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EB/CAP/89/5

October 31, 1989

To: Members of the Committee on Administrative Policies
From: The Committee Secretary
Subject: Eligibility of Staff Members' Dependent Children
for Certain Benefits

There is attached for the consideration of the Committee on Administrative Policies a paper on the eligibility of staff members' dependent children for certain benefits, which will be taken up at a meeting of the Committee scheduled for 11:00 a.m. on Tuesday, November 28, 1989 in Committee Room 12-120.

Mr. Ahl (ext. 8218) is available to answer technical questions relating to this paper prior to the Committee meeting.

Att: (1)

Other Distribution:
Members of the Executive Board

Eligibility of Staff Members'
Dependent Children
For Certain Benefits

Prepared by the Administration Department

Approved by Graeme Rea

October 30, 1989

1. Introduction

One of the most frequent sources of irritation in the benefits area is the determination of the eligibility of children (and sometimes other family members) for some important benefits, namely, home leave, education allowance, medical benefits, education loans, and relocation benefits. Each year determining such eligibility involves a serious administrative effort, in terms of time and staff resources, to deal with the problems that arise, and in a number of difficult cases the Staff Benefits Division has to get involved in some detail with the personal circumstances of staff members. This paper proposes a change in eligibility requirements which, if approved, should be put in place effective January 1, 1990. 1/

The existing rules on eligibility are complex, and they continue to follow the traditional approach, which links eligibility for these important benefits directly to the determination of eligibility under the spouse and dependency allowance policy. This policy, in turn, is an integral part of the determination of compensation, which uses the concept of tax equivalency (i.e., how gross market salaries are netted down to arrive at net Fund salaries). As a result, the rules have had to follow closely the letter of the relevant U.S. federal tax code. This approach may remain appropriate for the dependency allowance policy itself, although the subject is being closely studied to see whether changes might be justified, particularly in respect of the \$1,000 earnings limit on children who are not full-time students. However, the criteria used for taxes hamper efforts to maintain simple and practical eligibility rules for the other benefits mentioned. This present paper, therefore, proposes some simpler and more straightforward rules on the eligibility of

1/ A Staff Bulletin relating to claims for dependency allowance is normally issued in early December and staff members have to submit the relevant forms by February of the following year. If approved, the proposed changes in eligibility should be announced to staff in the bulletin that will be issued this December.

children for these benefits. The proposals do not represent any increase whatsoever in the level of benefits. They may result in a very marginal increase in the number of children receiving certain benefits, but there will certainly be countervailing savings in terms of administrative effort.

2. Background

The eligibility of children for dependency allowance involves a number of criteria. The main test is that the child receives more than half annual support from the staff member. There is also an additional test regarding a child's earnings; if the child is a "full time" student, his or her own earnings are normally irrelevant, but if the child is not a "full-time" student, eligibility is lost if earnings exceed \$1,000 annually, which is clearly far too low an amount to support an independent existence. Moreover, considerable administrative difficulties arise with the concept of "full-time" student status and with what constitutes more than half of annual support. In addition, there are many problems with divorced couples as to which spouse is providing the major share of support. To implement the policy, the Benefits Unit has to go through an elaborate process, requiring specific forms of evidence from staff members, and a good measure of subjective judgment has to be applied regarding matters that are often very personal and sensitive for the staff member. This might involve, for instance, a child's inability to cope with what a school defines as a full course load, or the nature and extent of how a child earns some form of modest income that falls far short of providing financial independence. In cases of divorced couples, questions of support often have to involve the value placed on food and housing.

The Ombudsman has seen these questions of the eligibility of children as one of the major weaknesses in the Fund's existing rules and regulations, and the Administration Department staff and individual staff members have to spend an inordinate amount of time and effort in dealing with controversial cases. Typically, time-consuming inquiries and disputes ultimately lead to findings of eligibility, while some of those who have to be ruled ineligible under the regulations could probably be subjectively regarded as bona fide dependents.

3. Proposed Changes

It is proposed that the Fund break the traditional link between the dependency allowance rules and the rules on eligibility for other benefits in a way that results in simplicity, transparency, and ease of administration. Because of the link with compensation, the dependency allowance criteria will be looked at separately.

The first simplification would be that all natural children of a staff member would be considered automatically eligible for the major benefits listed above as long as they are under 19 years of age. This

change would avoid a number of areas of controversy. The provision of more than half of the child's annual support, the child's income, and student status would play no roles. The simplicity of the rule would avoid the controversies that presently arise, particularly with divorced staff members, concerning periods of residence in the staff member's household and the provision of support. As compared with the present rules, the proposed new rule would probably permit benefits to be paid to a slightly larger number of children than at present, but the administrative effort in implementing the policy will be greatly simplified and controversy will be avoided by the objective nature of the rule.

The second simplification proposed relates to children in the 19 to 23 age bracket, i.e., from their 19th birthday to the day prior to their 24th birthday. This age bracket is the one in which many borderline cases are found. Over this period, children tend to move in and out of dependency status, often taking temporary employment and moving back and forth between "full-time" student, "part-time" student, and non-student status. These changes in status typically give rise to undesirable controversies with respect to such important matters as medical benefits coverage and home leave travel. It is proposed to simplify the eligibility rules in two ways.

(i) Eligibility for the indicated benefits would cease at age 24.

(ii) From the 19th to the 24th birthday, it is proposed that student status play only the most limited role and that the primary basis for eligibility for an unmarried child living with the staff member be based on a ceiling for the child's annual income that would be set at a level sufficiently high to cover the typical part-time earnings of most children. At the same time, the level chosen should be too low to be considered as providing the means for an independent, self-supporting existence. In line with this criterion, it is proposed that the initial level be set at \$7,500, which would be indexed to the Washington Consumer Price Index (CPI). If an unmarried child remains resident in the staff member's home, and the child's income is below \$7,500, it would be reasonable and realistic to regard the staff member as the main provider. If, in the odd case, a child's income were to be above the ceiling, and the staff member still wished to request benefits, acceptable proof of full-time student status and an affirmation of the provision of more than half the child's support would allow continued eligibility. As at present, this situation would probably arise in a few cases involving full-time graduate studies.

Conclusion

It is proposed that Executive Directors approve the changes proposed above in the rules regulating the eligibility of staff members' children for benefits set out in paragraph 1, above. Eligibility for the dependency allowance itself would remain unchanged (GAO NO. 28).

Consultations have been held with the Bank, and it is understood that the proposed approach is supported. It should again be stressed that the proposed changes do not affect the levels of benefits, although they may, on the margin, allow a few more children to be regarded as dependents and thus eligible to receive benefits. However, the resulting simplification will greatly ease the time and effort required to administer the existing rules and will minimize controversial problems with staff.