FOR
AGENDA

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CONFIDENTIAL

July 5, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Quadrennial Benefits Survey - Implications for Fund Benefits

Attached for consideration by the Executive Directors is an additional paper on the implications for Fund benefits of the results of the Quadrennial Benefits Survey, which has been tentatively scheduled for Board discussion on Friday, July 20, 1990.

A representative from Hewitt Associates, Mr. Stuart Meshboum, will be present to answer questions on the results of the Survey.

Mr. J. Kennedy (ext. 4665) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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Department Heads

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INTERNATIONAL MONETARY FUND

Results of the 1989 Quadrennial Benefits Survey and Future Directions in the Development of Benefits Provided by the Fund

Prepared by the Administration Department

July 3, 1990

The report of Hewitt Associates on the 1989 Quadrennial Benefits Survey of Benefits was provided to Executive Directors in March 1990 together with a staff memorandum briefly outlining some preliminary observations on the Survey results. 1/ Since issuing that paper, staff have considered further the implications of the Survey results for the benefits provided by the Fund to staff members. This paper provides a summary of the Survey results, updated to take account of the revisions to the Staff Retirement Plan approved by the Executive Board on April 20, 1990 and proposals for changes in the Medical Benefits Plan are expected to be submitted to the Executive Board in the near future. The paper then describes the general direction that might be taken in the light of the Survey results to further develop the Fund's overall package of benefits, and it discusses changes, including the earlier proposals made by the Joint Compensation Committee, that might be made in individual benefits. The discussion focuses on three major questions:

-- Given the comparator relationship indicated by the Survey, would it be appropriate for the Fund to increase the employer-provided value of its benefit package, and, if so, by how much?

-- Should the Fund examine the feasibility of giving individual staff members a greater choice in selecting a package of benefits tailored to meet their specific needs?

-- Are there other modifications to the Fund's benefits that should be considered at the present time?

I. Principal Results of the Survey

In terms of benefit design, as represented by total benefit values that include both employer-provided and employee-paid portions, the results

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1/ See "Results of the Quadrennial Benefits Survey" (EBAP/90/73 dated March 26, 1990).

of the Quadrennial Benefits Survey indicated that the overall level of the Fund's full program of benefits in 1989 was broadly in line with mean benefit values in the French and German comparator markets and somewhat higher than mean benefit values in the United States comparator market. To a large degree, this relationship stemmed from the relatively high level of contributions made by Fund staff compared to the level of payments made by employees in the three comparator countries. In terms of employer-provided values--that is, the net worth of benefits to employees over and above their own payments, which is the most meaningful measure of market relativities--the level of the Fund's benefits was generally in line with or somewhat below the mean of the U.S. and substantially below the average of France and Germany. The estimated market relativities varied by salary levels. Although the employer-provided value of the Fund's benefits was slightly above the average of the three markets at net salaries of $20,000-40,000, the Fund values were estimated to fall below the mean of the markets at $60,000, and they declined further relative to the comparators at each higher salary level.

Following the completion of the Survey, the Executive Board has approved a package of changes to the Staff Retirement Plan (SRP), and it is expected that a paper proposing changes to benefits and contributions under the Medical Benefits Plan (MBP) will be issued shortly. It is envisaged that the MBP proposals will involve some changes in contributions, deductibles and coverage that will be roughly neutral in their impact while supporting some cost-containment. Some shift towards the Fund in the present relative shares of the overall medical costs of MBP participants is also expected. Taken together, the SRP changes and the anticipated MBP modifications (if approved) have no significant effect on the total value of the Fund's overall package of benefits. However, both shift the relative employer-employee share of Fund benefits, increasing slightly its employer-provided value, and reducing somewhat its employee-paid value. These shifts, which move the relative benefit shares of the Fund and its staff closer to comparator market practice, modify the market relativities originally reported by Hewitt Associates. Adjusted and updated market comparisons, incorporating the effects of the revised SRP provisions and Hewitt's preliminary valuation of the type of changes envisaged in the MBP are set out in Table 1.

The comparisons in Table 1 are presented on the basis of the values for "security benefits" and "all benefits". As explained in EBAP/90/73, Hewitt Associates makes this distinction to recognize the differing character of various benefits. The security benefits are those generally regarded as the core benefit programs of organizations. They all involve direct expenditures by employers, and, in most cases, employees themselves also make contributions; they include retirement, health care, death and disability, separation and workers' compensation. The all-benefits category, which adds time off with pay, loans and subsidies, and various

Table 1. Estimated Benefit Relativities for the Fund and the Mean of the U.S., French and German Comparator Markets
(Revised Fund Values = 100.0)

	All Security							All Benefits						
Net Salary	20,000	40,000	60,000	80,000	100,000	120,000	Simple Average	20,000	40,000	60,000	80,000	100,000	120,000	Simple Average
Total Benefit Values														
Fund: Survey	105.4	102.0	100.9	101.9	100.9	100.0	101.9	104.2	101.5	100.7	101.4	100.6	100.0	101.4
Fund: Revised	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
U. S.	105.3	99.1	97.2	98.8	98.2	95.7	99.0	97.6	92.2	91.0	92.3	93.0	91.3	92.9
France	109.4	97.1	95.3	98.5	91.6	86.5	96.4	112.3	102.3	100.5	102.3	99.5	98.0	102.5
Germany	111.3	104.9	94.8	87.9	82.5	78.3	93.3	109.8	104.7	97.0	94.7	97.6	98.4	100.4
3-Country Avg.	108.6	100.4	95.8	95.0	90.7	86.8	96.2	106.5	99.7	96.2	96.4	96.7	95.9	98.6
Employer-Provided Benefit Values														
Fund: Survey	100.6	94.1	91.1	92.8	92.4	91.5	93.8	100.5	96.2	94.6	95.8	95.7	95.2	96.3
Fund: Revised	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
U. S.	99.5	102.6	106.0	108.9	111.1	108.0	106.0	91.9	92.4	94.3	96.1	98.3	96.6	94.9
France	96.0	86.3	91.1	100.2	97.5	96.9	94.7	103.2	96.8	100.1	105.0	106.0	108.8	103.3
Germany	79.0	97.1	104.8	105.0	106.9	106.1	99.8	86.0	99.6	104.1	107.5	117.5	122.4	106.2
3-Country Avg.	91.5	95.3	100.6	104.7	105.1	103.6	100.2	93.7	96.2	99.5	102.8	107.3	109.3	101.5
Employee-Paid Benefit Values														
Fund: Survey	123.2	118.6	117.6	116.3	113.1	111.7	116.8	123.2	118.6	117.5	116.2	113.1	111.6	116.7
Fund: Revised	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
U. S.	126.4	91.7	82.4	82.8	79.7	78.7	90.3	126.4	91.7	81.8	82.2	79.7	78.2	90.0
France	158.6	120.0	102.3	95.8	83.0	72.0	105.3	158.6	120.0	101.7	95.1	83.0	71.5	105.0
Germany	230.3	121.4	77.7	60.9	47.5	39.7	96.2	230.3	121.4	77.2	60.5	47.5	39.4	96.1
3-Country Avg.	171.8	111.0	87.5	79.8	70.1	63.5	97.3	171.8	111.0	86.9	79.3	70.1	63.1	97.0

Note: The revised data for the Fund include the approved changes to the Staff Retirement Plan and preliminary estimates of changes to the Medical Benefits Plan.

minor benefits, generally do not require employee contributions, and most do not involve substantial direct expenditures. 1/

After allowing for the changes made to the SRP and under consideration in the MBP, the value of the Fund's overall benefits program continues, on the whole, to be closely related to the mean value of benefits in the comparator markets. In terms of employer-provided values, the mean of the United States market is, on average, about 5 percent below the value of Fund benefits, but the employer-provided values for the French and German markets are, respectively, 3 and 6 percent above the corresponding values for the Fund. In terms of employee-paid values, the estimated contributions by Fund staff are, at most salary levels, well above the mean values in all three comparator markets.

II. General Considerations and Directions

Over the past decade, the design of the benefit programs offered by leading employers of the type used as Fund comparators have changed considerably in response to evolving needs of employees, social developments (such as the increase in two-earner families), and changes in national tax policies and the scope of governmental insurance and social security coverage. However, there has been no corresponding re-evaluation of the scope and nature of the benefit package offered by the Fund. Throughout most of this period, the attention of the Executive Board has been directed primarily to the Fund's salary system and to narrow issues concerning the cost of Fund benefits. From 1984 to 1988, the Joint Compensation Committee conducted its review of salaries and benefits, and the report of the JCC led to the decision to undertake the Quadrennial Benefits Survey. These actions have effectively precluded any major positive initiatives by management in the benefits area for the past seven years, except for the review of the Staff Retirement Plan which proceeded independently of the work of the JCC. During this period, all other Fund benefits have effectively been frozen, and no significant changes have been made in the nature, structure or level of these benefits. There is, therefore, a need to re-examine some of the basic elements of the Fund's benefits package, and to consider changes that would better focus Fund benefits on the current needs of staff and would more closely align them with the current practice of other leading employers.

1/ The exclusion/inclusion of time off with pay is the principal difference between "security" and "all" benefits. The value of the Fund's leave is positioned between the value of leave in the U.S. and in France and Germany. It is 2.5-3.0 percent of net salary higher than the average value of the U.S. comparators, but 1.5-2.0 percent of net salary lower than the average of the French and German comparators.

A. Level of benefits

In the case of direct cash compensation, the Executive Board has decided that the Fund will position its salary structure in the upper part of the comparator market, specifically at the level corresponding to the 75th percentile of the comparator organizations. However, the Executive Board has not taken a decision on the specific market relationship to be maintained for staff benefits. The 1979 Kafka Committee recommended that "the value of the benefits provided by the . . . Fund should be in the same broad relationship to benefits in the comparator organizations as direct remuneration", i.e., the market mean plus 10 percent. 1/ Subsequently, the Joint Compensation Committee concluded only that the employer-provided value of the Fund's benefits package should be kept approximately in line with the comparator market. 2/

The results of the Quadrennial Benefit Survey are reported at the mean of the comparator markets. To the extent that this benchmark is regarded as an appropriate standard for the Fund, the Survey results outlined above do not suggest a need for any substantial change to the present overall level of Fund benefits in terms of total benefit values. Although the value of the Fund's program, updated for the changes to the SRP and MBP, is in most cases slightly above the mean of the three comparator markets, this relationship continues to reflect the relatively high levels of the contributions made by Fund staff.

In terms of the more meaningful measure of employer-provided benefit values, the Survey results suggest that, even with reference to the standard represented by the market mean, there is latitude for some increases 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. At middle and upper salary levels, the value of the Fund's employer-provided benefits remain well below the mean of the French and German markets. Although the reported employer-provided values for the United States are slightly lower than those of the Fund, these estimates do not take into account a number of benefits that, for various technical reasons, were not valued by Hewitt

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1/ See the "Report of the Joint Committee on Staff Compensation Issues" dated January 1979, page 18.

2/ See "Report on Staff Compensation" of the Joint Bank/Fund Committee of Executive Directors (EBAP/88/190 dated August 5, 1988), page 47. In comparing Fund benefits to the U.S. market, the JCC employed the mean value of the comparators' employer-provided benefits.

Associates. 1/ It is reasonable to assume that if these benefits had been valued, the mean of the U.S. comparator market would have been raised to, or slightly above, the level of the Fund's employer-provided benefits. Thus, a modest increase in the current employer-provided value of Fund benefits would position the Fund at the mean of the French and German markets, and it should still result in an appropriate relationship to a more complete estimate of the mean value of benefits in the U.S. comparator market.

A more fundamental question is whether it is sufficient for the Fund to set the overall level of its benefits at the mean of the market. The general aim of the Fund with respect to benefits has been the same as its aim regarding direct cash compensation, namely to maintain a level of competitiveness that permits the Fund to recruit and retain an international staff of the highest caliber. This aim implies a market standard for benefits which, like that for direct compensation, positions the Fund in the upper part of the comparator markets.

Because many of the benefits of the Fund and comparators are directly based on salary levels, it is difficult to be certain whether a benefits program pitched at the mean of the market achieves the same degree of competitiveness as pitching salaries at the 75th percentile of the comparator market. The relationships depend on the level of the Fund's salaries compared to the market, the extent to which benefits in the Fund and comparators are directly linked to salaries, and the degree to which salary and benefit practices in the market are correlated. The standard to be maintained by the Fund relative to the markets can also be established in different ways, as has been discussed in recent papers issued in connection with the SRP review. 2/ One method would be to relate the combined total of Fund salaries and benefits to the 75th percentile of the market as a whole; a second would be to relate Fund salaries to the 75th percentile and then to match Fund benefits to the practices of organizations whose salaries are around the 75th percentile. To the extent that salary and benefits practices are positively correlated in the markets, the latter method would result in a higher standard than the 75th percentile of combined salaries and benefits in the market as a whole.

1/ Although some of the unvalued benefits that are provided by employers have counterparts in the Fund (e.g., legal counseling, individual and family counseling and parking), others do not. The widespread benefits that were not valued include: (a) child and elder care benefits provided through flexible benefit plans; (b) various forms of mortgage assistance provided when employees relocate upon appointment or transfer; (c) financial counseling services; and (d) club memberships provided to senior personnel and free on-site athletic facilities.

2/ These questions were discussed in EBAP/90/11, dated January 11, 1990, EBAP/90/11 Supplement 1, dated February 7, 1990, and EBAP/90/78, dated March 29, 1990.

The data needed to reach firm conclusions on these relationships are not available. With reference to the more conservative standard, Hewitt Associates' judgement is that a policy which pitches the Fund's salaries at the 75th percentile and its benefits at the mean of the market will raise the combined value of salaries and benefits above the mean of the market as a whole (because of the partial correlation of the two compensation elements) but it will not reach the 75th percentile of the combined value of salaries and benefits in the market (because the amount of some Fund benefits are not directly related to salaries). 1/

Thus, consistent with its overall compensation policies and the objectives of those policies, the Fund could justifiably set the overall level of its package of benefits somewhat above the mean of the comparator organizations. Maintaining a modest margin above the mean in terms of benefits would not yield a combination of salaries and employer-provided benefits that would go beyond the 75th percentile of the market as a whole. Moreover, a margin that allows the Fund to match fully the benefit levels of comparators in the upper part of the comparator market would restore to the Fund the opportunity of matching leading comparator organizations in terms of benefit design and practice.

B. Composition of benefits

Supporting information provided by Hewitt Associates on benefit practices and prevalence indicate that the design and composition of the benefits provided by the Fund and those in the comparator markets differ in a number of important respects. The foremost areas of differences are:

(a) Capital accumulation plans, involving variable levels of matching employee and employer contributions, are a major component of comparators' benefit programs in both the United States and France. These plans, which parallel and complement comparators' defined-benefit pension plans, have no counterpart in the Fund's benefits program.

(b) In the United States, flexible benefit plans which offer employees choices among benefits and flexibility in setting the level of individuals' participation in various benefits are common, being provided by about two-thirds of the organizations surveyed in the private and public sectors. Such arrangements generally, and some of the specific benefits that are typically provided through them

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1/ Hewitt Associates letter on these questions was circulated as EBAP/90/78 Supplement 1, dated April 10, 1990.

(child care and elder care, for example), have no counterpart in the Fund.

(c) The Fund's benefit program, on the other hand, includes one significant component, the separation grant, which has no counterpart among the comparator organizations.

1. Flexible benefits

It is believed desirable for the Fund to consider modifying its overall benefits package by introducing a degree of flexibility that would allow staff members to select different combinations or levels of participation in individual benefits. Such an arrangement could improve the effectiveness of the Fund's benefits in meeting the needs of individual staff, and it would be consistent with current practice in the United States.

Flexible benefit programs generally follow one of two patterns. Flexible compensation or "cafeteria" plans allow employees to choose from a menu of individual benefits offered by the organization, and reimbursement or "spending account" plans provide funds which employees may use to purchase benefits over and above those included in a common core benefits program. In many organizations, features of the two approaches are combined. In either case, the relative values of the covered benefits are determined in a way that ensures that the aggregate amounts provided to all staff are equivalent. Flexible benefit programs are frequently, but not necessarily, combined with savings or capital accumulation plans, thus providing one basic option that has universal applicability.

Flexible benefit plans can be advantageous to employees because they provide scope for them to select a mix and level of specific benefits that better meet their individual needs at each stage of their life and career. Through this vehicle, employees can be given an opportunity either to secure a benefit that the organization may not wish to make uniformly available to all staff or to increase the normal level of benefits of particular importance to them. Such flexibility would appear to be especially desirable in the Fund as a means of responding to the diversity of an international staff whose expectations regarding the form of benefits vary widely based on differing home-country practices and cultural attitudes. Provided that they are established in ways that do not result in undue administrative or accounting burdens, flexible benefit plans can also be advantageous to employers. Within a given level of total expenditures, flexible plans allow benefits to be tailored to address particular interests of different groups of staff without introducing across-the-board benefits raising the level of each benefit provided to all staff. 1/

The possible coverage and degree of interchangeability that the Fund might provide in a flexible benefits Plan would need to be carefully considered. Nevertheless, there are a number of existing benefits and some new areas that would lend themselves to an approach which flexibly targets changing or special interests of groups of staff. These include such benefits as supplemental life insurance, dependent life insurance, additional long-term disability coverage, access to financial planning services, child care, and elder care. A capital accumulation or savings plan that permits staff to vary the amount of their own contributions and the contributions made by the Fund could also constitute an important component in a flexible plan. Finally, the inclusion of annual leave (i.e., allowing staff to trade in a limited number of leave days for other benefits) should be examined as a means of meeting, in part, the cost of other benefits covered by a flexible plan.

By means of such trade-offs, limited flexibility in adjusting the level of individual benefits could be introduced within the existing overall value of Fund's benefits. Added funding by the organization within the amounts justified by the results of the Quadrennial Benefit Survey would allow some of the new benefits and services to be introduced and augmented levels of existing benefits to be made available without requiring staff who opt for them to forgo or reduce other benefits on a one-to-one basis.

2. Capital accumulation plans

Various forms of capital accumulation, defined-contribution, and savings plans constitute one of the largest single benefits provided by comparator organizations in the United States, and they are also a major benefit in France. In the U.S., the employer-provided value of capital accumulation plans amounts to 7-8 percent of net salary, which is exceeded only by health care and paid leave. In France, the value of these plans ranges between 3 percent of net salary (at higher salary levels) and 8 percent of net salary (at lower salary levels). In Germany, where these plans have a smaller role, their value is nevertheless estimated at 1-4 percent of net salary.

1/ The establishment of a flexible benefit plan would raise an issue of its "qualification" under U.S. government regulations, which cover the funding and level of benefits provided through flexible plans. Unless a plan "qualifies" by complying with these regulations, benefit payments may be taxable to U.S. employees. The question of qualification and the potential cost to the Fund, through the Tax Allowance System for U.S. staff, of not meeting the qualification requirements would need to be examined closely.

Capital accumulation plans are normally established to complement defined benefit pension plans. Their objective is to provide a vehicle for employees to build up savings that will meet their need for capital resources at the end of their careers in a way that monthly annuity/pension payments cannot. These plans typically incorporate a combination of (a) employer contributions made without regard to employees' contributions, (b) employee contributions that are subject to full or partial matching by employers, and (c) employee contributions that are unmatched by the employers. Above certain levels, employee contributions are generally voluntary. An important element of these plans in the U.S. and France is the tax advantage they provide by allowing employees to defer until retirement the payment of taxes on the amount of their own contributions. 1/ In addition, employees are often able to borrow against the amounts that they have contributed to the plans, so that they provide a significant source of loans for housing, education or other purposes.

The Fund's benefit program includes no direct counterpart to these plans. The Fund's separation grant does, however, serve some of the same purposes. The separation grant was originally intended to mitigate the financial impact, and particularly the costs attendant on relocation, for staff who have medium or long periods of service with the Fund. For longer serving staff, the separation grant, like a savings plan, generates capital resources that are available (and "portable" to a degree that is not possible with pension plans) upon separation. In the light of this partial complementarity, and the finding of the Quadrennial Benefits Survey that market practices do not strongly support the separation grant in its present form, it is believed that the conversion of the Fund's separation grant into a savings or capital accumulation plan should be considered.

The conversion of the separation grant would offer the advantages of bringing the Fund's benefit practices in line with the prevalent practice of comparator organizations and of allowing a capital accumulation plan to be established without its costs being entirely additional to current benefit expenditures. In the long-term, if the current value of the separation grant to staff were kept unchanged, its conversion could even result in savings to the Fund, because it would permit the value of the annual benefits accrued throughout staff members' service to be maintained through

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1/ This tax advantage is included in Hewitt Associates estimates of the employer-provided values for capital accumulation plan. These plans also provide other tax advantages, which are not included in Hewitt's values, because taxes on both the amount of the employers' contributions and investment earnings within the plan can also usually be deferred until retirement.

investment returns. 1/ While this possibility should certainly be explored further, it is believed that, if necessary to produce a viable and competitive result, the Fund should be prepared in principle to devote some additional resources to the financing of a capital accumulation plan, in light of the significance of such plans within the benefits programs of comparators and the support given by the overall Survey results for increased expenditures by the Fund as an employer.

The introduction of a savings or capital accumulation plan, either as a stand-alone benefit or in conjunction with a flexible benefits program, involves a number of issues that would need to be examined. There are several possible types of plans, which differ with respect to the amounts of employer and/or employee contributions that are permitted without the amounts being immediately taxable for employees. Plans may also be solely funded by the employer or involve a combination of employee and matched or unmatched employer contributions. In considering these questions, the relationship between a savings plan and the level of other Fund benefits would need to be taken into account. A central question is whether the plan would be funded on a pre-tax or after-tax basis. Although the separation grant is now provided on an after-tax basis (it is either exempt from taxation or is covered through the Tax Allowance System), this would not necessarily be the case with post-separation capital distributions from a savings plan. 2/

III. Specific Benefit Programs

Although the Quadrennial Benefit Survey primarily focuses on the overall level of Fund and comparator benefits, it also provides information on benefit levels and market practices that are relevant to assessing whether individual benefits of the Fund continue to be appropriate. This section briefly reviews the Fund's major benefits and, where it is believed appropriate, outlines possible changes that could be made to either the design or level of the benefit. These suggestions are primarily intended to indicate ways in which Fund benefits could be modified to reflect prevailing market practices more closely. They also take into account other considerations, including the needs of the Fund as an employer of international staff (whose expectations regarding the form and relative

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1/ Because the separation grant is based on final salary, its long-term cost to the Fund now increases in accordance with staff members' salary increases.

2/ Questions regarding the qualification of a capital accumulation plan in the United States could also arise. Although the conversion of the separation grant to some types of defined contribution plans appears relatively straightforward, other types of plans, particularly those involving employee contributions, are governed by extensive regulations.

level of different benefits are unlikely to coincide with any single home-country market), the particular circumstances which led to the introduction and evolution of the benefit, and the desirability of simplifying and reducing the cost of benefits administration. When it is relevant, the discussion takes account of the changes proposed by the Joint Compensation Committee in its 1988 report. 1/

Some of the potential changes discussed below reflect concerns other than market comparability or the level of the specific benefit, and, in some cases, making these changes would reduce the value of the benefit to staff. As was indicated above, however, the results of the Quadrennial Benefit Survey provide no justification for lowering the employer-provided value of current benefits. If Executive Directors conclude that individual benefits should be revised in a way that reduces their value, then there will be a need to increase the value of other benefits or to introduce new benefits as necessary to maintain total and employer-provided benefit values at an appropriate level relative to the comparator markets.

A. Staff Retirement Plan

The comprehensive review of the Staff Retirement Plan was concluded in April, 1990 with the Executive Board's approval of the package of changes proposed by management. With the base line of the new Plan in place and after its implementation is completed, it is intended to follow up the suggestions made by some Executive Directors and examine the feasibility and desirability of allowing greater flexibility in both the form of benefits and the level of contributions and benefits under the Plan. The suggestions of other Executive Directors that the SRP be restructured to combine elements of both defined- benefit pension and capital accumulation plans can also be considered. In this connection, it should be noted that a savings plan arranged through the conversion of the separation grant along the lines discussed above could be introduced without precluding a later modification of the SRP.

B. Medical Benefits Plan

The Quadrennial Benefits Survey indicates that the medical benefits currently offered by the Fund have a total value that is generally in line with the comparator markets. However, the level of staff contributions is greater at the Fund than for the average of either the U. S. or German comparator organizations, except at the lowest salary level; as a

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1/ The JCC discussed staff benefits in Chapter VI of its Report (EBAP/88/190 dated August 5, 1988). Specific recommendations on staff benefits are contained in paragraphs 6.2-6.4 and 8.2 of the report. A description of each of the Fund's benefits, allowances and services available to staff is provided in "JCC Report on Staff Compensation - Staff Benefits" (EBAP/89/16 Supplement 4 dated March 20, 1989).

consequence, the value of the Fund's employer-provided medical benefits are generally below the average values of both the U.S. and German markets. The total and employer-provided values of the Fund's medical benefits are, on the other hand higher than those of France.

The review of the Medical Benefits Plan by staff is nearing completion, and proposed modifications to the MBP's present structure of contributions, deductibles and co-insurance provisions will be presented in a separate paper. As has been noted above, the impact of the proposed changes, if approved, on the benefit values reported by Hewitt Associates, which are reflected in the updated benefit comparisons provided in Table 1, is expected to be limited.

C. Appointment allowances

The Fund provides a series of payments and salary advances in connection with relocation on appointment. These include travel, shipment of goods, settling-in grant, an installation allowance, and salary advances generally to assist staff in meeting the costs of relocating and specifically for the purpose of purchasing furniture. These arrangements are not considered to be benefits but rather the reimbursement of expenses and recruitment costs, and they were accordingly not covered in the Quadrennial Benefit Survey.

Experience with these allowances indicates that they generally remain appropriate, but one change could be made to simplify their administration. At present staff can obtain an advance of up to six months' salary for the purchase of furniture during a period of 2-3 years after appointment. Interest on these advances is 4 percent and the repayment period is set on a case-by-case basis. 1/ Because these advances are provided only when staff demonstrate a need for this specific type of assistance, they are seldom utilized. It may therefore be desirable to eliminate these specific advances by combining them with the salary advances provided to assist with general relocation expenses. To avoid a material reduction in the combined value of the two types of advances, consideration could be given to a modest increase in the present amount of the general advance (at present, up to three months' salary) and in the period in which the advance may be taken (at present, within six months after arrival).

An additional aspect of the present appointment allowances concerns eligibility for installation allowances and settling-in grant. Staff members in Grades A1-A8 are generally ineligible for these allowances because they are normally deemed to have been locally recruited. In practice, however, many of these staff have not resided or worked in the

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1/ The JCC recommended that the interest rate subsidy on the salary advances for the purchase of furniture be eliminated.

Washington area before their appointment to the Fund. In these circumstances, it is believed that consideration should be given to providing a limited amount of settlement assistance to help such staff defray relocation expenses.

D. Separation Grant

The Fund's separation grant, which was introduced in 1979, provides a lump-sum payment to staff who separate with five or more years of service. For staff who resettle outside the duty station country, the amount of the payment is equivalent to two weeks net salary up to a maximum of one year's salary after 26 years of service. 1/ For staff who resettle within the duty station country, the amount of the grant is reduced by one-third.

When the Joint Compensation Committee examined this benefit, it concluded that the maximum amount of the grant should be reduced from 52 to 26 weeks' salary. This recommendation reflected the limited support that the JCC found among U.S. comparators for the maximum amount of the Fund's benefit. (The JCC also recommended that eligibility begin after three, rather than five years of service.) The Quadrennial Benefit Survey found that separation payments that are similar to but smaller than those of the Fund are provided in France, but there is no corresponding benefit in the United States or Germany.

As was discussed in the previous section, these market considerations provide grounds for re-examining the present form of the separation grant and for its possible conversion to a capital accumulation plan. The comparator data on overall employer-provided benefits values do not, however, justify any reduction in the value of the benefits currently provided by the Fund. To the extent that the separation grant provides capital resources to staff upon separation or retirement, there is some relevance to comparing the combined value of this benefit and the Staff Retirement Plan to the combined value of pension and capital accumulation plans in the markets. As is shown in Table 2 below, the value of the separation grant only partly makes up for margin by which the Fund's employer-provided retirement benefits fall below the average value of retirement benefits in the comparator countries.

1/ In calculating these payments, only service after July 1, 1979 is taken into account.

Table 2. Employer-Provided Benefit Values--Comparing the Combined Values of Fund's Separation Grant and Staff Retirement Plan to the Values of Capital Accumulation Plans, Pension Plans and Social Security

(Values as Percentages of Net Salary)

Net Salary	Fund	United States	France	Germany
$20,000	12.9	15.9	20.2	16.5
$40,000	13.9	15.6	16.9	18.0
$60,000	14.1	15.2	17.2	17.6
$80,000	13.4	15.6	17.4	16.4
$100,000	13.3	15.3	15.9	15.9
$120,000	13.3	14.8	15.2	15.5

It should further be noted that in valuing the separation grant, Hewitt Associates used the full amount of the benefit and did not take into account the reductions made when separated staff remain in the duty station country. The survey data therefore support accrued benefit to all staff. Moreover, experience indicates that differences in relocation costs do not support the present degree of differentiation between the two levels of the benefit, which has proven difficult to administer in practice (because it is impractical to monitor or confirm the place of residence of staff members after their separation). Should it prove desirable to retain the separation grant in its present form, the present split in the amount of this benefit will need to be re-examined.

E. Financial assistance through salary advances

The Fund currently provides several salary advances to assist staff with major expenditures or in handling emergency situations. The specific purposes for which staff can secure salary advances include: (a) the purchase of a first home at the duty station, (b) for their own or their family members' education, and (c) for urgent personal reasons.

1. Housing loans

The provision of salary advances to assist staff in purchasing a home reflects the cost of housing in the Washington area (which is among the highest in the United States) and the difficulty that staff members, particularly those from overseas who may be unable to freely transfer resources from their home country, can face upon initially entering the housing market here. Assistance is provided only for the purchase of a staff member's first home in the duty station area. The maximum amount of the advance is the smaller amount of one-third of the total costs of the home or eighteen months' salary. Advances equivalent to less than 12 months' salary are repayable either (a) over a period of 6-12 years with annual interest of 5 percent, or (b) over a period of 6 years with annual interest of 4 percent. For larger advances, the additional amounts are repayable over 20 years at a market based interest rate (i.e., the applicable rate for VA housing loans).

In its report, the JCC proposed that the subsidy element of these loans be discontinued and it suggested that the cost of borrowing by the World Bank could serve as a basis for setting the interest rate.

The salary advances for home purchases, including some subsidy element, should be continued because they are a valuable incentive for recruitment that addresses a key concern of candidates who are considering coming to the Washington area. Moreover, a degree of financial assistance for this purpose is supported by comparator practices. In both France and Germany, private sector organizations and the Central Banks make loans available for housing at subsidized interest rates, generally in the range of 3-8 percent. Although subsidized loans for this purpose are not provided by U.S. organizations, loans against capital accumulation accounts are generally available, and most U.S organizations have other forms of housing assistance for employees who relocate. This assistance includes help in obtaining a mortgage, the guaranteed purchase of the prior home, and reimbursement of mortgage differentials. This assistance has a material value to employees and it serves a similar purpose as the Fund's approach.

If Executive Directors nevertheless believe it desirable to modify the Fund's present arrangements for housing loans, a possible approach would be to move from the current, low fixed rates to an interest rate set as a proportion--say, two-thirds--of an appropriate market rate. Such a change would narrow the present extent of the interest subsidy, and it would generally limit the size of any disparity between the Fund's interest rate and market rates. Maintaining a margin of this magnitude below market rates would also serve to compensate for the effects that the U.S. tax system has on the real mortgage payments for U.S. and non-U.S. staff. In the case of non-U.S. staff there is usually no tax relief for mortgage interest; for this reason, the real cost of home-ownership for such staff is significantly higher than it is for U.S. staff who can deduct mortgage interest. U.S. staff, on the other hand, are no longer able to offset interest payments on housing loans from the Fund (which are regarded as personal loans) against their taxes. For this reason, if the Fund were to set the interest rate for its loans at market levels, the real cost to U.S. staff of these loans would be higher than the real cost of a mortgage secured on the open market. An interest rate differential which approximates marginal tax rates of

28-33 percent would, therefore, put non-U.S. and U.S. staff on a more equal footing as regards the financial advantages of a housing loan from the Fund; it would approximate the tax advantages associated with mortgages obtained on the open market.

An additional change to this benefit which is believed to be desirable involves the present policy on eligibility, which now limits access to loans for the purchase of only the first home in the duty station. This provision has proven to be somewhat restrictive and difficult to administer. For example, the growing number of staff initially appointed on a fixed term basis, who are ineligible until they receive a regular appointment, must either delay the purchase of a home or forego access to the Fund's loans. Because of changes in staff members' situations, housing purchased before joining the Fund may no longer remain suitable, but they are not able to borrow from the Fund. Divorced staff members who have previously owned a home on a joint basis with their spouse, but no longer own a home, are also ineligible to borrow from the Fund. Such arbitrary distinctions should be avoided by revising the policy to permit each staff member one opportunity during his or her career with the Fund to receive a salary advance for the purchase of a home.

2. Loans for education of spouse and children

Salary advances are provided to assist staff members in meeting the costs of university education or vocational training for themselves and their family members. The repayment terms and allowable amount of these advances vary with their purpose and individual circumstances. In general, an amount equivalent to up to six months' net salary may be advanced, with repayment within six years at annual interest of 4 percent. In its report, the JCC recommended that the interest subsidy be eliminated on advances for education in the U.S., but the majority of the Committee also recommended that subsidized interest rates for education loans be introduced as an expatriate benefit.

Although the Quadrennial benefit Survey found that comparable loans are not provided by comparator organizations, it is believed that the retention of the current arrangements are justified. The availability of these advances with subsidized interest provides some assistance for schooling that does not qualify for education grants. It accordingly helps to balance the benefits available to non-U.S. and U.S. staff and to expatriate staff members whose dependents attend universities in the U.S. and are thus ineligible for education allowances. However, if Executive Directors believe that the present policy should be modified, consideration could be given to changes along the lines suggested above for housing loans, i.e., interest could be set as a proportion of a relevant market rate. If such a change were made, it is believed that the nature of these advances would justify a lower interest rate than in the case of housing loans. Thus, a possible basis for these loans could be a rate equal to one-half of the Credit Union rate for unsecured loans.

3. Advances for urgent personal reasons

In special and unusual circumstances beyond the individual's control, salary advances may be provided to staff who urgently require financial assistance. Examples of such emergency situations include expenses arising from accident, serious illness or natural disaster involving a staff member, immediate family, or close relatives. Advances are permitted up to a maximum equivalent to six months' salary with a repayment schedule over a period of up to six years and an annual interest rate of 4 percent.

The JCC recommended that the Fund's practices regarding these advances be brought in line with those of the Bank where similar loans are provided on an interest-free basis and access to the advances is somewhat less restrictive. The nature of these advances is such that it is believed appropriate to provide them on an interest-free basis, as the Bank already does.

F. Leave benefits

The results of the Quadrennial Benefit Survey show that the combination of vacation days and annual leave for the Fund has a value that is between the average value of leave in the U.S. and in France and Germany. The value of the Fund's benefits are about 3 percent of net salary higher than the average for the U.S. comparator market, but 1.5 - 2.0 percent of net salary below that of both France and Germany. The Fund's current provisions thus aim to strike a balance between the very different leave practices in different member countries.

Reflecting these and other differences, there is considerable variation in leave utilization among Fund staff. Staff with less than five years of service accrue 26 days of leave per year; staff with five up to ten years of service accrue 28 days per year; and staff with ten or more years of service accrue 30 days per year. Although about one-half of the staff use 20-30 days of leave in a given year, both recent appointees and staff with longer service tend to use less, and individual utilization varies from year to year with the home leave cycle. Many staff retain large leave balances from year to year and, each year, a number forfeit some leave above the maximum of 60 days which can be carried forward.

As was indicated in the previous section, the ability to trade a small amount of annual leave for other benefits should be considered as a part of a flexible benefits plan. Allowing such conversions could reduce the tendency of staff to accumulate large leave balances--which are encashed upon their separation--and would provide a useable benefit to staff who do not use sufficient leave to avoid its forfeiture because of work pressures or other reasons.

With respect to other forms of leave, the Survey results show that the Fund's current policies on sick leave, maternity leave, and leave without pay are generally in line with the market. The Fund's provision of emergency leave (three days per year) is, however, below the 3-5 days that is generally provided in all three comparator countries for emergency or family reasons, and it is provided on a more restrictive basis (i.e., in the case of a family member's death but not illness). The need for some additional family leave to cover the illness or injury of dependents has been expressed by staff. This need could be addressed either by broadening the reasons for which emergency leave could be taken or by allowing, within a flexible benefit plan, the limited use of sick leave in cases of the illness of family members as well as staff themselves.

G. Food services

The Fund provides dining facilities that make available convenient, high quality and reasonably priced meals to staff and others working at the Fund Headquarters. In these facilities, food prices are set at a level that recovers around two-thirds of their total cost, including overhead, in the cafeteria and about three-fourths of total costs in the Executive Dining Room. In its report, the JCC proposed that this subsidy be eliminated for the Executive Dining Room. It also recommended that subsidization for cafeterias in the Fund and Bank be harmonized. The Bank has phased out these subsidies, although it is not entirely clear whether the methods by which the two organizations account for food services are precisely the same.

It is believed that the present arrangements in the Fund should be continued. The Quadrennial Benefit Survey found that subsidized cafeterias are common in all three comparator countries, and that heavily subsidized executive dining rooms are a common perquisite in the United States, though not on a generalized basis applying to all executives. In the case of the Dining Room, it should be understood that a high proportion of its use is--formally or informally--in connection with official Fund business. It is also questionable whether elimination of the present, limited subsidy would actually result in savings if higher food prices were to result in lesser utilization, which would inter alia have the effect of further raising the price of official lunches. In the case of the cafeteria, the results of the Survey support the retention of the Fund's subsidies.

H. Other benefits

The Quadrennial Benefit Survey identified a number of other benefits that are offered by many of the comparator organizations and have no counterpart in the Fund. Some of these, in which staff have expressed increasing interest, are family-related benefits such as child care, elder care and parental leave, which are being addressed with growing frequency by other employers in response to changing social conditions. Others include financial counselling services and supplementary life insurance (for both staff and dependents). As was noted in the previous section, these kinds of benefits are frequently incorporated in flexible benefit programs in the United States (although in most cases they are not incorporated in the estimated benefit values). Their possible introduction in the Fund should, therefore, be examined, potentially in conjunction with the consideration of a flexible benefits plan.

Providing staff access and institutional support for financial counselling services warrants particular attention. Recent changes in U.S. laws on estate taxes have, for example, highlighted the importance of estate planning to staff, and proposals to support financial counselling in this area are being developed.

IV. Conclusions

The Quadrennial Benefit Survey provides a comprehensive basis for assessing the current level and structure of the Fund's benefits. Although it indicates that the overall, total value of Fund benefits is reasonably related to the average level of benefits in the three comparator countries, it also demonstrates that modest increases in the current resources provided by the Fund are justified.

The Survey results also show that, over the extended period in which Fund benefits have remained essentially unchanged, the form of benefits provided by comparators have evolved to a considerable degree. Particularly in the United States, the significance of capital accumulation plans has grown, benefit programs have expanded into new areas (such as child and elder care and financial counselling services), and employees have been given substantial flexibility in tailoring a package of benefits that best meets their individual needs. In the light of these developments, there is now 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 these market practices and to ensure that it continues to effectively meet the diverse needs of staff.

This paper has outlined the directions that staff believe the Fund should take in modifying the overall structure of its benefits. It has also suggested a number of ways in which individual benefits could be revised in response to either market practices or other considerations. At this stage, it is desirable for staff to obtain the views of Executive Directors on the question of whether there is scope for positioning the overall value of Fund benefits somewhat above the mean of the market, thus bringing the market pitch on direct compensation and benefits more closely into alignment, and on specific benefit changes, including in particular the possible introduction of flexible benefits and capital accumulation plans, the conversion of the separation grant to a savings plan, and the possible revision of salary advances for housing and education.