0411

EB/CAP/92/9

August 19, 1992

To: Members of the Committee on Administrative Policies

From: The Committee Secretary

Subject: The Simplification of Benefits

Attached for consideration by the Committee on Administrative Policies is a paper on the simplification of benefits, which will be taken up at a meeting of the Committee on a date to be announced.

Mr. Cutler (ext. 38207) or Mr. Gehringer (ext. 37046) is available to answer technical or factual questions relating to this paper prior to the Committee meeting.

Att: (1)

Other Distribution:
Members of the Executive Board
Department Heads

INTERNATIONAL MONETARY FUND

The Simplification of Benefits

Prepared by the Administration Department

Approved by Graeme Rea

August 18, 1992

I. Introduction

In EBAP/91/277 (11/21/91) Budgetary Outlook in the Medium Term it was suggested that if the Executive Board were to approve proposals for simplifying the benefits available to staff, there could be savings in the number of staff who administer them. It was agreed that a review would take place in FY 1993 with the primary aim of exploring avenues for simplifying benefits in ways that would reduce the manpower devoted to their administration. In EBAP/92/62 (3/18/92) it was explained that specific proposals for change would be preceded by a paper that would identify "the broad philosophical and procedural changes which will be required in benefits policy (and in Board and staff expectations) if significant change in benefits administration is to be accomplished." This present paper, therefore, discusses the issues of principle that will arise and points to some of the problems of policy and procedure on which the views of members of the Committee on Administrative Policies (CAP) are sought. Specific proposals will be formulated in the light of the initial guidance provided by members of the Committee, and these proposals will be discussed with the SAC, with the Personnel Committee of senior managers, and with the Bank, before they are brought back to the CAP.

The paper is organized as follows. Section II discusses the main considerations that tend to complicate the administration of benefits and the factors that will need to be borne in mind in seeking to simplify them. Section III suggests the directions in which there would be the most scope for simplification. At various points in these two sections, the attention of Committee members is drawn to particular issues on which their views are sought. The final section brings these issues together, thus providing a framework for the Committee's discussion. An Appendix lists, and comments briefly on, those benefits that, for a variety of reasons, are not examined in detail in this paper.

The Administration Department has recently conducted a comprehensive review of the provisions of all Fund benefits with the aim of streamlining and simplifying administrative procedures. As a result, a listing of a wide variety of potential changes has been drawn up, some of which are purely procedural and are being put into effect; some are more substantive but lie within the discretion given to management to implement policies already agreed by the Executive Board; and others will need to be brought to the Executive Board for decision. It is hoped that once this present paper has been discussed by the Committee, it will be possible to draw up a detailed plan on how to proceed.

II. General Principles and Other Considerations that will Affect the Simplification of Benefits

1. The purpose of a benefit

The primary consideration in respect of any benefit has to be its appropriateness in enabling the Fund to recruit an international staff of high professional caliber in a cost-effective way. Some benefits (e.g., the Staff Retirement Plan (SRP), the Medical Benefits Plan, the Group Life Insurance Policy) are aimed at making the Fund broadly competitive with other employers. 1/ Other benefits--for example, home leave--are primarily aimed at facilitating the recruitment of an expatriate staff. Still others--for example, appointment benefits and the tax allowance system for U.S. staff--are required for very specific purposes, and they are principally aimed at reimbursing costs incurred by staff. Although the primary motivation for this present review was to reduce manpower, this aim cannot, of course, be the single criterion on which changes in benefits can be judged. The possible savings of staff positions has to be weighed against any increases in the direct costs of the benefits and against a number of equally important, but less tangible, considerations that are very difficult to quantify; examples are the recruitment of an international staff, the morale of staff, and equity among staff. Moreover, the prime consideration must remain the fulfillment of the purpose a particular benefit is intended to meet in a cost-effective way.

1/ It will be recalled that in accordance with the decisions of the Executive Boards of the Fund and the Bank on the recommendations of the Joint Committee of Executive Directors on Staff Compensation (JCC) a major review of the value of benefits is to be conducted every four years (the "Quadrennial Review"). The focus of that review is whether the value of Fund and Bank benefits measures up to the value of the benefits available in the comparator markets against which Fund and Bank compensation is determined. On the occasion of the last review in 1989, the survey of benefits conducted by outside consultants showed that Fund/Bank benefits were broadly comparable, but marginally lower, than benefits in the comparator markets. The next Quadrennial Review is to take place in 1993. It should be stressed that the review does not cover all benefits, but only those benefits that are generally available to all staff. Expatriate benefits and Spouse and Dependency Allowances are not included in the review.

Simplicity is clearly an important consideration. User-friendly benefits with simple and clear provisions, readily understood by staff, both in their nature and their administration, are obviously desirable. They should be pursued whether or not they give rise to a reduction in manpower. Simplicity can also help to reduce administrative costs, but it is by no means the decisive criterion in establishing or modifying benefits. Greater simplicity must sometimes be bought at the price of higher direct costs stemming from more relaxed administration. Greater simplicity can also have the potential for diluting the purpose for which the benefit was established and creating "rougher justice" among the beneficiaries.

2. Factors that give rise to administrative complications

(a) The targeting of benefits

Almost all the benefits made available by the Fund are "targeted," in the sense that they are intended to serve a specific purpose. This applies, in particular, to home leave and education allowances for expatriate staff and to the various payments and forms of assistance that are available to assist newly-recruited staff and their families to relocate to Washington and to repatriate staff who are leaving the Fund. In many respects, the problems with targeted benefits resemble those associated with official travel. It is easier and more efficient to give standard cash payments rather than require the itemization of expenses; but this generally means that the standard has to be set sufficiently high that it covers the expenses incurred in the great majority of cases, and it typically remains necessary for claimants to have the option to claim actual expenses if these exceed the standard. Thus, an organization "buys" simplicity, and the consequential administrative savings, at the cost of knowingly over-reimbursing a certain proportion of the recipients. The Fund has generally gone in the opposite direction with benefits. It has closely targeted a number of benefits; it requires policing and documentation to ensure that the targets are being reached; and it has typically evolved a web of administrative rules and procedures that are intended to provide flexibility while ensuring that the benefits are directed to the specific purpose for which they were established.

A decisive move away from the close targeting of benefits, and the provision, where possible, of standard amounts in cash would have the following general effects. There would, no doubt, be administrative savings. There would probably be an increase in the direct costs of the benefits because the savings in the administrative costs would only be reaped if the standard payments were set sufficiently high that they covered the great majority of cases. Moreover, the simplicity of standard cash payments can readily mean that some staff members would receive windfalls and others receive amounts that are inadequate in relation to the purpose of a benefit. The weight to be given to each of these effects will have to be looked at pragmatically and assessed on a case by case basis.

There are, however, some important limitations on the scope that is available for the Fund to move away from targeted benefits and provide benefits by forms of standardized cash payments. There is little or no scope for the substitution of cash for the benefits that are generally available to all staff--the SRP, the Medical Benefits Plan, the Group Life Insurance--without the need for the Fund to make additional tax allowance payments to U.S. staff. On the other hand, there is scope for moving to more standardized cash payments in respect of the expatriate benefits (home leave and education allowances) and for appointment and separation benefits.

(b) Eligibility problems

Eligibility for benefits presents considerable administrative problems. These problems arise with every benefit, from some of the most minor (e.g., who can use the Fitness Center) to those like the Medical Benefits Plan, where the eligibility of family members can be of crucial financial importance. The difficulties have tended to arise with the eligibility of family members rather than the eligibility of staff, although the addition of more categories of employees (in particular, contractual staff) have added significant complications to the administration of benefits.

The Fund has followed traditional lines on the eligibility of family members, confining eligibility for the relevant benefits to legally-recognized spouses of the opposite gender and dependent children, with some qualifications as regards residence with the staff member and some subsidiary criteria on the earnings of children. Even the eligibility of spouses under this traditional approach has its problems when spouses are legally separated or simply living apart. In this area, the pressure is already towards greater complication. The Fund will need to consider whether it should widen the circle of eligible family by recognizing, as many countries have done, significant quasi-marital relationships. 1/ The complications will arise across the full spectrum of benefits, from the shipping and installation of new staff to the repatriation of separating staff.

Over the years there have been innumerable difficulties associated with the earnings of children, whether or not they reside in the staff member's household, and their marital status. In 1989 an attempt was made to deal with these problems, and the result was a satisfactory degree of simplification; but elements of residence, earnings, and marital status were retained and still present problems with children over 18 and less than 24

1/ Individual cases have already arisen and have had to be decided on an ad hoc basis. The principle followed so far is that the relationship would have to be legally recognized as marriage in the jurisdiction (country or state) where the new staff member and the domestic partner reside. The U.N. follows essentially the same principle, although it is considering whether this policy should be broadened.

years of age. The difficulties that arise are out of proportion to the numbers of persons and the costs involved. Those who administer benefits involving the eligibility of these children would prefer the simplicity of an age criterion as the sole test. This would, however, marginally increase the cost of whatever benefits are involved (medical, home leave, for example) by broadening the eligible population and providing benefits in a limited number of cases that would not be presently covered. Nevertheless, the avoidance of disputes with staff would be a welcome easing of the administrative burden. As an issue of principle, it can be questioned whether children who no longer appear to be dependents of staff should be eligible for benefits: as a practical matter, it is clear that the marginal increase in costs would be accompanied by a reduction in time devoted to disputes. <u>This is an issue on which the views of Committee members are sought</u>.

(c) <u>Time limits on benefits</u>

Some benefits must be exercised within a specific timeframe, which is typically related to the targeted nature of the benefit. For example, repatriation has to take place within 90 days from separation, with exceptions made for up to, but not beyond, one year. Another example arises with settling-in benefits, which have to be claimed within a certain period after arrival in Washington. These time limits exemplify the sort of restriction that is intended to match the use of a benefit to its targeted purpose. However, staff members always feel they have good reasons to ask for exceptions to be made, and any refusal is viewed as legalistic and bureaucratic. On the other hand, as exceptions are granted, there tends to evolve a set of subsidiary rules and a greater degree of complication. <u>The views of Committee members are sought on whether, for some forms of benefit where time limits are involved, it may be preferable to set fairly generous limits on timing but rigidly maintain a policy of "no exceptions" by providing no authority for such exceptions</u>.

(d) <u>Documentation and "policing" of benefits use</u>

Some benefits require very little or no documentation from staff members, and obviously the less the better from an administrative standpoint. If, however, an important financial benefit is conditioned on some factor such as spouse income, educational expenses, or the purchase of a house of a certain value, the need for documentation must be considered. To suggest that documentation is needed is sometimes seen as a slur on the honesty of staff members, and it is often argued that a staff member's written affirmation should be sufficient. This argument is usually buttressed by the assertion that dishonesty by a small minority of staff should simply be tolerated in the interests of good staff relations and simplicity of administration. Judgements can differ on this point. Empirical studies outside the Fund show that a surprisingly high proportion of any given population are willing to cheat if the financial advantage is significant and if there is virtually no chance of being found out. This suggests that the Fund should relax the need for documentation, accept staff member's written statements in lieu of documentation, and call on a randomly selected proportion of staff to justify their statements to keep open the possibility that any dishonesty could be discovered and result in certain, and severe, disciplinary action.

Such reductions in documentation and the policing of benefits will have an important influence on the possible scope for reducing resources devoted to the administration of benefits.

The views of Committee members are sought on the extent to which documentation and the policing of the use of benefits should be reduced or eliminated and reliance placed on simple written certifications from staff, subject to random audit and with disciplinary action for false or misleading statements.

(e) Coordination of benefits with other organizations

Over the years Executive Directors in the Fund and the Bank have charged the staff with the task of "coordinating" Fund and Bank benefits with other Washington-based international organizations, particularly in respect of home leave and resettlement and repatriation when husband and wife each work for an international organization. The aim has been to avoid the duplication of benefits. Although the principle seems simple, it is complicated to administer in practice, and it has proved very difficult to make progress with those other organizations that have benefits that are somewhat differently structured. As a result, the aim has only been achieved between the Fund and the Bank. There could be considerable simplification--at a cost--if there could be agreement, at least in respect of home leave, that each staff member would be able to claim the benefit in his or her own right in each organization. Consideration might also be given to allowing greater scope for Fund staff members who are married to other Fund staff members to claim benefits in their own right.

Another difficult area of coordination is when a new staff member or a separating staff member might be receiving some form of duplicated benefits from another employer (e.g., travel expenses, or resettlement allowances). Typically, reliance has to be placed on the information provided by the person concerned on the nature and extent of such assistance, which tends to penalize those who are honest and report such assistance and to provide larger benefits to those who are willing to withhold information on benefits from other organizations.

Committee members are invited to comment on whether they see scope for a relaxation in the policy of coordinating with other organizations to avoid the duplication of benefits.

3. Considerations affecting the simplification of benefits

The following sections deal with important general considerations that will need to be taken into account in any major simplification of benefits. These considerations will arise in addition to the primary questions of the costs or savings resulting from the changes contemplated and the continued ability to achieve the purposes for which the benefits were established.

(a) Fairness or equity among staff

The question of equity among staff members arises in a variety of ways. In only one quasi-benefit--the tax allowance system for U.S. staff--have principles of equity been formulated. 1/ One of these principles is "internal equity," by which is meant the provision of similar benefits and compensation for similarly situated staff. For other benefits, the way in which the policy originated and evolved has implicitly pointed towards what was viewed as equitable. For example, with home leave, all staff members, at whatever level of salary and whatever their family circumstances, are presently receiving the same benefit: they get their home leave trips to their home leave stations. A shift to a simpler system based on the payment of cash will create a situation in which the value of the benefit, measured in terms of trips to the home country or in surplus cash, will vary from staff member to staff member.

For education allowances, the benefit has been set, within an overall limit, at a proportion of the eligible education expenses that the staff member incurs, which implicitly provides equality of treatment in relation to those expenses. Any change in education allowances towards a more standard payment would have to be weighed against the arguments that suggested that the greater the expense the staff member incurred, the greater was the need for the benefit.

For some benefits, the Fund and Bank have followed a principle of linking staff contributions to salary levels. The contributions to the Medical Benefits Plan and for the Bretton Woods Recreation Center are--up to certain maxima--on a progressive scale, with the lower-paid staff paying less than the higher-paid for the provision of the same benefit.

Sometimes arguments as to fairness are used by the staff to press for the extension of existing benefits beyond their limited purpose. For example, some staff who are not married but have long-term relationships, or

---

1/ For the tax allowance system there are two explicit forms of equity--internal equity, which considers the need to place U.S. staff members, who pay tax on their Fund incomes, on the same footing as expatriate staff who receive net incomes from the Fund; and external equity, which looks to the tax that would be paid by a U.S. citizen receiving a gross salary in the comparator market on which Fund salaries are based.

who are divorced but have children, feel that it is inequitable that points travel for spouses is limited to a spouse and could not be available for other persons, including children. Some staff, who have no living parents, or who have strong emotional attachments to a person other than a parent, feel it inequitable that other staff may, in the course of their service, be able to take four emergency trips for the death of those parents while they have no comparable benefit. These examples involve closely targeted benefits that could be made much simpler, but more costly, if the closely defined purpose were to be made more general.

(b) Parallelism with the Bank

Although there is scope for some differences in benefits between the Fund and the Bank, and there is certainly no need for identity in the ways in which benefits are delivered to staff, it would be difficult to envisage major changes (particularly in respect of expatriate benefits, spouse and dependency allowances, and the tax allowance system) without parallel action by the Bank. In this connection, one conclusion reached in both the Fund and the Bank on the occasion of the last Quadrennial Review of Benefits was that there should be further investigation of more flexible benefits so as to provide the staff with a degree of choice among the benefits that were most relevant to their individual situations. 1/ It was also suggested that the separation grant might be converted into some form of capital accumulation plan. These possibilities, which would be likely to lead to an increase in administrative effort, have not been pursued in the Fund because of the developing emphasis on simplification, and it would be helpful for the staff to know whether Committee members agree with Executive Directors in the Bank that the scope for more flexible benefits should be further explored.

(c) Grandfathering; transitional arrangements; buy-outs

When a change is contemplated in a benefit that has an adverse effect on staff, the question of grandfathering must be considered. In this paper, the expression "to grandfather" means to preserve unchanged a staff member's existing entitlement to a benefit when that benefit is being

---

1/ "Flexible benefits" generally refer to arrangements in which employees can trade one benefit off against another; for example, there may be an option to trade away some days of annual leave in exchange for reduced premia for medical insurance. This is intended to recognize that employees place different values on these benefits, and although the trade-offs may be cost-neutral for the employer, they can increase the welfare of individuals.

abolished or adversely modified. 1/ This has two aspects, considerations of policy and of generally accepted administrative law.

As a policy matter, there are some serious considerations that any employer should take into account. How adverse, financially and in other ways, is the contemplated change? How far have staff members ordered their lives and their financial affairs based on the continuation of the existing benefit? What will be the effects on relations with the staff? On morale? These considerations may point to the need for complete grandfathering, under which all existing staff would continue to enjoy the existing benefit. They may suggest some transitional arrangements to introduce the changes gradually, thus allowing staff members to adapt to changing circumstances. Or they may point to the need for some form of buy-out of the benefit; this would apply in particular where some benefit had been accumulated (e.g., points travel for spouses). There can be no general rule as to what is appropriate; it will depend on the nature of the benefit and the adverse change contemplated.

As regards the legal aspects, it has been explained in the papers issued on the establishment of an Administrative Tribunal that an organization such as the Fund has broad powers to establish and modify the terms and conditions of staff employment in conformity with the generally accepted principles of administrative law. However, certain basic limitations have been articulated by existing administrative tribunals. One limitation is the principle of "acquired rights," which has been rather narrowly construed by tribunals, and is essentially synonymous with the principle of non-retroactivity; that is to say, the organization cannot deprive a staff member of any benefit that has been earned before the adverse change. The other main limitation is that the organization is obliged not to alter the fundamental terms and conditions of employment. The main test of whether a benefit is fundamental is whether it could reasonably be seen as having been a major element in inducing a staff member to take up employment. For example, the existence of regular home leave for staff members' families could, on this criterion, be reasonably regarded as a fundamental term and condition of employment for expatriate staff members; but it would be more difficult to argue that, for example, the availability of home leave for dependent children over twenty-one years of age was fundamental and could not be unilaterally discontinued by the Fund.

Finally, any of these arrangements, except some form of immediate buy-out in appropriate circumstances, is going to add to administrative complication. It would be shortsighted in the present stage of budgetary stringency to ignore the advantages of long-term simplification or

---

1/ The verb to "grandfather" derives from the phrase "a grandfather clause," which creates an exemption based on circumstances previously existing. For example, the ability to read might be established as a requirement for the right to vote, but an exemption from this requirement might be granted if your grandfather had been able to vote.

streamlining by rejecting changes that might involve grandfathering or transitional arrangements because they would increase complications in the short term.

III. Benefits With Potential for Major Simplification

This Section discusses five areas where there is potential for major simplification. These are:

- Home leave
- Education allowances
- Spouse and Dependency allowances
- Appointment and Separation Benefits
- Spouse Travel on Points

Before these five benefits are discussed in detail, brief consideration is given to the possibility of substituting more generalized cash benefits for expatriate staff.

1. Standard expatriate allowances in cash

From time to time over the years, attention has been focussed on the possibility of the Fund and the Bank paying some form of general expatriate allowance, possibly a cash payment representing a percentage of the salary of expatriate staff members, or possibly a payment that in some way would reflect some of the financial burdens of expatriation, taking into account certain family circumstances--distance from home country, number of family members, number of children of school age, and so on. A shift to a generalized expatriate allowance would be a very significant departure from the two targeted expatriate benefits of home leave and education allowances, and it could readily require transitional and grandfathering arrangements. With education allowances in particular, a standard payment would be a highly imperfect reflection of the variations in need that exist among staff members; and even with home leave, the expenses of staff members' travel to their home countries are likely to represent significantly different proportions of a standard allowance. Moreover, the initial choice of the level of the benefit and its adjustment from year to year would be highly controversial.

Despite the difficulties in moving to such an allowance, and the transitional or grandfathering arrangements that might be involved, it would certainly be easier to administer in the long run. One major advantage of an expatriate allowance would be the absence of all of the documentation and policing that is involved with home leave and education allowances. However, it would have to be accepted that there would be a major departure from "internal equity." As compared with U.S. staff, expatriate staff would be receiving what would be, in effect, additional disposable income that could be used in whatever way an expatriate staff member wished. Although for the great majority of expatriates, the additional income would simply have to be used to meet the additional expenses of expatriation, there would be some expatriate staff (as evidenced by the percentage of eligible staff who do not make use of education allowances) who would be able to apply the extra income to purposes unrelated to their expatriate status. As with any standard, non-targeted allowance, for some staff the amounts would be insufficient for genuine needs, while for others the amounts would be more than was needed.

Forms of a generalized expatriate allowance have been considered and rejected by successive joint committees of Executive Directors of the Fund and the Bank. More recently, the possibility of a standard allowance was carefully reconsidered at the staff level in both the Fund and the Bank, and the preference has been to move to "cash for home leave" and to give more attention to the simpler administration of education allowances. It would be useful to determine whether the members of the Committee share the view of the staff, and of earlier committees of Executive Directors, that the organizations should not pay general expatriate allowances.

2. Home leave

Home leave and education allowances are the two benefits available to expatriate staff. 1/ As regards home leave, the Fund and the Bank have been delivering to each staff member a very specific benefit that fits the individual situation of the staff member. Rules have developed that have always attempted to accommodate the reasonable requests of staff members for exceptions to meet their own family circumstances, while remaining within the main parameters of the policy approved by Executive Directors. As a result, these rules have proliferated in respect of an almost endless list of special situations: travel in advance of the eligibility date, refunds for advance travel, Fund/Fund married couples, Bank/Fund married couples, combining home leave with business travel, separate travel for family members, the down-grading of tickets, travel to the spouse's home country, eligibility of children, travel for separated couples, travel by road,

---

1/ Expatriate staff are those who have G-4 visas and who did not hold a permanent resident visa or U.S. citizenship in the twelve months prior to their entry on duty. There is, however, a group of grandfathered staff who had permanent resident visas or applied for them prior to January, 1985 who are also eligible for expatriate benefits. There is a strong feeling among staff with permanent resident visas who were employed after January 1985 that they are unfairly treated in not receiving expatriate benefits, and a case has been brought to the Administrative Tribunal in the Bank by a group of similarly situated staff. The Bank's Personnel Policy Committee of Executive Directors is also reconsidering the issue.

travel within the home country, travel to alternative home leave destinations, and so on. 1/ In many of these situations, the simplest approach to saving administrative resources would be to abandon the concession that had been made to staff.

Alongside the basic provision of home leave travel, there is also a points system, under which staff can downgrade the class of travel and receive points for additional trips. This was introduced to provide greater flexibility to staff members to make more frequent trips to the home country. It adds a number of administrative complications.

The Bank has recently abolished the points system for home leave and in its place has introduced two cash-based options, while also retaining the basic system of providing tickets. These changes are intended to simplify the administration of the benefit and provide more flexibility for staff. They were discussed in detail with the relevant staff in the Fund's Administration Department, and most of the features of the Bank's scheme were developed jointly. Parallel proposals would have been brought to the Committee on Administrative Policies in the Fund had the Bank's proposals not been judged to fall short of achieving maximum administrative simplification by retaining the present ticketing system for the two-year and three-year options, and introducing a one-year option that would allow staff to travel once a year and receive cash to do so based on the Apex fare. It is intended, over the coming months, to develop a Fund version of the "cash-for-home-leave" system introduced by the Bank. The approach presently being considered is to abolish the "points system" and the option for first class travel every three years; and to provide instead a single cash payment every two years on the date when a staff member becomes eligible for home leave. The payment would be based on business class travel and on the composition of the family on the eligibility date. The cash could then be applied by the staff member to travel by eligible family members to the home leave country at any time, and in whatever class of travel the staff member chooses. The use of the present business class as the basis for the cash payment would provide staff with the approximate equivalent value of two Apex trips, which is being made available annually under the Bank's procedures. No further payment will be made to the staff member on the next eligibility date unless he or she has certified that the home leave destination has been visited by each of the eligible family members for the minimum period of seven days. The certification of the staff member would have to indicate that the trips were not financed by sources other than the cash provided by the Fund (e.g., trips made by the staff member in conjunction with official travel, or by "frequent flyer"

1/ Fund/Fund and Bank/Fund couples give rise to a long list of complicated administrative problems--"triangular" trips, "split-triangular" trips, split trips in association with mission travel in either or both organizations, and so on; and all these problems are greatly intensified when there are marital separations or divorces, when disputes arise about where and with whom dependent children can travel.

programs, would not qualify). As suggested above, apart from a standard certification, no documentation would be required, but staff members would have to be prepared to document the trips taken and provide ticket stubs if called on to do so. It would be understood that a proportion of staff would be randomly selected for such audits.

Certain questions of principle arise in connection with a new cash-based system. First, it will undoubtedly provide opportunities for staff who are able to find cheaper fares than the standard on which the cash payment is based to put money in their pockets. In some cases, the amounts might be appreciable. This would depend on the level of the business class fare to a particular destination and the availability of cheaper fares to that destination. Ticket costs do not bear a direct relationship to distance, and some staff will benefit because tickets to their destinations are relatively expensive. At the same time, the availability of cheap tickets varies considerably from destination to destination. Thus, as compared with the present system, which is generally equitable in providing tickets to staff members, the provision of cash instead of tickets will create a benefit that could vary appreciably from staff member to staff member. These variations will take the form of more frequent trips or a surplus cash benefit.

<u>It will be helpful if Committee members can provide their views on a shift to "cash-for-home-leave" along the general lines set out above</u>.

Home leave benefits also raise another problem of principle mentioned in Section II, namely, the administration of benefits that have a specific purpose when the spouses concerned are both staff members of the Fund or one is a staff member of the Fund and the other is a staff member of the Bank and entitled to the same benefit. Home leave is to be taken by one spouse in one of the two organizations but not in both. It would certainly be simpler, and some would say more equitable, to allow the employees of each organization to make use of their own entitlement without any account being taken of the fact that their spouse was receiving an identical benefit in another international organization. The fact is that many staff members are married to spouses who enjoy benefits as a result of their employment, and the Fund and Bank are not in a position to curtail organizational benefits because they are being duplicated by employers other than the Bank; as a result, it can be argued that singling out employees of the Bank (rather than, say, embassies or private sector employers) is unfair. Similarly, it would be simpler, and some would argue more equitable, to allow staff members of the Fund who are married to each other to exercise their individual entitlement to home leave. These are difficult issues, and would require consultation with the Bank, and a detailed examination of the potential costs. 1/ It would be useful to know whether Committee members feel that these are issues that should be pursued.

3. Education allowances

Education allowances raise a number of difficult issues of administration. Some of these issues are common to other benefits; others are *sui generis*.

In reviewing the complexities of administering education allowances, the staff gave careful consideration to the possibility of paying some form of standard allowances to staff with children in the age brackets to which education allowances apply, irrespective of whether the staff member incurs any expenses in their education. Unless a standard allowance was set at a level appreciably below the amounts that staff are currently receiving, there would be a very significant increase in overall costs. This is because a general allowance paid to expatriate staff would encompass some 40 percent of eligible children who are presently receiving their education in public schools or other educational institutions that do not qualify the staff member for the receipt of education allowances. The lowering of the benefit would have a particularly adverse effect on staff for whom language problems made private schooling essential.

It might be possible to devise a more limited system for paying a standard allowance only in respect of children for whom the staff member certified that education expenses had been incurred above a certain threshold. This would mean that those staff whose expenses were below the threshold would get no allowance, while those with expenses above the threshold might get more or less than they are getting at present. The precise results would obviously depend on the level of the threshold and whether or not there was a willingness to permit an increase in the overall costs. Such a system would certainly be simple, but it would be open to question whether staff were being fairly treated in relation to the educational problems they faced, and the resulting changes would certainly require some form of grandfathering or transitional arrangements.

After considering the possibilities for standard allowances, the staff concluded that it would be preferable to maintain the basic framework of the present system and to seek ways to simplify and streamline the present procedures. The views of Committee members are sought on the conclusion not to pursue the standardization of the amounts of allowances.

The allowances paid to staff under the policy are a percentage of school fees paid by the staff member up to the maximum amount of the benefit. Thus, the precise amount to be paid to a staff member requires the

---

1/ There are 86 Fund staff who are married to Bank staff and 25 staff who are married to staff members of other international organizations. There are 31 married couples where both spouses are Fund staff.

establishment of a precise amount of fees. Because there is considerable variation from school to school as to what the fees consist of, it has been necessary to establish a number of fairly complex rules as to what forms of educational expenses are covered. It is intended that a number of these rules will be simplified.

School fees are typically paid in advance, often well before the start of the school year. To help staff members who have to make these payments, they are provided with an advance equivalent to the estimated amount to which they will be entitled if the child completes the school year and the fees expected are actually paid. Thus, documentation is required at the end of the school year, and any adjustments in the amount are made at that time. All of this makes for an administratively cumbersome system, although its origins lie in a careful and conscientious effort to ensure that the benefit is provided only in the amounts to which the staff member is entitled and to assist staff members who might otherwise have difficulty in finding the cash when it is required. It is intended to explore a number of ways in which the need for subsequent adjustments in allowances can be avoided. 1/

The system under which the Fund pays for travel to and from locations where children are being educated in a manner that qualifies for education allowances has been greatly simplified in recent years by the introduction of a cash-for-travel system, which was a forerunner of what is intended with home leave. Generally, experience with the system has been successful, and the administrative effort has been reduced. At the same time, staff have been given greater flexibility to make the needed travel arrangements. A system of checking that the trips have been taken is maintained.

4. Spouse and dependency allowances

These allowances, which are very awkward to administer, are not true benefits, but rather adjustments to compensation that aim at taking into account the fact that gross salaries in the comparator markets on which Fund compensation is based are netted down on a standard basis, while staff members' actual marital and parental situations will differ from that standard. The aim is to adjust net compensation to reflect more accurately the tax effects of individuals' marital and parental status. The simplification of these payments is badly needed, but changes in the present procedures are likely to involve some trade-offs between simplicity and costs.

One major administrative problem lies with the need for documentation of spouse income and the fact that income can only be accurately documented

1/ The need for subsequent adjustments in recent years have been exacerbated by delays in obtaining the approval of the Executive Board to the precise level of the allowances for each school year in accordance with the agreed policy. The attempt will be made in the future to get Board agreement to the level of the benefit in advance of each school year.

after the conclusion of the year for which the allowances are paid. Thus, in a much more pronounced manner than with the education allowances, there is a process of estimation of income; allowances are paid throughout the year based on that estimation; there is a subsequent checking of actual income against documentation; and a retroactive adjustment is made to the allowances already paid. The volume of documentation has recently been diminished by a decision taken in the Fund and the Bank, effective on January 1, 1991, that spouse income of less than $30,000 would not be taken into account. Staff whose spouses earn less than that amount qualify for the maximum benefits of 5 percent of salary up to a maximum of $3,500 per annum and $600 for each eligible child.

Staff whose spouses' incomes exceed $30,000 receive allowances that are reduced by 1 percent for each $1,000 earned in excess of $30,000. If spouse income is less than $30,000, the staff member simply certifies by his or her signature that this is the case; by contrast, for incomes over $30,000, documentation is required from the staff member. It is somewhat anomalous that a simple statement is accepted on one fact that will have, perhaps, the major impact on the amount of the allowance, while such statements are not acceptable for the precise amount of income over $30,000, which would typically have a substantially smaller effect on the amounts paid. It is proposed that in each case, whether income is above or below $30,000, or is zero, staff members will be asked to certify a level and be prepared to document their statements if called on to do so. 1/ A proportion of the staff would be audited on a random basis. The views of Committee members are sought on this procedural change.

There is certainly scope for the avoidance of the retroactive element, which would simplify administration considerably. The staff are exploring the possibility of paying the allowance each year based on the spouse income for the prior year. There will be some initial transitional problems, but the future avoidance of retroactivity will lead to a simpler system.

Ideally, spouse income might be disregarded altogether. There would, however, be an increased cost involved unless the maximum amounts of the allowances were adjusted downwards. This is because staff whose spouses earn more than $30,000 would receive the full allowances (5 percent of salary up to $3,500 for a spouse and $600 for each child) rather than reduced allowances as at present. The increase in costs would be about $340,000 annually for the Fund if the maximum allowances were kept at their present level. To counter that increase, the maximum allowances could be cut, and--as part of the annual salary setting process--the netting down of comparator salaries based on the lower allowances would provide slightly higher levels of market compensation as the starting point for the annual

---

1/ Staff selected for random audit who claim their spouse is not employed would be required to provide releases so that the Fund can obtain information from the state and federal tax authorities whether the spouse has filed a tax return.

salary reviews. However, any upward adjustment in salaries that might stem from the change in the netting down procedures would be nowhere near so clear to staff as the very obvious shift of the allowances from those with smaller spouse incomes to those whose spouses earn amounts that presently give rise to downward adjustments in the allowances. As a result, the staff could readily argue that the change was unfair. The views of members of the Committee are sought on whether a detailed proposal should be prepared on disregarding of spouse income in connection with spouse and dependency allowances.

5. Appointment and Repatriation Benefits

There is considerable potential for simplifying the benefits associated with the appointment and installation of new staff and the repatriation of separating staff. This is a very broad area of benefits and each aspect gives rise to a number of complications.

As indicated above, the benefits involved are generally intended to reimburse expenses incurred by staff members in connection with moving their households, and families where applicable, to Washington or reversing the procedure when they separate from the Fund. They involve, therefore, not only travel for staff members and their families, but the shipping of household effects, and various forms of assistance for new staff members and their families to settle in after their arrival in Washington or at the resettlement destination. As a result, the provisions of the various policies have to be very detailed and cover a wide range of circumstances, and the staff who administer them often face situations where decisions are difficult and have to be guided by the purposes of the policies.

Under the existing policies, the amounts paid are derived in two main ways. On one hand, the expenses incurred for the shipment of household effects and for tickets for individuals to travel are covered for the expenses incurred, and the focus is on how much can be shipped and the class and route of travel. On the other hand, the expenses incurred in transit and in setting-up a new household at the duty station or at the resettlement destination are covered under several types of pre-determined lump-sum amounts regardless of the actual expenses incurred by individual staff members and their family members.

After reviewing all aspects of the policies and procedures, the staff reached the following general conclusions. It was felt that the Fund had no alternative but to remain closely in control of the travel of new Fund employees and their families and of the shipment of their household effects to Washington; the Fund, through the provision of tickets and contracting for shipment, would continue to meet actual costs within prescribed limits. However, as regards the various supplementary forms of assistance and miscellaneous payments that are made in respect of travel and installation in Washington, it was felt that these could justifiably be amalgamated into one standard payment. 1/

As regards repatriation and resettlement benefits, it was felt that there could be considerable simplification if the Fund moved to a system of a standard payment to cover the three elements of (i) shipment of household effects, (ii) the travel of separating staff members and their families, and (iii) the incidental travel and other expenses that are incurred. 2/ Payments of the amounts involved would be made to separating staff members, and they would then be free to make their own arrangements for the shipment of effects and buy whatever air tickets they wanted for their travel. The entitlement as regards shipment costs would be based on the shipment of a certain weight to the staff member's recognized destination. Particularly in respect of the shipment of effects, this possibility will give rise to the basic problem with standard payments that has been touched on earlier. If the standard is set at the present weight entitlement, in many cases there will be a measure of over-payment and direct costs are likely to increase; if the payment is based on the average weight presently being used, there will be cases of under-payment. This aspect of costs will require careful assessment, and--as with appointment benefits--it may be preferable to retain the present system for shipping costs and to use the lump sum payment only in respect of the travel tickets and the incidental expenses. Another approach might be for the Fund to pay for a shipment of a certain weight, but offer separating staff members an option for a cash payment based on a lower weight. 3/ The general aim of these changes would be that once the payment was made at the time of termination, that would end the Fund's administrative and financial involvement with the staff member as regards repatriation.

Subject to closer consideration of the costs involved, particularly in respect of shipping costs, Committee members are asked to endorse this general approach, namely, the amalgamation of a number of payments to new

---

1/ On arrival in Washington, the various payments that are made include the settling-in grant, the installation allowance, payments for stop-overs en-route, other travel expenses, a payment if the new staff member has had a period of unpaid time between leaving earlier employment and joining the Fund, and a payment for standard air travel time.

2/ Payments made on repatriation include the resettlement allowance, payments for stop-overs en route, certain other travel expenses, and payment for authorized standard air travel time.

3/ The level at which the payment is set will be very important in determining whether there will be additional direct costs. Much may depend on the behavior of separating staff. When the Fund pays up to a maximum weight, there can be the tendency for separating staff to maximize the shipment by acquiring goods to ship back to the home country at the Fund's expense. Providing a cash payment based on an appreciably lower weight limit would remove some of the incentive that exists for separating staff to maximize the shipment within a specific weight limit.

staff members into a standard allowance, and the payment to separating staff members of a single amount to cover shipment of household effects, travel to the recognized destination, and incidental travel expenses.

6. Spouse travel on points

Staff who travel on official business accumulate points that can be used to pay for a spouse to accompany the staff member on a Fund mission. One point is accumulated for each day of official travel outside the United States. When 200 points have been accumulated, the spouse can travel with the staff member on a mission and is required to spend a minimum period in the mission country; the Fund pays for travel and permitted stopovers. With 300 points, the Fund also pays hotel costs and per diems for the spouse's stay. The policy is complicated and a number of rules and regulations dealing with odd situations have evolved. In some respects the benefit seems out of line with its purpose, which was to compensate staff for the separations from family and the disruptions to family life created by heavy official travel. A trip by a spouse to the mission country when the staff member is likely to be heavily engaged on official business for long hours hardly seems to be an optimum way to compensate for earlier separations and family disruption. Moreover, disruptions to family life are usually the most acute for families with small children, and it is generally difficult for the spouses with small children to take advantage of the policy.

The policy should be radically redefined or abolished. Although there would be an adverse staff reaction, and some arrangement to buy out existing points would be needed, the abolition of the policy would make sense in a world in which frequent flyer arrangements are widespread and are used by most of the travelling staff. Members of the Committee may wish to indicate whether they favor the redefinition or abolition of the policy.

IV. Issues on Which Guidance is Sought

This final section brings together a number of the issues raised at various points in the paper on which the guidance of the Committee would be useful at this stage. As indicated in Section I, the next step would be to develop specific proposals in respect of each of the indicated areas of benefits and to discuss them with the SAC, the Personnel Committee of senior staff, and the Bank, before bringing them back to the Committee. In formulating any specific proposals, the staff will give careful consideration to any potential increase in costs and will compare these costs with the potential for eliminating staff positions.

1. Expatriate benefits

The Fund provides two specific expatriate benefits--home leave and education allowances, which are targeted on two problems of expatriate status, the need for staff and their families to maintain their family and social contacts with their home countries and the costs of providing an appropriate education for their children.

(a) Generalized expatriate allowances. The first question raised in paragraph 1 of Section III (pages 10-11) is whether there should be some form of generalized, non-targeted cash payment to expatriate staff that would replace these two targeted benefits. The staff has concluded that it is preferable to keep the two targeted benefits.

(b) Home leave. If the staff conclusion on a standard payment is shared by members of the Committee, the second question on expatriate benefits is whether the staff should move ahead with the establishment of a "cash for home leave" system on the general lines set out in paragraph 2 of Section III (pages 11-13). The new system would require a minimum stay of seven days in the home leave country. Staff members would have to certify that they and eligible family members had travelled in accordance with the policy, and they would need to be able to document this travel although they would not normally be required to do so.

(c) Education allowances. Paragraph 3 of Section III (pages 14-15) raises the question whether education allowances should be standardized, either by the payment of a flat amount per child to all expatriate staff with children in certain age brackets or by a standard payment when the staff member incurs education expenses in excess of an agreed threshold for a child. The conclusion is reached that the possibility of standard payments should not be pursued, and that the staff will simply continue to search for ways to streamline the system within the present parameters.

2. Eligibility for benefits

Problems with eligibility for benefits are time-consuming and are likely to become more complicated as the Fund faces pressure to recognize domestic relationships other than legal marriage. These emerging problems are under review, and they will need to be addressed; in the meantime, in paragraphs 2 (b) and (c) of Section II, two questions of eligibility are raised for consideration:

(i) Should a simple age test be substituted for the present rules on the eligibility of children for all relevant benefits, thus eliminating completely the difficult questions of residence, marital status, and income? (page 4)

(ii) In respect of benefits in which decisions have to be made or options exercised within a particular time limit, it is suggested (page 5) that the general approach would be to set that limit generously but provide no scope for extension, thus eliminating demands for exceptions to be made. When such limits apply, it would be made abundantly clear at the outset that there would be no possibility of an extension and staff members would be required to acknowledge that they understood this to be the case.

3. Coordination of benefits

The Fund and the Bank follow a policy of "coordinating" benefits with each other, and the most important practical effect is that there is no duplication of home leave when Fund staff are married to staff members of the Bank (page 6). The coordination of benefits is a difficult and time-consuming administrative task, and a question of principle is often raised whether staff in each institution ought to be allowed to exercise their rights individually in the organization where they are employed. Similarly, it is sometimes argued that Fund staff members married to other Fund staff members ("Fund/Fund couples") should be able to use benefits in their own right; again, home leave is the principal benefit that would be involved. If the members of the Committee are sympathetic to these changes, the staff would first analyze the costs that might be involved and consult with the Bank on their attitude to such a change.

4. Spouse and dependency allowances

These allowances are discussed in paragraph 4 of Section III (pages 15-16). That discussion airs three issues on which the views of Committee members would be helpful.

(i) Should the elimination of spouse income as a factor in the calculation of spouse and dependency allowances be actively pursued?

(ii) Alternatively, or possibly as an interim measure pending the elimination of spouse income as a factor, should the allowances be calculated on the basis of spouse income for the prior rather than the current year? The aim would be to eliminate the cumbersome system of payments being made on the basis of estimated income and subsequently corrected retroactively when the actual amount of income is known?

(iii) If spouse income continues to be a factor, the staff suggest a shift to a system of simple certification by staff members of the level of spouse income (rather than documentation) accompanied by random audits.

5. Flexible benefits

Executive Directors in the Bank have shown a renewed interest in flexible benefits, which were discussed in connection with the last Quadrennial Survey of Benefits. This is mentioned in Section II, paragraph 3(b) (page 8). As the Fund staff will need to work closely with the Bank on the issues involved, it will be useful to know whether members of the Committee share the interest of the Bank Executive Directors.

6. Appointment and separation benefits

It is proposed in paragraph 5 of Section III (pages 17 to 19) that it would simplify administrative procedures if (i) the various payments made to newly appointed staff in respect of miscellaneous expenses that they incur when they travel to Washington and establish their households were amalgamated into a single payment, and (ii) that separating staff members be paid cash allowances in respect of travel tickets, incidental travel expenses, and--subject to careful examination of the costs--of the cost of shipping their household effects. They would then be responsible for making their own arrangements for travel and shipment.

7. Spouse travel on points

This policy is briefly described in paragraph 6 of Section III (page 19), and it is suggested that it be abolished or substantially restructured. If it is to be abolished, consideration would need to be given to "buying out" in some way the points for spouse travel that staff have accumulated but not used.

8. Documentation and policing of benefits

Paragraph 2(d) of Section II discusses the requirements of documentation and the policing of benefits (page 5). It is suggested that the general approach in future would be to minimize, where feasible, the need for staff members to provide documentation by substituting simple certifications by staff of relevant facts. Staff members would always have to be in a position to document those facts if called on to do so, and severe disciplinary penalties would apply for false or misleading statements made to secure a benefit. A system would be developed of randomly selecting staff for audit.

APPENDIX

Benefits Not Considered in This Paper

A very wide variety of employment practices are referred to as benefits. Some are little more than minor assistance for staff and their families; others are major benefits available to all staff; and others are major benefits available only to expatriate staff.

Benefits common to all staff are as follows: the Staff Retirement Plan with its provisions for death and disability; the Medical Benefits Plan; the Group Life Insurance and Travel Accident Insurance; vacations, sick leave, and paid holidays; the separation grant; Workers' Compensation benefits; emergency travel (on death of family members); spouse "points" travel; financial assistance through salary advances; subsidized parking and meals; the Bretton Woods Recreation Center; the Fitness Center; and the Fund picnic and Christmas party. Broadly speaking, it is these benefits, which are available to all staff, that are valued and assessed every four years in the Quadrennial Benefits Survey. This survey is conducted jointly by the Bank and the Fund to provide assurance that the value of benefits in the two organizations is in line with the comparator market.

Two benefits are available to expatriate staff only--home leave and education allowances--and these have been examined in detail in Section III of this paper.

Two major areas that are commonly seen as benefits are (i) the various forms of assistance that are provided to newly appointed staff and to staff who separate from the Fund, which have been dealt with in Section III, and (ii) the tax allowance system for U.S. staff. However, these are not "true" benefits in that the payments made by the Fund in these respects are principally forms of reimbursement of expenses borne by staff. The tax allowance system is currently the subject of a joint review with the Bank, and a paper is expected to be issued to the two Executive Boards later this year.

The Administration Department has reviewed all forms of benefits with a view to simplification. As a result of that review, it has become clear that a considerable number of minor administrative simplifications are possible and these will be actively pursued, although some may need to be modified when there is greater clarity on the direction to be taken on more major changes.

Set out below are those benefits that have not been discussed in this paper. The listing includes a number of benefits where little or no change is presently contemplated and others where reviews are in progress and may well give rise to separate papers.

(a) The Staff Retirement Plan

The Staff Retirement Plan was the subject of a major review that concluded in 1990, and there is no present intention to pursue any further changes.

(b) The Medical Benefits Plan

A review is in progress, and the staff are moving to the next phase, in which consideration will be given to the establishment of HMOs and PPOs, which it is hoped may help to contain costs but will tend to add administrative complications.

(c) Group Life Insurance

Alternative methods of providing this benefit are under review, and some changes are contemplated in the way this benefit is delivered that should ease some of the burden of administration.

(d) The separation grant 1/

This is an important benefit, and on the occasion of the last Quadrennial Review of Benefits, interest was shown in the Fund and the Bank in converting the benefit into some form of capital accumulation plan in the context of a scheme for more flexible benefits. As indicated in the main body of the paper, this has not been actively pursued in the Fund with the development of the emphasis on simplification, but if the Bank pursues a policy of more flexible benefits, the matter will need reexamination.

(e) Annual and sick leave, paid holidays

No major changes are contemplated, although an examination will be made of the provisions for extended sick leave, and the Administration Department is presently discussing with the SAC the procedures for the accumulation and carry-over from year to year of annual leave.

1/ The separation grant is equivalent to two weeks' salary (at the salary level at the time of separation) per year of eligible service. The benefit was introduced at the recommendation of a joint Bank/Fund Committee of Executive Directors after a long period of study of Fund compensation. Staff who are leaving the United States receive the full amount; those staying in the United States receive two thirds of the full amount. The rationale behind this split was to provide some additional financial assistance to expatriate staff who wanted to leave the Fund. The benefit would certainly be much easier to administer if it was uniform for all terminating staff who are eligible to receive it.

(f) Salary advances

An examination is being made whether there can be some rationalization of the various policies under which the Fund provides financial assistance through salary advances.

(g) Workers' Compensation benefits

A change in the financing of disability pensions under the Fund's workers' compensation policy is under consideration and a proposal is expected to be put forward in the near future. There is minimal scope for the simplification of this policy.

(h) Emergency travel

The Fund pays the cost of emergency travel on the death of a spouse, a child, a parent or a parent-in-law outside the Washington area (or other duty station area). The benefit is not difficult to administer. However, problems do arise with the death of persons who are regarded by staff members as closer than the specified family members for whom the travel is permitted.

(i) The Bretton Woods Recreation Center

Over the last several years almost all the administrative assistance provided to BWRC has been shifted from the Fund to the Center. The intention is that the Center should assume all administrative responsibilities.

(j) The Fitness Center

No changes are presently contemplated in respect of the existing Fitness Center. Certain measures have recently been implemented to make exercise facilities available to the staff in International Square.

(k) Miscellaneous

No simplifying changes are foreseen in respect of the remaining benefits listed above (parking, subsidized meals, the Fund picnic, and the Christmas Party).