FOR AGENDA

EBAP/11/20

CONFIDENTIAL

March 21, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **2011 Review of Staff Compensation**

Attached for consideration by the Executive Directors is a paper on the 2011 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 5.

It is not intended that this paper will be published on the Fund's external website.

Questions may be referred to Mr. Clarke (ext. 34086) 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

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

2011 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 Shirley Siegel

March 21, 2011

Contents Page

I. Introduction

1. **This paper proposes a 1.5 percent increase in the Fund's salary structure.** The proposal is based on the indexation formula applicable in interim years of the compensation cycle approved by the Executive Board in April 2006 (Box 1).[1]

2. **The proposal reflects recent changes to the Fund's salary system.**[2] One of the changes approved by the Executive Board was to disaggregate the combined overall pay increase under the previous system into a structure adjustment and a merit increase under the new system. This paper addresses the structure adjustment only.

3. **The remainder of the paper is organized as follows.** Section II presents the results of the indexation formula for 2011, which determines the increase in the salary structure for Grade A1–B5. Section III indicates the next steps in administering 2011 salary adjustments in light of the new approach to determine the merit envelope.

Box 1. The Compensation Cycle

The compensation system operates on a three-year cycle. In the first year of the cycle, decisions on staff compensation are based on customized surveys of A1–A8 and A9–B2 salaries in the United States, with the results of the A9–B2 payline tested for international competitiveness against salaries in France and Germany. It is expected that Japan will be considered for inclusion as an international comparator at the next comparator-based review in 2012. Salaries at B3–B5 are set in relation to A9–B2 salaries. In the second and third years of the cycle, the entire A1–B5 salary structure is 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, as in 2011, the entire structure is adjusted uniformly by the percentage indicated by the indexation formula, subject to certain safeguards.

II. Indexation Formula

4. **The indexation formula comprises a private and a public sector index.** 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.[3] The private sector component is the mean percentage change forecast for the current year in the

---

[1] See *Employment, Compensation, and Benefits Review—Proposed Decisions* (EBAP/06/38, 3/31/06).

[2] See *Salary Adjustments and the Budget—A Reform Proposal* (EBAP/11/12, 2/18/11 and Sup. 2, 3/2/11).

[3] The approved salary scale is published on the agency website at www.opm.gov/oca/11tables/html/dcb.asp.

annual WorldatWork Salary Budget Survey for the category of exempt salaried employees.[4] The two components are given equal weight in the indexation formula.

5. **The indexation formula indicates a 1.5 percent increase in the salary structure.** The U.S. Administration has imposed a two-year salary freeze on the civil service beginning 2011. Accordingly, the public sector component for 2011, as reported by the U.S. Office of Personnel Management, is 0 percent. The private sector component for 2011 is 2.9 percent, as reported by WorldatWork. Weighted equally, the combination of the public and private sector salary increases indicates a 1.5 percent increase in the Fund's salary structure, equal across all grades, effective May 1, 2011.

6. **The application of the formula is subject to safeguards**. In adopting the indexation approach during interim years, 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, the system provides for the possibility that 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.

7. **No safeguard adjustments are proposed for the 2011 compensation review**. On salary developments, there is no compelling evidence to suggest that the 1.5 percent salary increase indicated by the indexation formula is unrepresentative in a material way of general salary trends in the U.S. With respect to U.S. tax policy, the effective tax rates applicable to the Fund's comparator market for A1–B5 salary ranges have not materially changed relative to their 2010 levels. Moreover, no changes in U.S. tax policy are currently planned that would lead to significant increases in net salaries at the Fund at the time of the next comparator-based review in 2012. Finally, exchange rate developments do not point to

---

[4] Published on the WorldatWork website at http://www.worldatwork.org/waw/Content/onestoptopics/ost-salary-budget-planning.jsp. Under the U.S. labor framework, exempt salaried employees are defined as those who receive a fixed salary but who are ineligible for overtime pay.

significant competitiveness problems. Annex I presents an analysis of the Fund's competitiveness relative to its international comparator markets using the methodology that is applied at the time of the full comparator-based review.

8. **Recruitment and retention experience in 2010 has been favorable.**[5] Recruitment during the year continued at the high pace of the recent past associated with the financial crisis. In terms of skills, the Fund recruited a higher proportion of mid-career economists with policy or financial sector experience, and with fiscal and debt policy skills. The Fund also made progress in improving gender and national diversity, most significantly through the diversity of staff in the Economist Program, although challenges remain in certain underrepresented regions and market segments.[6] Finally, with an increase in the proportion of staff hired into limited-term appointments in 2010, the Fund will have increased flexibility to adapt its workforce in the years ahead.

III. Next Steps in Administering Salary Adjustments

9. **It is proposed that the salary structure be increased by 1.5 percent.** The 1.5 percent increase indicated by the indexation formula would be applied uniformly to the salary range midpoints for Grades A1–B5, as shown in Attachment I, and would be distributed to staff on the basis of position in the salary range with effect from May 1, 2011.[7]

10. **The proposed structure adjustment has been included in the proposal for the FY2012–14 Medium-Term Budget, along with the 0.5 percent allocation for skill upgrades recently approved by the Executive Board.[8]** The merit increase is budget neutral by design, as it is based on the dollar amount generated by salary erosion over the course of the year; it will be distributed to eligible staff on July 1, 2001, based on end-April 2011 data, in accordance with the rules of the new system. Details will be provided in the FY2011 administrative budget outturn paper.[9]

---

[5] Annex II summarizes the Fund's recruitment and retention experience in 2010.

[6] See the upcoming 2010 Diversity Annual Report.

[7] Staff whose performance is unsatisfactory do not receive a structure increase or a merit increase.

[8] See *Salary Adjustments and the Budget—A Reform Proposal* (EBAP/11/12, 2/18/11 and Sup. 2, 3/2/11).

[9] This paper will be prepared and issued for the information of the Executive Board after the closing of the FY2011 financial books.

DRAFT DECISION

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

With respect to the 2011 compensation exercise, the salary structure for Grades A1–B5 shall be increased by 1.5 percent with effect from May 1, 2011, as indicated in the salary ranges provided in Attachment I.

ANNEX I

Real Exchange Rate Movements and Fund Competitiveness

1. **The appreciation of the U.S. dollar *vis-à-vis* the euro outweighed the decline in U.S. purchasing power relative to France and Germany during the reference period.**[10] As illustrated in Table 1, an increase in U.S. real purchasing power relative to France (by 0.7 percent) combined with no change relative to Germany led to an average increase of 0.3 percent.

Table 1. Euro/Dollar and Comparator Market Purchasing Power Parity (PPP) Movements 1/

		France		Germany		France and Germany 2/	
	Euro/$	PPP	Euro/$ and PPP Avg	PPP	Euro/$ and PPP Avg	PPP	Euro/$ and PPP Avg
Nov. 2008–Oct. 2009	0.7335	0.8788	0.8062	0.8204	0.7770	0.8496	0.7916
Nov. 2009–Oct. 2010	0.7439	0.8802	0.8120	0.8093	0.7766	0.8447	0.7943
Change (percent)	1.4	0.2	**0.7**	-1.4	**0.0**	-0.6	**0.3**

1/ Figures reflect restatement of CPI and PPP figures; without restatement, the average Euro/Dollar and PPP change for France and Germany would have been -1.7 percent.

2/ France and Germany are weighted equally.

2. **The competitiveness of the Fund's payline relative to the international comparators increased slightly during the year**. In particular, using current purchasing power parities and the reference period and exchange rate definition embodied in the international test, the Fund's payline over the combined payline of France and Germany increased by 0.6 percent to 12.3 percent. As the measure of competitiveness is within the 10–20 percent testing range, no adjustment of the Fund payline for international competitiveness is warranted.

[10] Under the methodology outlined in *Employment, Compensation, and Benefits Review* (EBAP/06/38, 3/31/06), the period average exchange rate over the 12-month reference period (November–October) is compared to the 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 rates for France and Germany.

Table 2. Fund Payline Relative to the French/German Comparator Market 1/ 2/
(in percent)

Grade	2009	2010 (EBAP/10/24)	2010 (Revised) 3/	2011
A9	1.7	6.0	3.8	4.3
A10	5.0	9.6	7.2	7.8
A11	11.8	16.6	14.2	14.8
A12	3.6	8.1	5.8	6.4
A13	11.5	16.3	13.9	14.5
A14	13.3	18.3	15.8	16.5
A15/B1	10.5	15.3	12.9	13.6
B2	-1.4	2.8	0.6	1.2
Total staff				
Staff weighted average	9.3	14.1	11.7	12.3

1/ Based on the 2009 staff count and 2009 tax tables with French and German markets weighted equally.

2/ Figures for all years except 2009 consider only the exchange rate effect, absent a review of market compensation levels.

3/ Revisions reflect routine revisions of data underlying real exchange rate calculations.

ANNEX II

Recruitment and Retention in 2010: Key Developments and Challenges

A. Key Developments

3. **The pace of recruitment remained high in CY2010, following the record hiring year in CY2009.** Reflecting the global financial crisis and the Fund's downsizing exercise in 2008, the Fund hired 195 staff and 467 contractual employees in 2010, while 126 staff separated (Figure 1). Although staff hiring was not as intense as in 2009, it was above the previous average of 150 hires per year,[11] bringing the total number of staff at end-2010 to 2,421, and reversing the steady decline in head count for five consecutive years (Table 3). A total of 117 economists joined the staff—10 at the B-level, 76 mid career economists, and 31 EPs. The Fund also hired 49 professionals in the specialized career streams, including 6 at the B-level, and 29 support staff. While all professional career streams showed above-average hiring, the principal segments contributing to the volume were among experienced and senior-level economists; the inflow of new economists added close to 10 percent to the economist stock at end-2010. In addition, reflecting in part a higher level of technical assistance funding, the Fund doubled the recruitment of long-term professionals, many with specialized skills.

4. **The Fund increased the use of limited-term appointments in CY2010.** Moving in the direction of more flexible employment, partly in response to crisis-related staffing needs, 42 percent of new staff were hired on a limited–term basis (up from 14 percent in 2005), while the rest was recruited largely on fixed-term appointments (Figure 2). This shorter-term appointment type should help reduce the overall staffing level as the crisis unwinds, which together with natural attrition of about 6 percent per year should provide the Fund with more flexibility to adjust its workforce in the years ahead.

5. **The Fund made progress toward achieving a different skills mix and diversity**. The Fund recruited a higher proportion of mid-career economists with substantial policy experience (72 percent in 2010, up from 59 percent in 2005). Of the 76 mid career economists recruited, slightly less than half were hired at the A14 level. Two-thirds were hired in functional departments, where FAD, MCM and SPR were the principal departments hiring from the external market. In addition, to meet evolving business needs, the Fund hired 24 individuals with financial sector experience and 15 with fiscal and debt policy skills, doubling the number of hires with specialized skills in recent years.

6. **Increased and focused recruitment efforts have help improved diversity, although competitiveness can be an issue in certain underrepresented regions and**

---

[11] Covers 2005 to 2007, excludes 2008 (hiring freeze) and 2009 (global crisis).

market segments. Good progress has been made in further improving staff diversity.[12] The EP continues to be the recruitment vehicle with the strongest diversity results (for 2011, about 70 percent were from underrepresented regions, and more than half were women). Recruitment from East Asia has also generally improved in 2010 and continues to look promising in early 2011. But challenges remain especially in the Middle East and certain market segments. The Fund is generally less competitive in its ability to attract top diverse talents who are highly sought-after globally. This is particularly the case in the Middle East where top talents can attract multiple offers in the region and elsewhere.

7. **The Fund has remained an attractive career choice in CY2010**. With the Fund returning to the center of global crisis management in 2009, and relatively weak demand from academia and other financial institutions, the Fund has been relatively competitive. Rejection rates among both the EP and the mid-career economists were low (24 percent in the EP, down from an average of over 30 percent; and 5 percent among mid-career, down from 13 percent). The Fund's compensation terms were also broadly competitive. The EP salary range of $100,250–$109,270 (net) compared favorably with the estimated average offer among the top 30 academic institutions in the U.S. (broadly equivalent to about $95,360 net),[13] and, at the top of the EP salary range, was in line with the Federal Reserve Board where the comparable salary offer was about $109,000 (net).

B. Looking Ahead

8. **The significant volume of external recruitment over CY2009-10 can lead to challenges in other areas of human resource management.** In the past two years, the Fund has hired 476 new staff and 439 long-term contractual appointments (average 130 per year during the period 2005-2007). Despite recruitment efforts to ensure high quality and fit—and a new onboarding program to help new staff integrate into the Fund—the sheer volume has placed an unprecedented burden on people management in departments—to manage new staff, coach and mentor them, and monitor work assignments. In addition, experienced staff carry a heavier workload until new staff are fully integrated.

9. **With the uncertainty of the duration of the crisis, the use of flexible appointments could give rise to unrealized staff expectations.** As the crisis work persists, departments would like to retain their shorter-term hires on a more permanent basis, and those recruited on limited-term appointments are likely to expect more permanent arrangements. Furthermore, the use of limited-term appointments can affect the Fund's ability to attract top-quality talent globally, especially when the economy rebounds and demands from the Fund's traditional competitors increase. Improved workforce planning

---

[12] General issues and challenges in diversity are addressed separately in the upcoming Diversity Annual Report 2010.

[13] *The Survey of Labor Market for New PhD Hires in Economics, 2011-2012*, University of Arkansas.

Fund-wide and in departments, will be important to manage these challenges and for the hiring strategy going forward.

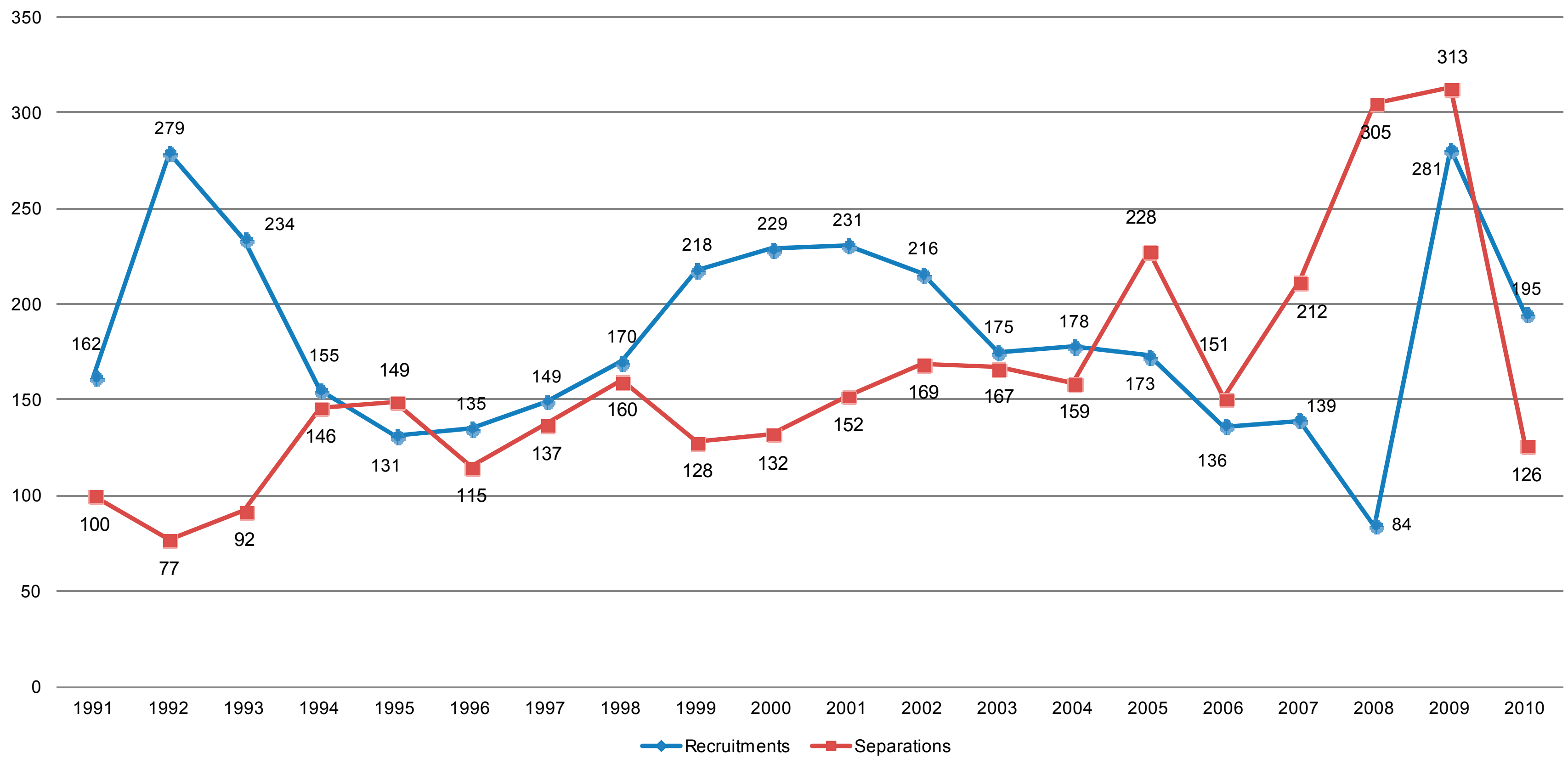
Table 3. Main Indicators of Recruitment and Retention, CY 2005–2010
(In numbers of staff, unless otherwise indicated)

	2005–2007 (average)	2005	2006	2007	2008	2009	2010
Total Fund staff (end of year) 1/	**2,659**	**2,693**	**2,678**	**2,605**	**2,384**	**2,352**	**2,421**
Economists	1,309	1,317	1,311	1,298	1,219	1,249	1,305
Other career streams	1,350	1,376	1,367	1,307	1,165	1,103	1,116
External Recruitment 1/	**149**	**173**	**136**	**139**	**84**	**281**	**195**
Grade B1–B5	8	3	11	10	11	9	16
Economists	5	3	3	8	9	5	10
Other career streams	3	0	8	2	2	4	6
Grades A9–A15	103	122	95	93	52	205	150
Economists	74	89	67	66	40	151	107
Economist program (EPs)	28	36	26	21	20	43	31 6/
Mid-career	46	53	41	45	20	108	76
Other career streams	29	33	28	27	12	54	43
Grades A1–A8	38	48	30	36	21	67	29
Economist Program							
Participants (end of year)	60	70	62	47	40	82	94
Rejection rate (percent of offers)	(31)	(29)	(37)	(28)	(39)	(27)	(24)
Total contractual	**445**	**466**	**432**	**436**	**392**	**522**	**467**
Professional	336	344	338	325	290	336	347
of which : Long-term	58	52	49	74	57	99	110
Support	109	122	94	111	102	186	120
of which : Long-term	72	73	61	81	59	140	90
Separation of staff 1/2/	**197**	**228**	**151**	**212**	**305**	**313**	**126**
Retirements	43	52	35	43	8	22	20
Resignations	63	63	54	71	60	34	27
Other 3/	46	60	57	22	17	31	20
Voluntary separations 4/	0	0	0	0	187	220	58
Other SBF 5/	45	53	5	76	33	6	1
By grade:							
Grades A9–B5	149	171	111	165	223	199	96
Voluntary separations 5/	0	0	0	0	113	134	39
Grades A1–A8	48	57	40	47	82	114	30
Voluntary separations 5/	0	0	0	0	76	99	18
By career stream (Grades A9–B5):							
Economists	84	98	72	81	136	141	59
SCS	65	73	39	84	87	58	37
Turnover rate (in percent)							
Grades A1–B5	(7)	(7)	(6)	(8)	(12)	(13)	(5)
Grades A9–B5	(8)	(9)	(7)	(8)	(12)	(11)	(5)
Grades A1–A8	(7)	(8)	(6)	(7)	(14)	(23)	(6)

Source: Recruitment and Staffing Division, HRD.

1/ Excludes the Offices of the Executive Directors (OED) and the Independent Evaluation Office (IEO).
2/ Historical separation data have been revised for consistency.
3/ Includes deaths, expirations of appointment, and separations to IEO and OED staff.
4/ Voluntary separations under 2008 restructuring exercise.
5/ Separations with support from the Separation Benefits Fund (SBF).
6/ 1 EP was hired internally.

Figure 1. Recruitment & Retention: CY 1991-2010



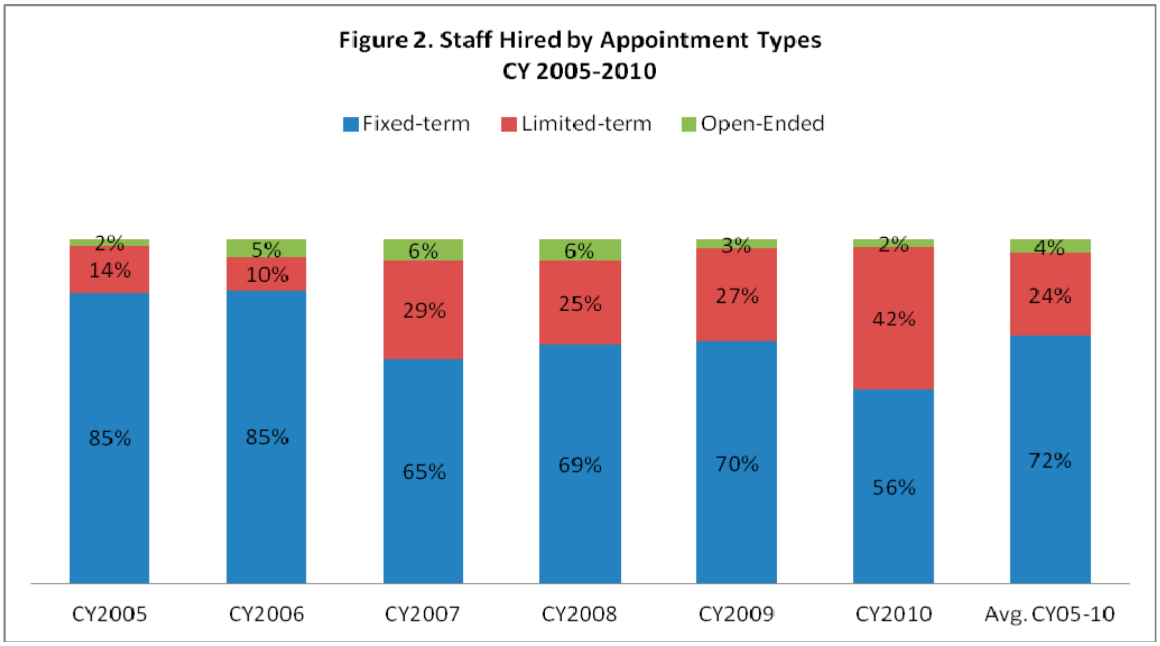


Figure 2. Staff Hired by Appointment Types
CY 2005-2010
Fixed-term
Limited-term
Open-Ended
2%
14%
85%
5%
10%
85%
6%
29%
65%
6%
25%
69%
3%
27%
70%
2%
42%
56%
4%
24%
72%
CY2005
CY2006
CY2007
CY2008
CY2009
CY2010
Avg. CY05-10

ATTACHMENT I

May 1, 2011 Salary Structure
(in U.S. dollars)

Grade	Minimum	Midpoint	Maximum
A1	28,150	35,190	42,220
A2	31,520	39,380	47,260
A3	35,280	44,100	52,920
A4	39,520	49,400	59,290
A5	44,300	55,380	66,460
A6	49,550	61,950	74,340
A7	55,550	69,430	83,310
A8	62,220	77,780	93,340
A9	64,450	80,560	96,670
A10	74,650	93,320	111,980
A11	85,370	106,710	128,050
A12	97,570	121,950	146,340
A13	111,890	139,870	167,840
A14	133,110	166,390	199,680
A15/B1	150,920	188,650	226,380
B2	177,310	217,200	257,100
B3	210,230	241,760	273,290
B4	242,090	275,620	309,160
B5	281,650	317,430	353,200