EBAP/07/137

August 31, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Issues Note on A1–A8 Compensation**

The attached note on A1-A8 compensation provides background for an informal meeting of the Executive Board on **Wednesday, September 5, 2007**. Issues for discussion appear on page 4.

Questions may be referred to Mr. Ebrill (ext. 37893) and Ms. Brookbank (ext. 36764) in HRD.

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

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Issues Note for Executive Directors
A1–A8 Compensation

This note lays out issues relating to the compensation of A1–A8 staff as background for an informal discussion with Executive Directors on September 5. Board guidance is being sought on emerging proposals. On the basis of the informal discussion, staff will prepare a formal paper for consideration by the Board by end-September—in line with Executive Directors' request that this matter be addressed expeditiously.

Background

In approving a broad set of changes to the Fund's compensation system during the ECBR in 2006, the Board called for a realignment of the A1–A8 payline in order to bring it closer to market comparators. (The payline for A9–B2 staff was also realigned as part of the ECBR, resulting in a lower payline for A9–A13 staff.) The Board requested that proposals be presented as part of the 2007 compensation review. After reviewing the initial results of this work last April, a Board decision on this issue was deferred to allow further technical analysis and consultation to take place. During the 2007 compensation discussion, the Board again made it clear that it wished to see action on this matter soon.

The technical work has now been completed. In addition, Management and HRD have had extensive consultations with the SAC and its working group of A1–A8 staff. Management now considers that the technical work provides the basis on which the Board can proceed to a decision in a manner that better aligns A1–A8 salaries with the market and, at the same time, recognizes the high quality of the Fund's support staff. The proposals outlined below would also put in place a compensation system that is more transparent and rational.

It should be noted that no A1–A8 staff member's salary would be reduced or frozen, and A1–A8 salaries would continue to grow. Furthermore, expatriate benefits for A1–A8 staff would remain intact, and reduction in other benefits is not under consideration.

Beyond the prospective changes to their compensation, broader A1–A8 concerns about career prospects at the Fund will be taken into account explicitly by the ongoing Working Group on Enhancing Career Development.

Technical analysis

Over the past months, HRD has been engaged in the technical analysis of comparator markets. Comparator markets are commonly defined by the industries and geographic locations from which an organization hires employees, as well as where employees might go to work if they leave the organization. For the comparator study, market data for a wide variety of jobs were obtained through: (1) six compensation surveys of the local market (primarily private sector) and (2) development of a custom survey of international organizations and embassy practices. Fund and market jobs were "matched" based on job content (core responsibilities).

The job matching process undertaken far exceeds industry best practice. The process was overseen by a working group of senior personnel managers, with support from HRD. An independent firm conducted the initial round of matching Fund and survey positions. In addition, internal Fund consultations were conducted to review job content and specific attributes of Fund positions, and to match them with the appropriate survey jobs.[1]

Two broad conclusions can be drawn from the comparator study. First, the A1–A8 payline exceeds the market under a broad range of assumptions, including when assuming high pitches (levels) for Fund staff. Second, market pay practices among occupational groups diverge sharply. Thus, while the Fund payline significantly exceeds the market for office assistance positions, this may not be the case for other occupational groups.[2]

With respect to office assistance staff, the payline is 29 percent higher than the market from which the Fund hires A1–A8 staff (see Table 1, page 5). This group's payline continues to remain significantly above market even when a higher pitch is considered. For other support staff, the payline is 13.7 percent higher than the market for these occupational groups. The misalignment with the market is reduced at higher pitches.

Key points for consideration

The challenge facing the Fund is to better align the A1–A8 payline with the market, thereby making for a more rational compensation system (in line with the ECBR); and, at the same time, ensure that the system recognizes the high quality and caliber of our A1–A8 staff and provides strong protection for existing staff. In this context, three key issues need to be addressed:

(a) How to take account of the difference within the A1–A8 group between office assistance staff and other specialized staff. The data indicate that office assistance positions (Administrative Assistants) are paid at a significant premium over the market whereas Assistants in other specialized groups (e.g., accounting, budgeting, human resources, IT, etc.) are paid closer to the market for those categories of work. This suggests the need for two A1–A8 paylines—one for office assistance and one for other support staff. Under this

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[1] More information on the comparator study is available in *HR Connect*, including recent Board papers and a fact sheet (click on *Your Workplace > Task Forces/Working Groups > A1–A8 Comparator Market*).

[2] There are about 660 staff in grades A1–A8. Office Assistants comprise about 414 staff (63 percent) while there are about 246 staff (37 percent) in other support staff positions (e.g., Accounting, EXR, FIN, HR, IT, Language Services, and Research).

type of approach, the resulting paylines would be adjusted to align each to their respective markets—as was done with the A9–B2 payline under the ECBR.

(b) How to set the appropriate market pitch for the A1–A8 payline. Most firms in the private sector pitch salaries for support staff against the 50^{th} percentile of the local market. International organizations, however, typically pitch the payline for support staff at a higher level. The Fund's practice has been to derive the A1–A8 payline by downward extrapolation from the payline for A9–B2 staff—which is itself pitched around the 75^{th} percentile.

(c) How to take account of the impact of payline realignment on existing staff. Realignment of the A1–A8 payline to their respective comparator markets would reduce the A1–A8 salary structure for both groups. While actual salaries will not be reduced, some staff will experience lower future salary growth, as their salaries move to a higher segment within the salary range for their grade or to a level above the reduced range maximum. With lower salary growth, pension growth will also slow.

Emerging proposals

Taking the issues described above into account, emerging proposals are as follows:

- First, **two paylines for A1–A8 staff**, one for office assistants and one for other specialized staff—reflecting the substantial differences in market pay for the two groups, as indicated by the data. The alternative to this, a uniform A1–A8 payline, would leave most salaries well out of alignment with the market and a regrading exercise would be required to minimize these differences. Management does not recommend this alternative since it would entail a downgrading of a significant portion of staff, who make a valuable contribution to the institution.

- Second, a **significant A1–A8 salary premium** over the market average. A premium of 15 percent over the market average would be merited given the high quality and commitment of the Fund's A1–A8 staff. Pitching the A1–A8 payline at the market average plus a 15 percent quality premium would place the payline above the 75^{th} percentile of the comparator market. Management supports this higher pitch.

- Third, **generous transitional arrangements** for the staff affected by the payline adjustment—considerably more than the two years that was the basis for the adjustment for A9–A13 staff under the ECBR. Management would support a 6-year transitional period. This is merited because even with a higher pitch a number of staff (estimated to be 160 assuming a pitch equal to average plus 15 percent) would have salaries above the reduced maximum of their salary range. For this reason, generous transitional arrangements are warranted. Among other things, this will provide scope for greater recognition of performance through merit increases, mitigate the negative impact of the payline reduction for a large number of office assistance staff, and help to cushion the negative pension effects of the adjustment for the significant number of A1–A8 staff who will become eligible for retirement over the next several years (Table 3).

There would be no cost savings during the transitional period other than the impact of lower entry level salaries for new hires. After the transition period, staff whose salaries remain above the salary range maximum would be eligible to receive no more than one half of the increase in the salary structure. The resulting savings would be small. For example, assuming a structure increase of 4 percent, staff whose salaries are above the maximum would be eligible for a merit increase of about 2 percent. With the salaries of these staff estimated at some $11 million, the merit budget would be some $220,000 smaller. Table 2 shows what would have been the distribution of staff and their salaries before and after implementation of two paylines with a pitch at average plus 15 percent.

Issues for discussion

Management is seeking Executive Directors guidance on the following issues:

1) **Do Directors agree that it is important that the objective of realigning the A1–A8 payline with the market needs to be balanced with the objective of recognizing the high quality of the Fund's A1–A8 staff?**

2) **Do Directors consider it appropriate to establish two paylines for A1–A8 staff—one for office assistants and the other for specialized staff?**

3) **Do Directors agree that staff should be paid a significant salary premium—say 15 percent above market average?**

4) **Do Directors agree that we should put in place generous transition arrangements for A1–A8 staff—say six years?**

5) **Do Directors agree that there is sufficient basis for moving forward now along the lines described in this note?**

Table 1. Fund Payline Over Market Salaries By Pitch and Occupational Group[1/]
(In Percent)

		Average	75th Percentile	90th Percentile	Average + 15 Percent
General Industry (GI)	Office assistance	36.0	23.8	11.7	18.3
	Other support	15.4	6.0	-6.7	0.4
International Organizations (IO)	Office assistance	11.9	N/A	N/A	N/A
	Other support	8.8	N/A	N/A	N/A
Combined market (75 percent GI and 25 percent IO)					
	Office assistance	29.0	20.5	11.6	16.5
	Other support	13.7	6.6	-3.2	2.3

1/ For IO, the average was used for all pitches as IO data already reflects a premium over the market.

Table 2. Impact on Salary Placement

Staff and Salaries	Segment 1	Segment 2	Segment 3	Over Max	Total
Current (as of 4/30/2007)					
Number of staff	62	514	84	na	660
Salaries in Segment (in $000)	2,827	29,906	6,173	na	38,906
Market at average +15 (2 paylines)					
Number of staff	13	330	157	160	660
Salaries in Segment (in $000)	704	18,191	9,069	10,942	38,906

Table 3 : Current A1–A8 Staff Eligible for an Immediate Pension under the Staff Retirement Plan (SRP)

Eligibility 1/	Year 2/							
	2007	2008	2009	2010	2011	2012	2013	2014
<u>Eligible for a Rule</u>								
Rule of 75	31	25	22	22	25	32	37	37
Rule of 85	13	18	24	38	42	47	49	47
<u>Not Eligible for a Rule</u>								
Age 62 to 65	17	20	32	33	50	52	62	58
Age 55 to 62	105	113	112	111	105	99	102	108
Total Eligible to Retire	**166**	**176**	**190**	**204**	**222**	**230**	**250**	**250**
Total Non Eligible to Retire	494	482	464	441	416	392	362	338
Over 65 years old 3/	0	2	6	15	22	38	48	72
Total Staff	660	660	660	660	660	660	660	660

1/ The SRP's normal retirement age is 62. Early retirement is possible between the ages of 55 and 62 with a reduction for early payment. If age plus service totals 85 or more (Rule of 85), there is no reduction for early payment. Staff may also retire between ages 50 and 55 if the sum of their age and years of service totals at least 75 (Rule of 75); in this case the early retirement penalty is larger reflecting their earlier payment age.
2/ The projected date is as of 4/30 of each denominated year except in 2007, where the calculation has been made as of 8/30.
3/ The mandatory retirement age is 65.