embassy data, compared to 75 percent for international organizations. Given the low participation rate (10 of 18 embassies) and poor data quality, embassies could be dropped from the comparator

¹⁷ The survey data were broken down by companies in the Washington-Baltimore metropolitan area with no less than 1,500 employees or annual revenue over \$500 million.

market and their weight reallocated to general industry or international organizations, as illustrated in the market constructions in Table 3.

31. **The data reveal divergent market pay practices for occupational groups.** While the data indicate that the Fund's A1–A8 payline provides a large premium over the market average for office assistance staff, the same is not as true for other support staff in grades A1–A8. Table 6 indicates the magnitude of the differences.

Table 6. A1–A8 Payline Over (Under) Market by Broad Occupational Group
(In percent)

		Average	P75	P90	Average +15 Percent
General industry	Office assistance	36.0	23.8	11.7	18.3
	Other support	15.4	6.0	(6.7)	0.4
International organizations	Office assistance	11.9	N/A	N/A	N/A
	Other support	8.8	N/A	N/A	N/A

Work program for 2007 and 2008

32. **The immediate priority centers on the occupational differences in market pay.** In the coming year, to bring the A1–A8 study to completion, the work program will examine the major occupational groups within A1–A8 (e.g., office assistance, accounting, human resources, information technology). This examination will entail decomposition of market data, analysis of market competitiveness, and evaluation and possible reclassification of Fund grading relative to the market. The results will be coordinated with the ongoing work arising from the study of functional paylines, which aims to engender greater market alignment and flexibility within the compensation system.

33. **Technical issues also need to be examined carefully.** Issues to be considered further in developing an appropriate A1–A8 market and Fund payline include: (a) the tax rates to be applied in netting down the gross pay of comparators,¹⁸ and (b) the salary progression from A8 to A9.¹⁹

¹⁸ The market data for A1–A8 salaries have traditionally been netted down on the basis of tax rates for single taxpayers with no children. However, based on an analysis of current demographic data, the market data reported in this paper have been netted down on the basis of tax rates for married taxpayers, filing jointly, with two children—that is, the same rates used in netting down salaries for A9–B2 staff—resulting in an A1–A8 payline that is somewhat higher than would be the case using tax rates for single taxpayers with no children. The possibility of a change in the tax formula along these lines will be taken up together with a decision on the new A1–A8 payline in 2008.

¹⁹ At present, the difference between the midpoints of most grades is 12–15 percent. This pace of progression is intended to ensure a reasonable relationship between the growth in salaries and responsibilities at each grade. The difference between the A8 and A9 midpoints is currently less than 2 percent, owing in part to the lowering of the A9–A13 payline as part of the 2006 compensation review.

DRAFT DECISION

It is recommended that the Executive Board approve the following draft decision:

- a. With respect to the 2007 compensation exercise, the salary structure for Grades A1–A8 shall be adjusted on the same basis as the salary structure for Grades A9–B5.
- b. The salary structure for Grades A1–B5 shall be increased by 3.3 percent with effect from May 1, 2007, as indicated in the salary ranges provided in the Attachment.
- c. The Executive Board approves the proposals regarding the determination of the merit pay budget set out in paragraphs 12–13 of EBAP/07/[XX].

Attachment: Proposed Salary Structure, May 1, 2007
(In U.S. Dollars)

Grade	Minimum	Midpoint	Maximum
A1	25,940	32,430	38,920
A2	29,040	36,300	43,560
A3	32,510	40,640	48,770
A4	36,420	45,530	54,640
A5	40,830	51,040	61,250
A6	45,660	57,080	68,500
A7	51,180	63,980	76,780
A8	57,340	71,680	86,020
A9	58,340	72,930	87,520
A10	66,940	83,670	100,400
A11	76,380	95,480	114,580
A12	87,680	109,600	131,520
A13	99,910	124,890	149,870
A14	116,190	145,240	174,290
A15/B1	132,300	165,380	198,460
B2	154,570	189,350	224,130
B3	183,630	211,180	238,730
B4	211,470	240,760	270,050
B5	246,020	277,270	308,520