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Minutes of Executive Board Meeting 90/118

3:00 p.m., July 20, 1990

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
G. K. Arora	L. E. N. Fernando
F. Cassell	P. Wright
C. S. Clark	G. C. Noonan
Dai Q.	
T. C. Dawson	
J. de Groote	J. Prader
E. T. El Kogali	L. B. Monyake
	S.-W. Kwon
E. V. Feldman	
	R. Marino, Temporary
R. Filosa	N. Kyriazidis
	A. M. Othman
M. Fogelholm	
M. R. Ghasimi	
G. Grosche	
J. E. Ismael	
A. Kafka	
	J.-F. Cirelli
	C. V. Santos
G. A. Posthumus	G. P. J. Hogeweg
	S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
M. J. Miller, Assistant

Also Present

Administration Department: G. F. Rea, Director; D. A. Anderson, S. L. Chung, T. Cole, D. S. Cutler, M. E. Gehringer, A. D. Goltz, J. D. Huddleston, N. S. Jackson, J. P. Kennedy, B. R. Shannon. African Department: M. Touré, Counsellor and Director. European Department: M. Russo, Director; P. B. de Fontenay, Deputy Director. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; E. Brau. External Relations Department: A. F. Mohammed, Director; I. S. McDonald. Legal Department: J. S. Powers. Middle Eastern Department: J. Hicklin, S. H. Hitti. Research Department: J. A. Frenkel, Economic Counsellor and Director. Secretary's Department: C. Brachet, Deputy Secretary; J. W. Lang, Jr., Deputy Secretary; R. S. Franklin, B. R. Hughes. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: M. A. Ahmed, Z. Iqbal, J.-L. Menda, M. J. Mojarrad, P. O. Montórfano, B. S. Newman, D. Powell, F. A. Quirós, A. Raza, S. P. Shrestha. Assistants to Executive Directors: G. Bindley-Taylor, B. A. Christiansen, S. K. Fayyad, B. R. Fuleihan, J. Gold, M. E. Hansen, C. J. Jarvis, M. E. F. Jones, M. Mrakovcic, H.-J. Scheid, J.-P. Schoder, M. J. Shaffrey, D. Sparkes, C. M. Towe, J. C. Westerweel.

1. EXECUTIVE DIRECTOR

The Chairman bade farewell to Mr. Cassell on the completion of his service as Executive Director for the United Kingdom.

2. 1989 QUADRENNIAL BENEFITS SURVEY

The Executive Directors resumed from the previous meeting (EBM/90/117, 7/20/90) consideration of a staff paper on the results of the 1989 quadrennial survey of staff benefits (EBAP/90/73, 3/26/90), together with a paper on the survey's implications for Fund benefits (EBAP/90/73, Sup. 1, 7/5/90) and a paper by the Staff Association Committee (EBAP/90/186, 7/16/90).

Mr. Fogelholm made the following statement:

> As the Fund's benefits have been kept almost unchanged for more than a decade, today's discussion provides a welcome opportunity to address this issue. Based on the benefits survey, the staff has presented some interesting ideas about the future composition of staff benefits. These ideas indeed warrant further exploration and discussion.
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> This chair is a strong proponent of maintaining the Fund's competitiveness in recruitment. The expatriate status of Fund staff and the Fund's obligation to hire only the most highly qualified personnel, while ensuring a broad geographical representation, requires not only competitive salaries relative to the comparator markets, but also strong efforts by the Fund in the area of benefits. I believe that a more flexible benefits package could enhance the Fund's attractiveness as an employer, while simultaneously alleviating some of the problems and expenses incurred by the staff in settling in a foreign country--for example, in providing assistance to dependents trying to find relevant work and/or education. This could also counteract restrictions related to G-IV visa status, to the Technical and Miscellaneous Revenue Act of 1988 (TAMRA), and others.
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> If a more flexible benefits package, which would enable individual staff members to choose options that suit their specific needs, is introduced, the overall size of the package would, of course, have to be fixed and predetermined. Moreover, the composition of individual benefit packages would have to be balanced to ensure a proper degree of equity between different options.
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> On the appropriate level of the Fund-provided value of its benefits package, the survey indicates that the Fund's benefits in terms of employer-provided value is somewhat below the mean of the combined comparator markets, thus leaving room for a slight

increase in the Fund-provided benefit, or at least a relative shift between the employer and employee contributions. Moreover, we certainly support pitching the Fund's overall benefits above the mean of the comparator markets, and would in any event find it unacceptable if this level were to be reduced, as originally proposed by the Joint Compensation Committee. Setting the Fund's total benefits only somewhat above the mean of the comparator markets--as proposed by the staff--would, in any case, constitute a rather conservative approach, since the combined value of the Fund's cash compensation and employer-provided benefits would remain below the 75th percentile of the comparator market as a whole.

I have already indicated a strong interest in a more flexible benefits package. Let me, however, emphasize that this does not imply that I believe that the Fund should tailor its benefits to the prevailing market practices, and adopt benefits identical to those existing elsewhere. On the contrary, the Fund's special characteristics should be taken duly into account, and we should therefore be aware of those elements of the benefits package which are essential for recruiting and retaining qualified staff.

For example, I am not sure of the advisability of converting the present separation grant into a savings or capital accumulation plan. In contrast to accumulation plans, which should be considered rather as supplemental to the Staff Retirement Plan, the separation grant serves the important purpose of facilitating former staff members' resettlement in their home countries. Hence, I believe we should retain the separation grant in its present form, although I would be willing to consider changing its actual value in light of other changes in the Fund's benefit program.

On appointment allowances, I believe that the staff has made a reasonable proposal regarding the administrative simplification of the various elements. Moreover, I strongly support the suggestion that staff members in Grades A1-A8 be eligible for installation allowances and settling-in grants.

Since I am otherwise in broad agreement with the staff regarding its recommendations on the other components of the benefits package, let me make a remark on the housing loans, where I slightly disagree with the staff. While recognizing that full equity between different groups of staff members is, in practice, difficult to achieve, I believe that the present system of subsidizing housing loans needs to be changed or discarded. If the system is considered important enough to be retained, I support the idea of linking the subsidized interest rate to a relevant market rate. Alternatively, subsidized housing loans could be made part of a flexible benefits package. There is no specific reason to favor those staff members who prefer to buy a residence over those who prefer to rent. If housing support is to be provided, it should be done on more equitable terms than at present.

Finally, there is the question of whether other modifications to the benefits package should be considered. Here, I want to follow up on my introductory remarks regarding the alleviation of certain difficulties facing expatriate staff and their families. We firmly believe that the benefits program should be extended to cover new areas in that respect. Clearly, the employment opportunities for spouses and the ability to pursue further education have become more important in recruitment, which could be assisted in a cost-effective way if the Fund and the Bank were actively to assist spouses in acquiring employment in the local labor market. In addition to efforts in this area, other family-related benefits, such as child care and elderly care, could also be considered. Furthermore, the recent experience with TAMRA certainly justifies the inclusion of a general counselling service in the package.

Mr. Shrestha stated that the overall results of the quadrennial benefits survey had certainly dispelled the perception that, overall, Fund benefits were overly generous. In fact, the total value of benefits, as indicated unambiguously in the survey, was only broadly in line with the average value of benefits in the U.S., French, and German comparator markets. The reason the value of Fund benefits had not been below the market average was because Fund employees, particularly staff at the middle and upper levels, had been contributing, on average, a much larger share to the costs of Fund benefits compared with staff in the comparator markets. Such a level of Fund benefits was somewhat inconsistent with the management's objectives of maintaining an organization of excellence, as well as of recruiting and retaining high quality staff members.

The review of the Staff Retirement Plan had only recently been completed, and he noted that management was starting to review the Medical Benefits Plan, as well as the benefit schemes in the areas of separation and termination grants, food services, housing loans, and the education of spouses and dependent children, Mr. Shrestha concluded. In reviewing all those individual benefit schemes, management should not lose sight of the overall picture, that, in terms of the value of employer-provided benefits, the Fund's contributions were generally less than employer-provided contributions in the three comparator markets. He concurred with the staff's observation that the survey results justified some adjustment in the cost-sharing formula between staff members' contributions and payments by the Fund.

Mr. Dawson stated that he was interested to note that the quadrennial benefits survey showed that benefits for Fund staff were roughly in line with those of the comparator market. In fact, given the methodology used in preparing the survey, the very small differences between Fund benefits and those of comparator organizations were so small as to be insignificant. Thus, the answer to the original question posed over one year ago when the survey was commissioned was that individual benefits were reasonably related to those of comparators. Nonetheless, he agreed with the suggestion that there was room for some adjustment in the Fund benefits package.

He wished to call attention to the statement in the staff paper that the survey did not take into account a number of benefits common in the United States, arguing that it was reasonable to assume that if those benefits had been valued, the mean of the U.S. comparator market would have been raised, Mr. Dawson remarked. In fact, he was disappointed that a fuller range of Fund benefits had not been included in the survey--most importantly, expatriate benefits such as education and home leave allowances. Adding those would boost substantially the value of employer-provided benefits.

He favored making only small adjustments in the overall benefits program, and he was not in favor of introducing a flexible benefits plan, Mr. Dawson continued. The positive aspects of a flexible scheme were not likely to be strong enough to outweigh the excessive hours of Board discussion that would be necessary to debate it and approve it. He supported the suggestion to eliminate the separation grant as it existed at present and to convert it into a capital accumulation plan. The Joint Compensation Committee should take note of a similar scheme that had been advanced by the World Bank.

He generally agreed with some of the original recommendations of the Joint Compensation Committee and some of the more conservative suggestions for adjustments put forward in the staff paper, Mr. Dawson went on. The record of nonutilization of the salary advance for furniture purchase suggested that that program should be eliminated; furthermore, as the program's nonuse implied that it was not needed, there was no reason to increase the amount or the period of the general relocation advance to compensate for its elimination. He supported on grounds of equity extending appointment allowances to staff in Grades A1-A8 that were employed at the Fund but had not been locally recruited. In line with the findings of the survey, the subsidy for food services should be eliminated. At a minimum, the subsidy for the Executive Dining Room should be eliminated, while that for the cafeteria should be reduced substantially. He strongly supported the original Joint Compensation Committee proposal that the subsidy element in the housing loans be discontinued. He could agree with the suggestion that the rules be simplified to allow each staff member one opportunity during his or her career to receive a salary advance for a house purchase. Along the same lines, he had also supported the original Joint Compensation Committee recommendation that the interest subsidy for education loans be eliminated.

He was in favor of adjustments to the current staff benefits package, generally in line with the original recommendations of the Joint Compensation Committee, Mr. Dawson concluded. The Executive Board Committee on Administrative Matters should meet in the near future to discuss specific adjustment proposals, such as plans to convert the separation grant into a capital accumulation program.

Mr. Fogelholm remarked that he had not meant to suggest that the problem of restrictions on employment for the spouse of employees of international organizations was unique to the United States. Nevertheless, it was a problem for recruitment, especially in those countries in which both spouses usually worked.

Mr. Dawson said that that problem was allied to the issue of the changing nature of benefits in comparator markets. In his view, the issue was not that the value of the Fund's benefits had declined in a real sense, but that the structure of benefits might be looked at with a view to their adjustment better to reflect changed circumstances elsewhere.

Mr. Cirelli commented that he would ascertain for Mr. Dawson the extent to which limitations on spouse employment in France affected U.S. staff members assigned to the Fund's Paris office.

Mr. Cirelli then made the following statement:

> I welcome the opportunity to discuss the results of the 1989 quadrennial benefits survey. The study is very clear, and allows us to draw conclusions about where the Fund stands in the market with respect to its benefits package. This is all the more important as the total value of benefits represents, on average, 60 percent of the salaries of the Fund's staff, and is, therefore, along with our compensation system, a determining factor in attracting and retaining a high quality staff--an objective that we support strongly.
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> The first conclusion of the survey is that the overall value of benefits is closely related to the mean value of benefits in the comparator markets. This indicates that our package is broadly in line with the average of the market, but only in terms of the ratio of benefits to net salaries.
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> However, the question of knowing where we stand in absolute terms is less clear, given the fact that the salary structure is pitched at the 75th percentile level of the comparator market, and the only partial correlation between benefits and salaries. Hewitt concluded that we stand somewhere between the mean and the 75th percentile of the comparator market. Like Mr. Kyriazidis, I would, therefore, suggest that it could be useful to give a more

precise answer to the question in order to better appreciate the adequacy of our benefits package.

The question of where we should stand in relation to the market, on which the management requires guidance, is not an easy one. The Joint Committee on Compensation has not come to a precise conclusion on the overall level of benefits, but concluded only that the employer-provided value should be kept approximately in line with the comparator market.

The second main conclusion of the survey is that, in terms of employer-provided benefits, the Fund is generally below the average of the market, and that the overall comparability is only due to a higher level of staff contributions. This suggests that there may be some room to shift the relative shares paid by staff and the Fund. Furthermore, if the orientation toward more flexibility is retained, this possibility could prove useful to implement new categories of benefits, while reducing or abandoning some others. Lastly, to facilitate the whole exercise, and given the results of the survey, some modest improvement in the overall benefits level should not be precluded.

The introduction of some flexibility in the overall benefits package is worth considering. I agree with the staff that the possibility of selecting a mix and level of specific benefits that would better meet individual needs could be advantageous to employees. It would also provide a better answer to the different expectations of an international staff.

However, before considering the consequences of such a move on individual benefits, the management should provide us with further studies on the characteristics of such a flexible plan, and the way to implement it. I also agree with the Staff Association that some caution is warranted--in such areas as flexible use and trading of annual leave--in order to protect the morale and well-being of the staff.

The staff also suggests that a form of capital accumulation plan could be introduced, as such a plan constitutes a major type of benefit in the United States and in France. I believe that it could be an additional element of flexibility for staff members, which could be considered as a complement to the Staff Retirement Plan. The substitution of such a plan for the present separation grant should also be envisaged.

It is clear indeed that if more flexibility is introduced in future benefits packages, as well as new benefits such as capital accumulation plans, the modification or elimination of some previous benefits would be implied, in order to maintain overall benefits on a level broadly in line with the market.

Therefore, while agreeing with the main directives suggested by the staff, my main conclusion is that we need to know more about the general design of the future package before tackling modifications in individual benefits.

I would like to know how this exercise is related to the parallel exercise taking place in the World Bank. I would appreciate knowing, as this chair has a particular position, if any kind of coordination is envisaged between the two institutions on these issues.

Mr. Prader stated that although he had some doubts about the accuracy of the study, he had taken note of the results of the quadrennial benefits survey, in particular, the finding that the Fund's level of benefits was broadly in line with the average level of benefits in the comparator markets, as well as with the benefits of the World Bank. On the appropriate level of benefits, the market mean seemed a reasonable starting point for assessing the appropriateness of Fund benefits, but the case could also be made for setting the reference base at a higher level. If benefits were an essential element of the Fund's competitiveness in the job market, and the Fund was serious about improving the skewed nationality distribution of the staff, the idea of taking the same approach for the level of benefits as for salaries--namely, to target the 75th percentile--would seem at least as justified as the orientation on the market mean. Therefore, his chair would support pitching benefits at the 75th percentile.

In any case, not even the market mean reference base would point in the direction of a need to reduce any of the benefits of the Fund, Mr. Prader observed. Also, on the basis of the survey, he saw no convincing rationale for the kind of changes in the present level of, or access to, benefits proposed by the Joint Compensation Committee in 1988. That was especially true, considering that the areas in which the Fund's benefits were better than those of the World Bank were offset by other areas, in which the reverse was true. He could therefore not accept any cuts in the separation or termination grants, food service subsidies, and subsidized loans for the purchase of homes. On the proposal to eliminate the subsidies for the Executive Dining Room, if food prices in the Dining Room were to be raised to the market level, then the quality of the food served would also have be raised. Otherwise, higher food prices might well result in a drastic decline in demand for the Executive Dining Room, and force staff to have their lunch outside the Fund.

As the Hewitt study showed, the net value of benefits provided by the Fund was below that of the comparators, Mr. Prader continued. In view of the importance of satisfactory benefits for the ability of the Fund to attract the best staff available in the international market, it would seem appropriate to aim at improvements in certain areas, including family-related benefits such as assistance for employment for spouses and the employer contribution to retirement plans and health care.

Another important area in which the Fund lagged far behind European standards was paid and unpaid parental leave, Mr. Prader pointed out. In the context of achieving a more even nationality distribution and a larger share of women in the Fund staff, it would be necessary to adjust the Fund's respective benefits to those in Europe.

As Mr. Grosche had already pointed out, the information in the Hewitt study that parental leave was not found in Germany was incorrect, Mr. Prader commented. In fact, in Germany, six months of paid maternity leave was quite common. Consequently, the assessment made in the Hewitt study and the staff paper that the Fund's policies on maternity leave were in line with the market would have to be revised, and the recommendation changed, accordingly.

His chair was open to the proposal to introduce greater flexibility in the benefits package, provided that did not imply a reduction in benefits, Mr. Prader concluded. On the proposal to supplement a contributory capital accumulation plan for the present separation grant, he preferred maintaining the separation grant for reasons similar to those noted by Mr. Fogelholm.

Mr. Dawson said that although there was no mandatory parental leave policy in the United States, many employers provided it.

The staff representative from the Administration Department stated that there was a problem of categorization of benefits. Hewitt's methodology defined parental leave essentially as leave offered by employers in excess of the maternity leave included in the sick leave or disability leave categories, or as leave provided for purposes other than vacation and time off with pay--annual leave. The staff was aware that German employers offered parental leave on a full-pay basis, and for some periods, on a partial-pay basis. At the staff's request, Hewitt had reviewed the German organizations' questionnaires on that subject, and none had specifically cited that they provided parental leave as Hewitt had defined it. However, Hewitt's benefits specifications for the categories showed that under German social security, both maternity and parental leave were provided, parental leave generally for a period of six months, and longer for lower-salaried employees. The benefit specifications for German civil service and all other employers also showed that special leave was provided for golden and silver anniversaries, childbirth, marriage, and a variety of other family circumstances.

Hewitt had included those benefits because their values would be included either in time off with pay--how most of them were valued in the case of Germany--or, in the case of some U.S. organizations, in sick leave and short-term disability, so it was not correct to say that the benefits had been ignored, the staff representative concluded.

Mr. Posthumus stated that he supported the general conclusion that modest increases in the current resources provided by the Fund were justified, but he shared the doubts that had been expressed about flexible benefits plans.

Regarding the specific benefits programs, he agreed with the staff's approach with respect to the Staff Retirement Plan, the Medical Benefits Plan, the appointment allowances, and the separation grant, although he had some questions regarding appointment allowances, Mr. Posthumus went on. The paper stated that installation allowances and settling-in grants were generally not available for staff in grades A1-A8 because employees in those grades were deemed to have been locally recruited. He wondered under what circumstances those allowances might be made available to such staff, and why such allowances were available to locally recruited higher level staff. He wondered further why there should not be a completely nondiscriminatory system across all salary grades for installation allowances and settling-in grants.

He did not support the staff's suggestion to continue subsidized housing loans, and agreed with the recommendation of the Joint Compensation Committee that the program should be discontinued, Mr. Posthumus stated. He recognized that the program was attractive, but he wondered whether it might not provide a wrong incentive--that is, to buy rather than to rent. The decision between those two was a difficult one--buying being the most risky of the two. However, it should be left to the individual to take that kind of decision, and, if a subsidy was necessary, it should be given to those who decided to rent as well as those who decided to buy.

He concurred with the recommendations in the report of the Joint Compensation Committee regarding loans for education of spouse and children, which reflected the majority view, Mr. Posthumus noted.

It would not be at all desirable to allow staff to encash unused leave balances upon separation, although he recognized that at present that was an acquired right, Mr. Posthumus concluded. He did not support the introduction of even more possibilities for such leave trading. If the situation was such that staff did not have the time to use their leave at regular intervals, then the Board should draw the proper conclusion from that--that more staff would have to be attracted. He supported the staff's approach regarding the other suggestions.

Mr. Shaffrey stated that the quadrennial benefits survey had yielded some very interesting results, and was of great assistance to the Board in assessing the appropriateness of Fund benefits. In particular, the revelation that the value of benefits provided by the Fund itself lagged behind the market somewhat was important, and he welcomed the narrowing of that gap through the revision of the Staff Retirement Plan and the proposed revisions to the Medical Benefits Plan.

He could see no reason why the staff should be asked to bear a higher proportion of benefit values than what was considered to be the market norm, when the value of the total benefits was more or less in line with the comparator market, Mr. Shaffrey commented. He thus agreed with the staff that modest increases in the current resources provided by the Fund were justified.

The level at which benefits should be set with respect to the market was an important question, Mr. Shaffrey observed. There were some imponderables there and a cautious approach was warranted, and consequently he could endorse the staff's suggestions aimed at keeping benefits not too far above the mean of the market.

He agreed that the concept of flexible benefits plans was worth pursuing, largely for the reasons outlined by the staff, although minimizing the administrative burden would be of paramount importance, Mr. Shaffrey continued. Capital accumulation plans were worth considering for inclusion in the benefits menu, particularly as a means of phasing out the separation grant, and he agreed that the Fund should, in principle, make some extra resources available in that connection, particularly if the cost to the Fund of other benefits was reduced.

He welcomed the indication that the staff would follow up suggestions for introducing greater flexibility in the Staff Retirement Plan, and would consider that the Staff Association had nothing to fear, and something to gain, in that regard.

He could support the elimination of the salary advance for furniture purchases and its absorption into the general advance, and the extension of installation allowances and settling-in grants to A1-A8 staff not recruited locally, Mr. Shaffrey noted.

His chair had generally taken the view that the interest subsidies on housing-related salary advances should be discontinued, Mr. Shaffrey went on. He also supported the suggestion that the interest rate on education loans be set at half the Credit Union's unsecured rate, and that the terms of salary advances for urgent personal reasons be brought into line with those of the Bank.

The amount of leave that could be traded for other benefits should be quite small, as staff must have available an adequate amount of leave to recharge the batteries, Mr. Shaffrey concluded. He could go along with the continued subsidization of food services, given the prevalence of that benefit in comparator markets.

Mr. Fernando stated that he did not see disparities in the level of the Fund's benefits in comparison with comparator markets great enough to justify the conclusion that the Fund was uncompetitive. He took that view after taking into account the ongoing review of one of the major Fund benefits programs--the Medical Benefits Plan. That was a program in which disparities would clearly be seen, as the staff's contributions were greater than the average of such contributions in the U.S. and German markets.

The proposed capital accumulation plan merited further study, Mr. Fernando went on. Such a plan was an important feature in comparator markets, but did not exist in the Fund. He could broadly support suggestions to explore methods of providing for such a plan in a way that would enhance the possibility of capturing the interest and benefits of the present separation grant. Such a reform would better ensure cost neutrality, which should be observed. While he agreed with such a study in principle, it would be desirable to leave undisturbed the present characteristics and provisions of the Staff Retirement Plan, which had only recently been modified after much debate.

He could go along with the suggestion in the staff paper to extend eligibility for installation and settling-in grants to staff in Grades A1-A8 who had been recruited from outside the Fund headquarters area, Mr. Fernando continued. He noted that if the Fund employee were to leave the Fund before a period of two years, the Fund would be due a pro rata refund of that settling-in grant. The situations of Executive Directors suggested that they be treated differently in that regard, especially in the case of a Director who relinquished his post because he was recalled by his Government. The refund to the Fund should then be the responsibility of the government concerned, but, as that had not been possible in practice, the refund became a personal liability of the Executive Director. He believed that in those exceptional and specific circumstances, some relief should be provided, if necessary through the Joint Committee on the Remuneration of Executive Directors.

He saw no rationale for commuting part of sick leave to annual leave at the time of separation from the Fund, Mr. Fernando concluded. He did not regard sick leave as a privilege. He could agree to a phasing out of the subsidy for the Executive Dining Room.

Mr. Yoshikuni stated that like other Directors, he welcomed the opportunity to discuss the results of the 1989 quadrennial benefits survey, and he would like to commend the staff and Hewitt Associates for the comprehensive study on that subject. As his chair had stressed on many occasions, a balance should be struck between the need to employ staff of the highest caliber and the need to keep the Fund lean and efficient. He shared Mr. Grosche's point that study of benefits was very difficult because the contents of the benefits packages varied significantly, depending on the institution, and that it was not possible to quantify certain benefits. Some latitude should be given in interpreting the results of such a survey, therefore. Nevertheless, he appreciated the efforts made by Hewitt Associates to quantify as much as possible the benefits of many institutions, and, like other Directors, he shared the study's general conclusion that the Fund's benefits were on the whole in line with the market average.

Like Mr. Grosche, he was not convinced that the study suggested a strong case for a higher level of employer-provided benefits, Mr. Yoshikuni continued. In the table of relativities, Fund employer-provided benefits were rated as 100, whereas the average for the three comparator countries was shown as 101.5--such a difference was not statistically significant enough to justify increasing the employer-provided benefits in the Fund. He also shared Mr. Dawson's concern about using simple averages in that analysis. The Fund would have to be cautious in proceeding in that area. However, he would not be strongly opposed if the majority of the Board were in favor of increasing to a small degree the level of Fund-provided benefits, since, as he had said, he recognized that some degree of latitude had to be given in interpreting the study's results.

He generally supported the idea of introducing more flexibility in the benefits system, Mr. Yoshikuni concluded. He would encourage the staff to work out in more detail some specific proposals in that regard, taking into account the administrative difficulties. He could go along with the consensus in relation to the other specific proposals.

Mr. Monyake stated that the results of the quadrennial benefits survey provided a means of re-examining the structure and nature of Fund benefits. To the extent that it was appropriate to pitch the level of total benefits to the mean prevailing in comparator markets, the results did not call for drastic action, but they highlighted the inadequacy of employer-contributed benefits in the Fund.

The question remained as to whether that comparison served the objective of maintaining the Fund's competitiveness and its ability to attract staff of the highest caliber, Mr. Monyake went on. The hypothetical value attached to benefits made such a judgment difficult to make with any great certainty, and was further complicated by the international nature of the Fund, which limited the extent to which strict comparisons could be made. Nevertheless, to be consistent with the guiding principle adopted by the Executive Board in reviewing direct cash compensation, he endorsed the proposition that the Fund's overall package should be matched to the practices of organizations the salaries in which were around the 75th percentile.

A more flexible approach in the Fund's benefits package should be adopted, Mr. Monyake observed. He would therefore ask the Administration Department to examine further ways and means of making the Fund's benefits more responsive to the evolving needs of the staff. To ensure the stability of the benefits package and to contain administrative costs, caution should be exercised when making changes, especially when considering further changes to the Staff Retirement Plan. Given that a lengthy review of the Plan had just been completed, more changes were not warranted. The suggestion to terminate the separation grant and replace it with a savings plan, while perhaps attractive, must be considered carefully to ensure that the particular needs served by the present separation grant continued to be met. The rationale for the separation grant when it was established still remained. He would encourage the Administration Department to undertake a comprehensive study of the feasibility and desirability of a savings plan, whether separately or in conjunction with the Staff Retirement Plan, and in the context of the overall benefits package.

Expenditures associated with setting up a new household were particularly heavy for staff who had just moved to the United States, Mr. Monyake commented. The provision of loans to purchase furniture partly alleviated those costs for those who demonstrated a need, and could therefore be kept separate. He supported the proposal to extend eligibility for installation allowances and the settling-in grant to staff members in grades A1-A8.

With regard to the provision of salary advances for the purchase of a house and to meet the cost of education, he strongly endorsed the recommendation of continuing those benefits with the subsidy currently provided, Mr. Monyake stated. He also supported the proposal to allow each staff member one opportunity to receive a salary advance for the purchase of a home during his or her career with the Fund. Advances for emergencies should be provided interest-free, as was the practice in the World Bank.

He favored a more flexible benefits package, but the proposal to allow the exchange of some annual leave for other benefits must be carefully considered to ensure efficiency and effectiveness, Mr. Monyake pointed out. Broadening the reasons for granting emergency leave was needed, and he warmly supported it.

He agreed with the recommendations of the Administration Department to continue the present arrangement of food subsidies in the Executive Dining Room, and to harmonize the subsidies in the Fund and Bank cafeterias, Mr. Monyake concluded.

Mr. Jarvis made the following statement:

> As we noted when we discussed the Staff Retirement Plan, the quadrennial benefits survey is an impressive piece of work. The clear breakdown between employer and employee provided benefits is particularly useful, as is the presentation of the "all benefits" category.
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> However, there are some important limitations to the survey and these should be borne in mind in interpreting its results. An obvious one is that although the French and German markets are given equal prominence in the display of survey results, there

were only a few comparator organizations from each of those countries, whereas there were many from the United States. I think it is unfortunate that more European comparator organizations could not be found. Perhaps the staff could tell us what measures are being taken to address this problem.

Some important benefits specific to the World Bank and the Fund are also excluded--in particular, expatriate benefits such as home leave and education allowances. While I can appreciate the difficulty of incorporating allowances to which only some staff are entitled, and can also understand that these benefits are a function of the particular international nature of the Fund, it surely cannot be right that benefits as important as these to the staff, and as costly to the organization, should be effectively valued at zero in a survey of the Fund's benefits. What this points toward is the need for a thorough study of expatriate benefits as a whole. Such a study would be particularly useful since the World Bank has already produced a paper that proposes, among other things, radical changes in the structure of expatriate benefits.

While a comprehensive survey of benefits, albeit excluding expatriate benefits, is very welcome, for meaningful judgments to be made about competitiveness, we really need to consider the Fund's benefits alongside staff compensation; the two are interlinked in many ways. For example, on the one hand, Fund employer-provided benefits compare quite well with French and German benefits at lower salary levels, but are significantly below French, and especially, German, benefits at the highest salary levels. On the other hand, according to the latest paper on staff compensation, the salary slope in the Fund is significantly steeper than those in the French and German comparator markets. This would seem to imply that although benefits are below the mean in the French and German markets at the highest salary levels, the salary levels themselves are well above the 75th percentile of the market at these levels. If this is so, we can perhaps be more relaxed about the apparent shortfall in employer-provided benefits at the highest salary levels than the bare figures would indicate.

All of this has implications for the central question posed by the staff: at what level should Fund benefits be set? During the review of the Staff Retirement Plan, this chair argued strongly that since many Fund benefits are a function of salaries, and since salaries are already set at the 75th percentile of the comparator market, benefits should generally be set at the mean for a given salary level. To add a further premium would involve double counting. The staff now argues that maintaining a modest margin above the mean in terms of benefits would be justified, in order to come closer to a combination of salaries and employer-provided benefits that approximated the 75th percentile of the market as a whole.

Against this, however, are the limitations of the survey that I have mentioned earlier, and the question of costs to the organization, which is not discussed fully in either the survey or the accompanying papers. The Board cannot be expected to make firm commitments on benefit levels without regard to the budgetary implications.

In the light of all of these considerations, our preference would be for benefits to be set at the mean of the comparator market. We could not support the idea of matching fully the benefit levels of the upper part of the comparator market, as the staff suggests at one point.

On the other specific suggestions made in the latest staff paper, we found the idea of converting the separation grant to a savings plan interesting, although I think that consideration might be given to the idea currently being discussed in the World Bank of converting the separation grant into a general flexible benefits scheme, which embraces a savings plan. This seems more logical than setting up both a savings plan and a flexible benefits scheme. Once again, costs will have to be considered carefully. The staff's suggestions for the revision of salary advances for housing seem reasonable, although the Board will need more evidence that these are important for recruitment and are the most appropriate form of support before coming to a final decision. We have more reservations about the proposals on salary advances for education. This subject is very closely linked with expatriate benefits, and the two should be considered together.

I would urge that some consideration be given to what is going on in the World Bank, which is currently undertaking a radical revision of its benefit policies. This is bound to have implications for the Fund, just as the revisions suggested in the staff paper will have implications for the World Bank. At the very least, the two institutions should be consulting closely on these matters.

There is considerable merit in Mr. Dawson's suggestion of asking a Joint Standing Committee of Executive Directors to consider compensation issues. The idea of a Joint Committee may cause Directors some concern, but recent experience--with respect to the discussions last year on staff compensation, and more recently, on the Staff Retirement Plan, for example--demonstrate that issues of parallelism are important, and have the potential to cause problems for both institutions. It is surely best if they are resolved early, before positions have become entrenched. A Joint Committee would serve this purpose admirably.

Mr. Dai said that he agreed that the Board should bear in mind that it had always been the Fund's policy to recruit and retain an international staff of the highest caliber. It was therefore of primary importance that the aim of keeping the Fund competitive enough in staff salaries and benefits to attract high quality people not be lost sight of. Another crucial fact that should not be lost sight of was the continuing demands placed on a staff that had grown very little over the years in the face of an ever-increasing work load.

He had noted from the staff paper that, on the whole, the Fund's benefits program was broadly in line with the mean benefits of the three comparator markets, Mr. Dai went on. However, as pointed out in the paper, Fund staff at most salary levels contributed a greater percentage to the overall package than employees in all three comparator markets, while the value of the Fund's employer-provided benefits as a whole was generally below the mean in all three comparator markets. He therefore agreed that it would be appropriate for the Fund to take steps to improve the share of employer-provided benefits. In any event, any modifications or revisions should be conducive to an increase--not a decrease--in the present overall level of benefits.

There was some merit in introducing a certain degree of flexibility in the overall benefit package, Mr. Dai commented. He also agreed with the view of the Staff Association that, in practice, some caution would be warranted.

The separation grant was provided to employees of the Fund because of the special features of the Fund as an international organization, Mr. Dai pointed out. He would therefore prefer to keep the grant as it was at present, as it served a role in dealing with some of the special difficulties faced by employees of an international organization who had traveled to the United States for a career.

Because of the various demands placed on Fund staff--a heavy work load, tight deadlines, and business travel--the staff was often put in the position of being unable to utilize fully its annual leave, Mr. Dai observed. Under specific circumstances, it might be desirable to allow staff to convert the leave accumulated into another type of benefit, on condition that certain amounts of leave must be taken in order to offset possible health problems associated with a stressful lifestyle.

The metropolitan Washington area was among the most expensive in the United States for housing, Mr. Dai remarked. Fund staff faced financial problems, as well as other difficulties--no long-standing credit references--when trying to buy a home in the area, especially if they were new to Washington. It therefore was essential that the Fund provide assistance. Fund recruitment could be affected if such help was not given. He could go along with the idea of extending that benefit one time in a staff member's career with the Fund, rather than making it available only for the purchase of the first home in the area.

He could go along with the current educational loan policy, and also with the Joint Compensation Committee recommendations concerning salary advances for urgent personal reasons--that they be somewhat less restrictive and that they be interest free, Mr. Dai concluded.

Mr. Noonan made the following statement:

> We have been presented with an interesting set of comparative data on staff benefits. The presentation, as far as it goes, suggests that there is room for some improvement in the Fund's overall package of benefits to bring it into line with those prevailing in comparator markets.
>
> However, I have two reservations which cause me to hesitate in supporting that conclusion. Like Mr. Dawson and Mr. Jarvis, one of my reservations concerns the extent to which the full range of benefits is actually covered by the comparative survey. My other reservation concerns certain considerations which could be relevant to our review, but which are not given any great prominence in the papers. Nevertheless, I would have no objection to increasing flexibility, provided that that were done within existing budgetary parameters. I accept the Staff Association's point on the flexibility of paid leave.
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> To put the various benefits that were surveyed in context, it should be noted that the aggregate of retirement and death benefits, health care benefits, and annual leave, dominate the employer's share of the costs of providing those benefits. Consequently, the other benefits surveyed are likely to be of far less significance for the objectives of the Fund's overall compensation package. The major benefits, other than annual leave, will be the subject of separate reviews, so that, apart from paid leave, we are essentially looking at what might well be described as some marginal benefits.
>
> Regarding the extent to which the full range of benefits is covered by the survey, the exclusion of expatriate benefits may be an important omission. It would be interesting to learn on the one hand how many of the Fund's staff are expatriates, and what expatriate benefits cost as a percentage of the various pay points. On the other hand, as Mr. Fogelholm has pointed out, there are costs to be borne by G-IV visa holders, particularly those arising from the restriction on their spouses and dependents

from taking up paid employment in the United States. It would be helpful to have some estimate of the size of those offsetting costs. Also of interest, under the heading of omissions, would be the social security and similar payments made in respect of U.S. staff, and what they cost. We would then have a more comprehensive picture of how the Fund's benefits package compares with that of other employers, where social security benefits have been included. Of course, having that comprehensive picture would not prevent us from deciding, on the basis of that comprehensive picture, whether or not all of those benefits are necessarily comparable.

With respect to certain considerations that could be relevant to our review, other than the comparison with other employers, these considerations would include, on the one hand, the objectives of the Fund's overall compensation policies, particularly the objective of recruiting and retaining staff of the highest caliber, and, on the other hand, whether there are constraints on increasing the total of our compensation expenditure. On the issue of the objectives of compensation policies, there is little firm information, leaving aside anecdote and assertion, on the role that employer-funded benefits, and in particular what may be only marginally relevant benefits, play in recent and current experience in the recruitment and retention of staff. I suspect that the role of these marginal benefits may well be very small.

As to the constraints on increasing our compensation expenditure, I note that the cost of these various benefits, marginal though they may be in terms of the recruitment and retention of staff, nevertheless represents a significant, if small, percentage addition to the overall compensation bill. Given the constraints on even small additions to staff numbers to meet demands arising from developments in Eastern Europe and elsewhere, I am reluctant to go along with adding to those constraints by increasing expenditure elsewhere. Like Mr. Jarvis, I think it would have been helpful to have had from the staff some articulation of the constraints on increasing the Fund's overall compensation bill as background to the paper. We would then have been better informed to assess whether we are in a position to provide more budgetary resources for benefits, which may have only marginal effects on staff recruitment and retention, or whether, if such resources are available, they might be better used to relieve difficulties elsewhere.

Mr. Othman made the following statement:

Given the purposes of the survey, namely, to know whether the values of Fund and Bank benefits are approximately in line with each other, and whether both are broadly in line with benefits in comparator markets, and whether individual benefits are reasonably related to those of comparator organizations, it is clear from the survey's findings that the Fund's benefit program in 1989 is broadly in line with the average value of benefits in the comparator markets, as well as with the benefits of the Bank.

This, as pointed out by the staff, stems mainly from the relatively high level of contributions made by Fund staff compared with the level of payments made by employees in the three comparator countries. In terms of the net worth of benefits to employees, however, which, as indicated by the consultant, is the most meaningful measure of market relativities, it appears that the Fund's benefits are generally in line with, or somewhat below, the mean of the United States, and substantially below the average of France and Germany. This situation indicates the need for some changes in the level of Fund benefits, either through further shifts in the relative shares paid by staff and the Fund, or by some benefit improvements, or both.

We agree in principle with the changes suggested by the staff on the ways of improving the Fund benefit package and bringing it more into line with the comparator markets. The introduction of some flexible benefit plan is a welcome suggestion. It will certainly improve the responsiveness of the system to the diversity evident in an international staff and, at the same time, allow for more consistency with current practices in the comparator markets. The proposal of converting the separation grant into a capital accumulation plan is also another useful suggestion which deserves further research for ways of implementation.

It is important, however, to emphasize that the benefits that will accrue to staff through such new mechanism should not be less than those under the present separation grant. The separation entitlements which have already been acquired should also be addressed, in order to avoid denying any staff such entitlements.

On the question of whether it is sufficient for the Fund to set the overall level of benefits at the mean of the market, or to set it in the upper part of the comparator markets, as was done with direct compensation, it is clear from the staff paper that data needed to reach firm conclusions on these relationships are not available. However, given the international character of the Fund, which justifies some differences in compensation and benefits in order to maintain a level of competitiveness that permits the Fund to recruit and retain an international staff of the highest caliber, we can see some justification for setting the Fund's package of benefits somewhat above the mean of the comparator markets, provided that that will not yield a combination of salaries and employer-provided benefits that exceeds the 75th percentile of the market as a whole.

On individual benefits now in effect, the rules governing their administration, and how they can contribute to the maintenance and enhancement of the international character of the Fund, I agree with the staff that not all suggested changes need to be reflections of market comparability concerns. Some changes are required because of the unique character of the Fund, or for equity or administrative reasons.

On the appointment allowance, we can go along with the staff suggestion of combining the furniture allowances with the salary advances, for the reasons outlined in the staff paper. We also can endorse the proposal to extend eligibility for installation allowances and the settling-in grant to A1-A8 staff.

On the separation grant, at this stage this chair can support the maintenance of this grant in the form recommended by the Joint Compensation Committee, pending the results of the further study to be undertaken by the staff in this area.

We have an open mind with regard to the two amendments suggested regarding housing loans, and with respect to the loans for education of spouse and children.

We can support the recommendation of the Joint Compensation Committee regarding advances for urgent personal reasons. While we can go along with the staff proposal to consider leave benefits and the possibility of trading a small amount of annual leave for other benefits as a part of a flexible benefits plan, it would be important to apply such a scheme with caution, in order to ensure that it does not conflict with the rationale for leave.

While we acknowledge the Joint Compensation Committee's recommendations with regard to food subsidies, we are willing to go along with any consensus that may emerge in the light of the survey result.

While we see merit in the introduction of some other benefits in the Fund as a way of improving the Fund's benefits package and bringing it more into line with the comparator market, we can agree with the staff that further examination would be required before reaching a definitive conclusion on this issue.

Mr. Montórfano stated that the results of the 1989 quadrennial benefits survey would help to improve the current system of benefits. He was not certain whether the differences between the Fund's benefits package and that of comparator organizations in the United States, France, and Germany were such as to justify a change in the system of benefits, but the study had led to a number of interesting suggestions for revisions in any case. The results indicated a need for the Fund to re-examine the structure of its own package of benefits in order to bring it up to date with current market practices, and to ensure that it continued to meet the diverse needs of the staff. He could go along with a decision by the Board to modify the overall benefits structure.

Mr. Marino stated that he was in broad agreement with the staff's conclusions. He supported the idea of positioning the overall value of Fund benefits somewhat above the mean of the market, by increasing the share of costs toward the Fund, in order to narrow the differences between the Fund and the comparators found in the survey, in particular. He also concurred with the need to introduce individual flexibility, while avoiding discrepancies in the total value of benefits between individuals, and without affecting the overall benefits program. He also agreed with the conversion of the separation grant into a capital accumulation or savings plan. Any revision of the specific benefits that might be made should respect the principle that the overall value of benefits to the staff would not be affected, so as to maintain the competitiveness of the Fund in that connection.

Mr. Dawson commented that the use of simple averages in the comparison of the value of the Fund's benefits package with other packages was not appropriate. He had noted that the survey had drawn a distinction between "all security" and "all benefits" values. Under the employer-provided value of all security benefits, the U.S. market appeared to be more generous, on average, than the comparator markets. Using that comparison, the weighted average of the Fund's benefits, using the methodology in the paper, came to 101.6, as opposed to the U.S. comparator market's 100.2. The chief explanation for the lower value of the all benefits package in the U.S. market relative to the comparator markets was the more generous leave provisions in France and Germany. However, he would note that if the Fund's expatriate benefits had been included in the measure of the Fund's total benefits package, the Fund would compare much more favorably in the category of the all benefits package. On those grounds, he would argue for inclusion of the different home leave practices in the Fund and in comparator organizations.

One speaker had mentioned that the value of social security to U.S. nationals on the Fund's staff should be included in the total value of the benefits package if expatriate benefits were to be included, Mr. Dawson recalled. U.S. social security was actuarially unsound, and the value of employer contributions as a proportion of benefits received was insignificant. If the value of social security was to be taken into account, then a study would have to be made of the social security benefits that would be available on a noncontributory basis to French and German nationals retiring in their home countries as well.

He would appreciate a breakdown from the staff of the number of staff members in each salary category mentioned in the staff paper, Mr. Dawson concluded.

A staff representative from the Administration Department stated that the purpose of the staff paper had generally been to seek the guidance of the Board on a number of issues, and that such guidance had generally been provided in the discussion. It was now up to the staff to reflect upon what Directors had said, and look into how best to move forward.

The Administration believed that staff benefits were important, although it might be difficult to show, other than on an anecdotal basis, that that was so, the staff representative continued. The staff involved in recruitment, however, who confronted directly the difficulties of attracting foreign nationals to the staff--especially from European countries--and who needed to keep in mind an appropriate staff nationality mix, could bear witness to the importance of benefits in that regard.

He agreed with Mr. Grosche's comment that the survey results did not give grounds for a substantial upward movement in the value of staff benefits, the staff representative stated. It did appear, however, that there was some scope for modest improvement, although given the approximate nature of the survey data, and the extent to which the results depended on the methodology, it was difficult to say exactly how much. Some of the results pointed to the need for a more flexible position on benefits than had been possible in the preceding few years. A case could be made for some modest movement above the mean, although the Administration agreed that movement up to the 75th percentile could not be justified. A modest movement above the mean would place the Fund in the vicinity of the 75th percentile, which had been an original aim of the Kafka Committee, and, perhaps somewhat more loosely, of the Joint Committee on Compensation.

The Administration could agree with much of what Mr. Dawson had said about the amount of time the Board spent discussing staff benefits issues, the staff representative noted. The Administration would prefer to put the issues out of the way for another four years--or, preferably, even longer. In consequence, the Administration was not interested in exploring massive changes in staff benefits.

The need for caution in organizing a flexible benefits package and on the principle of leave trading had been expressed by a number of speakers, the staff representative recalled, which the Administration would bear in mind. The Administration was conscious also of the need to control administrative costs. At present, the Fund's benefits program was administered by a fairly small number of people, and there was no doubt but that flexible benefits plans led to administrative complications. The staff would want to be sure that whatever was done in that direction would leave administrative staffing levels very lean. The Administration was also concerned about the budgetary ramifications, which would be looked at very carefully before going ahead.

The Administration kept in close touch with the World Bank on the issue of staff benefits, the staff representative pointed out. The Fund's Administration Department had seen the recent World Bank paper, which had been divided into two parts. The first part had dealt with basically the same topics the Board had discussed in the meeting, and there was broad general agreement in both institutions on those items. The general thrust of that part of the paper was similar to the general thrust of the Fund's. The second part of the paper in the World Bank concerned expatriate benefits, and in that respect the World Bank was going farther than the Fund in considering changes. One proposal was to streamline home leave benefits by making cash available and allowing staff members to make their own travel arrangements. Another proposal--much more radical, and which gave the Fund Administration cause for concern--was the abolishment of education benefits for expatriate staff, to be replaced by an across-the-board expatriate allowance related to salary level. The Administration would continue to convey its concerns on that issue before the World Bank's position became fixed.

In that connection, one of the problems that the Administration had encountered in dealing with the World Bank was the fact that while contact between the two institutions was close, the World Bank had more administrative layers of review in its decision-making process, and it was easy for the World Bank to get ahead of the Fund in that sense, because once one of the review bodies had made a pronouncement on an issue, it was difficult to negotiate a change or to introduce some flexibility, the staff representative noted.

Parallelism did not necessarily imply the putting in place of identical benefits in the Fund and the Bank, in the Administration's view, the staff representative went on. As long as the broad parameters of benefits were the same, and the expenditures of each organization were symmetrically comparable, there was room to vary the benefits, in terms of detail, to the specific needs of each institution; a good degree of flexibility should be available.

To a certain extent, the same points had been brought up as were brought up at the time of the discussion on the Staff Retirement Plan about whether or not to include expatriate benefits in the survey, the staff representative observed. The staff had decided to exclude such benefits from the survey because the U.S. comparator organizations would probably not be able to identify a home leave policy, even if they had a similar policy--under certain circumstances--themselves. To include education allowances and home leave in the calculation of the value of benefits would clearly place the Fund far above the market, in consequence. Moreover, it appeared to make little sense to, for example, cut down on medical benefits, because the results of the survey showed that the Fund's package of benefits, including home leave and education allowances for expatriate staff, took it way beyond the market. Those items would have to be considered separately.

It was inaccurate, in the Administration's view, to refer to the Fund's system of tax allowances and reimbursements of the amount of U.S. social security tax paid by staff members at the self-employed rate as a benefit for U.S. staff, the staff representative remarked. It might be noted, in passing, that the tax allowance system cost the Fund more than the total of all expatriate benefits. Tax allowances were intended to put the U.S. staff approximately on the same footing in respect of their after-tax salary as expatriate staff who did not have to pay U.S. taxes. If tax allowances were included in the package of Fund benefits, again, the Fund would be seen to be above the market comparators.

The Administration believed that it was important to obtain a market reference for Fund salaries and benefits, and in that connection, it needed to be recognized that the Fund did not have the capability itself, in terms of staff or expertise, to gather the type of information that was necessary, and that Hewitt Associates, the consultants, had provided for the survey of benefits, the staff representative concluded. If the Fund were to undertake such a study single-handedly, considerable expenses, including for additional staff, would be involved, exceeding the sum of $140,000 which the Fund had paid to the consultants for the survey. Moreover, if the Fund's staff were to be expanded for the purpose, additional costs would be incurred year after year. The consultants' surveys were essential; perhaps they could be carried out less frequently than every four years, but they needed to be done.

Mr. Noonan said that if social security benefits were being included in the comparator organizations, perhaps they should be taken into account in some way on the Fund's side as well, and if they were to be excluded, perhaps they should be excluded from the comparators as well. The Board needed to be certain that the comparisons were fair.

Another staff representative from the Administration Department stated that no major Fund member countries, other than the United States, permitted staff nationals returning to their country from employment with the Fund to qualify for national social security programs in which they had not participated previously by paying into such programs monies provided by the Fund, although in a few countries the individual would be allowed to qualify by paying in his or her own personal resources. There might also be a few cases in which credit toward a social security program would be given regardless of the source of employer contributions. As a general rule, however, Fund service did not count toward participation in social security programs. Therefore, when comparing benefits, it seemed more equitable to exclude Fund-provided social security contributions from the Fund benefits package for U.S. nationals.

It was difficult to be specific about how far above the mean of the market it would be possible to go in respect of the value of the benefits package without raising the combined total salary and benefits value above the 75th percentile of the market as a whole, the staff representative commented. An extensive integrated analysis of salaries and benefits in the comparator markets which addressed the differing methodological problems would be needed to make an accurate judgment in that respect. The consultants' general information was that salaries and benefits were not fully correlated, and that, on average, only 75-80 percent of salaries were linked directly to pay; as pay increased above the mean, benefits moved up above the mean as well. That also applied to the Fund. It would be possible to increase the value of certain benefits not linked directly to salaries without causing the total value of benefits to move up in tandem, however, but it might be misleading to try to guess by how much.

Staff members recruited in ranges A1-A8 did not normally qualify for the installation allowance, although a few exceptions were made--in the case of bilingual secretaries, for example--the staff representative went on. Such exemptions required the determination of the Director of Administration that recruitment outside the Washington, D.C. metropolitan area was justified. Staff members recruited at range A9 and above received the allowance only if they were recruited from outside the Washington area.

The market relativities were heavily influenced by the fact that the U.S. payline was much steeper than that for France and Germany, the staff representative pointed out. The data for the last salary review showed that Fund salaries were below U.S. comparators at the upper levels, but above those comparators in France and Germany. The same was true of benefits comparisons at the upper salary levels. The relatively compressed nature of the Fund's salary structure and the steepness of the U.S. payline compounded the effect, so that upper level salary and benefits in the Fund tended to lag behind the U.S. market, and behind the French and German markets when both salary and benefits were taken into account.

Mr. Jarvis said that the Fund's payline lay between that of comparators in the United States and that in France and Germany, and the Fund's benefits seemed to be at a particular disadvantage at high salary levels relative to the French and German markets. The disadvantage in benefits was compensated for by the steeper slope of the Fund's salary scale vis-à-vis those two markets.

The staff representative from the Administration Department said that he agreed. However, he believed that the salary differences did not completely offset the disadvantage in the benefits package, especially in the case of Germany, where there were very large differences in benefits at the upper end of the salary scale.

Mr. Grosche stated that he agreed with the staff representative from the Administration Department that benefits mattered in evaluating the

Fund's competitiveness and its ability to recruit and retain qualified staff. Nevertheless, benefits were different from direct pay, as they were very much in the eye of the beholder, and assessments of them could differ among different employees. That was particularly true in an organization like the Fund, for example, where vacation time was so much more important than in U.S. companies.

The total compensation package mattered when assessing the Fund's overall competitiveness in the recruitment market, but the benefit part of it was not as sensitive to being kept absolutely at competitive levels as direct pay, Mr. Grosche observed. That did not mean that it could be allowed to slip or fall apart. It was important to be sure that the Fund's benefits package was more or less in the ballpark vis-à-vis its competition, and to know what market to aim at. He therefore welcomed the studies that were being undertaken quadrennially; he could go along with their being undertaken less often, however.

He did not believe that the Joint Compensation Committee had had the 75th percentile in mind when making its recommendation, Mr. Grosche continued. The data that Hewitt had provided indicated that there was some scope for improvement, without making the Fund overgenerous relative to the market. Such a conclusion was welcome, in his view. Some of that scope had already been employed in the changes that had been agreed in the Staff Retirement Plan, and perhaps more would be used in revising the Medical Benefits Plan.

In the future, Mr. Grosche went on, and although he would not insist on proceeding particularly quickly to institute changes, efforts should be focused on revising the termination grant, and perhaps incorporating it into a capital accumulation plan. Another area that might be modified was the housing allowance. As Mr. Posthumus and some others had indicated, it was strange that the Fund should subsidize the purchase of housing without also subsidizing rent payment. That was an area that might be of particular concern to younger staff members, and might influence the recruitment of younger staff.

The subsidy on housing purchases was also not in the World Bank's benefits package, which brought him to the issue of parallelism in benefits between the Fund and the Bank, Mr. Grosche commented. The Fund's benefits package should not, and could not, be identical to that of the World Bank, as the Fund had to provide for its own unique requirements, even though the overall cost of the benefits package in each institution should be more or less comparable.

In his view, the expatriate benefits package, which the World Bank was currently in the process of revising, had basically nothing to do with the comparisons the Board was making at present, Mr. Grosche pointed out. The expatriate allowances were intended to compensate for the fact that expatriate Fund staff living in the United States were expected to maintain a link, however illusory it might be, to their home countries and home labor markets. There were costs, for example, for staff who returned to their home countries after severing their working relationship with the Fund. The same held true for education of children. Those were two items in the current expatriate benefits package of both organizations.

He was skeptical about the World Bank's plans to move toward a specific expatriate allowance because the idea of an expatriate allowance had been more or less indirectly incorporated into the salary determination scheme through the 10 percent premium over the U.S. comparator market which had been agreed, Mr. Grosche stressed. That idea had been borrowed from the expatriate allowance schemes of other organizations. If the World Bank were to move toward a specific expatriate allowance, the Fund would have to revisit the issue of the international competitiveness of its direct compensation package.

Mr. Jarvis commented that an analysis of exactly what benefits were particularly important from the perspective of recruiting new staff had not been undertaken in the quadrennial review of benefits. Perhaps that could be examined in the next review.

Expatriate benefits were certainly relevant for recruitment, Mr. Jarvis noted, and should be taken into account in the Fund's overall benefits package to ensure that the Fund remained competitive in that regard.

With respect to parallelism, he would not subscribe to the view that the Fund and the Bank should have identical policies in all respects, Mr. Jarvis stressed. At the time of the discussion of the Staff Retirement Plan, his chair had argued that the retirement policies of the two institutions should be different because their costs were different. However, it was a sensible rule that, if there were differences, it should be possible to justify them based on the different natures of the institutions. It would therefore be useful to have some mechanism for consultations between the two organizations.

Parallelism had been more of a problem in the Bank than in the Fund, Mr. Jarvis considered. One reason for that was the fact that the World Bank Administrative Tribunal was obliged to attach importance to parallelism. The second was that in a number of areas the Fund's benefits were seen as being superior to the Bank's, which Bank staff resented, and which World Bank management was concerned about.

However, the relative positions of the Fund and the World Bank were not immutable, Mr. Jarvis went on. In the area of expatriate benefits, for example, he knew of one case in which employment in the Bank would become more remunerative than equivalent employment in the Fund if the Bank's current proposals were adopted. In that connection, he had been somewhat concerned by the staff representative from the Administration Department's indication that once a proposal passed through a certain layer of the Bank's management it became very difficult to suppress or modify; that concern was also in the minds of several World Bank Executive Directors as well. It was another reason to support the formation of a joint committee of Executive Directors on such issues, so that both Fund and Bank Directors could discuss them before positions on one side of the street became fixed. In addressing the issue of benefits, he strongly urged management not to present the Board with a package of proposals that could not be changed, or from which certain elements could not be isolated. That had not been true of the Board's consideration of the Staff Retirement Plan, and he hoped that such a situation could be avoided in the future.

Mr. Posthumus said that the issue of expatriate benefits opened up new avenues for discussion and differences of opinion between the Fund and the Bank. In his view, expatriate benefits were intended to make up for the discreet costs to non-U.S. nationals of living in the United States, and not to compensate per se for the differences in salary levels between the United States and other countries; it was not intended to correct for any inadequacies that might be seen in considering what people working overseas would need in order to work in the United States. In that sense, expatriate benefits should be separate from salaries, but he realized that there might be other definitions. It was clear that if the World Bank was considering a specific expatriate allowance, the Fund would need to look at it as well, to prevent the Fund's hands from being tied at the last moment, or the fixing of different positions on the matter in both institutions.

With respect to appointment allowances, he noted that the Staff Association's understanding of the Administration's proposal seemed to be broader than what had been outlined in the staff paper, Mr. Posthumus commented. The staff paper had said that a limited amount of settlement assistance would be provided to A1-A8 staff recruited from outside the metropolitan Washington area, whereas the Staff Association had intimated that the present policy would be extended to A1-A8 staff.

The staff representative from the Administration Department replied that the Administration had not made a specific proposal in that regard, but had only intended to solicit the Board's views on the matter. The Fund operated for recruitment purposes under the principle that professional staff were recruited internationally, whereas support staff were recruited locally. That division had been long-standing. There were of course exceptions to that rule, especially in the recruitment of secretaries with language skills.

Mr. Posthumus commented that the fact that it was long-standing did not necessarily mean that it should be retained.

The Acting Chairman recalled that there had been some discussion of recruiting more A1-A8 staff internationally.

The staff representative from the Administration Department said that the staff had not looked closely at the question of housing allowances, in particular the subsidy to house purchases without a subsidy to renting. Such a bias could not be fully justified, but it might be borne in mind that the fact was that many staff members chose to purchase--rather than rent--dwellings, perhaps because of the stage of life and family development, especially of the Fund's newly recruited staff members. Nevertheless, he agreed that the Administration might look into doing something for renters as well as buyers.

Mr. Grosche commented that it was in the area of housing that he had heard that the Fund was being beaten vis-à-vis recruitment by other institutions, especially universities, which often offered housing allowances to their staffs. That factor, in combination with the steep rise in housing prices in the Washington area over the previous five to six years, was a big impediment for the recruitment of young Fund staff. A continuation of the current housing loan subsidy would not redress that problem, in his view, and perhaps further thought should be given to it.

The Acting Chairman then made the following summing up:

> Directors generally observed that benefits were part of the total compensation package and that it was important that the Fund remain competitive in that respect in order to be able to attract a high quality multinational staff. In this regard, it was understood that the relevant comparison was with the level of employer-provided benefits.
>
> With respect to setting the level of employer-provided benefits in relation to the market, although there was some support for targeting the 75th percentile, most speakers supported the mean or somewhat above as the appropriate guide for comparing the Fund's benefits with the outside market.
>
> There were wide-ranging views with respect to the composition of benefits. It was pointed out that issues of equity among the staff were involved when making judgments about the composition of benefits. For example, some Directors called attention to the fact that the composition of the Fund's benefits did not compare favorably with the market from the middle to upper end of the salary structure, but compared more favorably at lower salary levels. In that sense, the value of Fund benefits relative to the market was greater toward the lower end of the salary scale. Directors also discussed the composition of benefits from the perspective of the different objectives served by different benefits, including, for example, the objective of facilitating recruitment.

At the present juncture, however, Directors saw no clear basis for significantly changing the composition of benefits, and speakers broadly observed that the Fund's benefits were not badly pitched in relation to the market. Thus, a debate on the structure of benefits would not be worth the Board's time and effort, a few speakers said.

On specific issues, the need to review in detail the Medical Benefits Plan was recognized, especially the relative contributions of employer and employee. A number of Directors were prepared to consider a capital accumulation plan, with some of those Directors wishing to convert the separation grant for that purpose, while others supported a capital accumulation plan as a separate element in a flexible benefits package without necessarily eliminating the separation grant.

A number of Directors expressed some interest in looking at ways of making the benefits package more flexible, but most Directors advised caution in moving in that direction; it could not be said that there was enough support for an immediate proposal, but the nature and scope of possible flexibility would be studied.

There was a general consensus to provide some financial assistance for settling in to nonlocally recruited A1 to A8 staff, as well as to abolish the loans for furniture purchases, and specific proposals from the staff on implementation would be forthcoming as a basis for decisions.

Some Directors supported continuing the existing interest rate subsidy on housing loans in its current form. Some other Directors questioned whether there should be a housing subsidy at all. Others noted that if the rationale for the benefit was to address the high cost of housing in the Washington metropolitan area, there was no reason why the Fund should discriminate against rental housing in favor of owner-occupied housing. In that connection, a few Directors noted that the housing subsidy might be broadened to include renters. Other Directors did not express a view on those issues.

There was broad support for maintaining the current system of loans for education of spouse and children, and food subsidies.

Directors broadly agreed that parallelism between the Fund and the Bank with respect to the overall level of benefits was appropriate, but that did not necessarily mean parallelism in the composition of benefits. Some speakers said that there could be, and should be, differences in the composition of benefits, reflecting the differences in the two institutions; others pointed to the potential problems that could arise if specific benefits in one institution appeared to be more generous--or less generous--than the benefits in the other. Thus, questions of equity and distribution might still be raised even if the overall level of benefits in the institutions was roughly equal. Differences between the institutions tended to bring those distribution issues more to the surface.

The climate of the discussion was much facilitated compared with some past discussions because of the quality of the information from the consultants, and the solid factual base it had provided. Most speakers believed that similar surveys by the consultants should be continued in the future. Some Directors suggested that the survey would be improved if the number of comparators in France and Germany were increased. Also, some speakers noted that the survey should provide more explicit information and definitions as to what benefits were and were not covered.

With respect to future work on the benefits package, it was clear that Directors favored an examination of the Medical Benefits Plan, which indeed had already been placed on the Board's agenda. The issues of a more flexible benefits package, the creation of a capital accumulation plan--either on its own or through the conversion of the separation grant--a look at the housing subsidy, and the question of the competitiveness of the Fund's family-related benefits--which particularly affected women in the Fund--could be topics for discussions in the Executive Board or in the Committee on Administrative Policies, although there was agreement that those issues were not as pressing as others, and that the staff might provide insight into the appropriate timing and sequencing of their discussion at the time of the next work program. However, the more concrete issues of extending installation allowances to A1 to A8 staff and abolishing the loans for furniture purchase, which promised a more rapid conclusion, would be given priority.

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LEO VAN HOUTVEN
Secretary