EBAP/88/93

April 15, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Report on Early Retirement Assistance Scheme

In connection with the consideration of the Administrative Budget for FY 1989 on Monday, April 25, 1988, there is attached, for the information of the Executive Directors, a copy on the Early Retirement Assistance Scheme.

Mr. Goltz (ext. 7387) is available to answer technical questions relating to this report prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Report on Early Retirement Assistance Scheme

Prepared by the Administration Department

April 15, 1988

I. Introduction

At the time of the implementation of the job grading exercise in early 1986, Executive Directors agreed, in principle, to a number of measures that management might adopt to help alleviate the situation of staff members whose positions had been downgraded. Included among these measures was the possible provision of financial assistance to those staff in downgraded positions who might elect to take early retirement from the Fund. On October 8, 1986, Executive Directors approved an Early Retirement Assistance Scheme (ERAS) for staff in downgraded positions (EBAP/86/207; 8/26/86; and EBAP/86/207, Supplement 1; 10/9/86). This paper provides, for the information of Executive Directors, a summary of the outcome of this scheme.

II. The Scheme

The ERAS was open to Fund staff members who met all of the following three criteria: (a) occupied positions which had been downgraded as a result of the job grading exercise; (b) as of December 31, 1987 had reached the minimum early retirement age of 55, or would reach that age during the period of terminal leave permitted under the scheme; and (c) agreed to separate from the staff or to begin terminal leave no later than December 31, 1987.

A total of 86 individuals, or 32 percent of all staff members whose positions had been downgraded in the job grading exercise, were eligible for the ERAS. Those who opted to take early retirement under the scheme were eligible to receive a termination payment equivalent to one and a quarter months' salary for each year of service up to a maximum of 22-1/2 months' salary after 18 years of service. At a staff member's option, the termination payment could be disbursed in a lump sum at the time of separation or could take the form of continued salary payments during a period of terminal leave.

III. Profile of Staff Opting to Retire Under the ERAS

A total of 51 staff members, or just slightly less than 60 percent of the eligible population, opted to retire under the ERAS. The grade distribution of those eligible to participate in the scheme, and those who elected to do so, is as follows:

Grade	No. Eligible for ERAS	No. Retiring Under ERAS	No. Declining ERAS	% Retiring Under ERAS
A1-A8	7	7	--	100
A9-A14	44	27	17	61
B1 & above	35	17	18	49
Total	86	51	35	59

Only about half of the eligible staff at the senior level (Grades B1 and above) elected to retire under the scheme which was lower than the participation rate for all eligible staff. However, those who retired represented about 9 percent of total senior staff, whereas all retirees under the scheme represented only a little over 3 percent of total staff.

Two-thirds of the staff retiring under the ERAS were from the economist and administrative job streams in approximately equal proportions (Table 1). The accounting stream contained the third largest group of ERAS participants (approximately 15 percent of total). Most of the economists were at Grades B1 and above, including several Advisors whose positions had been downgraded from the former Range K. In the accounting and administrative streams, ERAS participants were largely in Grades A9-A14, with most coming from the two largest divisions in the Fund, the Administrative Services Division in the Administration Department and the Administrative Expenditures Division in the Treasurer's Department. The number of positions downgraded in these Divisions was substantial and, because the specialized nature of the work is not conducive to much mobility, the proportion of older staff is relatively high.

The average age at which staff took early retirement under the ERAS was 58.5, with a range from 53.5 to 63. Although the average age upon retirement was slightly higher at more senior levels, the variation among the three grade categories is not significant. Staff members retiring under the ERAS had, on average, 22 years of Fund service at the time they retired, with a range from 11 years to a maximum of 36. Only seven out of 51 ERAS participants had less than 18 years of service and, as a result, almost all participants received the maximum financial assistance permitted under the scheme (22.5 months of salary).

The 51 staff members opting for the ERAS was substantially greater than expected. In the original August 1986 Board paper which proposed the scheme, it was assumed that approximately 40 staff members would participate. The factors responsible for this greater interest include the subsequent passage of immigration legislation in the United States which expanded the right of certain visa holders to obtain permanent residence status in this country. It is also noteworthy that a significant number of staff members retiring under the ERAS appear to have found some form of alternative employment, either on a full-time or part-time basis, and this undoubtedly contributed to their interest in taking early retirement under the scheme.

Among those eligible staff in Grades A9-A14 who did not elect to participate in the scheme, the majority were close to the minimum age for eligibility (53-56 years old), or had relatively limited service credit in the Staff Retirement Plan. The staff in Grades B1 and above who did not opt for the scheme, however, represented a more diverse group, and included some relatively older staff with long service records who preferred the continued challenge and interest of their work over the prospect of retirement or alternative positions outside the Fund.

IV. Cost Estimate

The total cost of the ERAS is now estimated to be about $7.4 million, as shown below, and set out in greater detail in Table 2.

Estimated Cost of the ERAS, FY 1987-88 1/

(In U.S. dollars)

	Original Estimate (August 1986)	Revised Estimate (April 1987)	Current Estimate
Direct salary cost	$ 4,500,000	$ 5,549,000	$ 5,925,640
Tax allowance	600,000	1,030,000	1,099,000
SRP contributions)		258,000	283,360
MBP/GLI contributions)	500,000	52,000	56,740
Total	$ 5,600,000	$ 6,889,000	$ 7,364,740

1/ Although payments under the ERAS are being disbursed over the period FY 1987-FY 1990, the entire cost of the scheme is being accounted for on an accrual basis in accordance with commitments made in FY 1987-88.

Due to the significantly higher level of participation than anticipated, the actual cost is approximately 7 percent in excess of the $6.9 million contained in the FY 1988 budget estimate (of which slightly less than half is accounted for by the 3 percent general salary increase granted on May 1, 1987), and 32 percent in excess of the estimate contained in the original 1986 proposal.

The average cost of the ERAS amounted to $144,000 per participant, with a range from $64,000 for staff in Grades A1-A8 to $185,000 for staff in Grades B1 and above. 1/

The direct salary cost of the ERAS amounts to $5.9 million. Of the 51 staff members opting for the scheme, 18 were U.S. nationals who received a tax allowance on the ERAS payments. The cost of this tax allowance is estimated at $1.1 million. Staff members receiving ERAS payments in the form of salary continuation for a period of terminal leave also continue to participate in the Fund's Staff Retirement Plan and, at their option, the Medical Benefits and Group Life Insurance Plans during the terminal leave period. The estimated cost of the Fund's contributions to the Staff Retirement Plan during this period amounts to approximately $0.3 million, while its contributions to the Medical Benefits and Group Life Insurance Plans are estimated at less than $0.1 million.

V. Benefits Accruing from the ERAS

A number of financial and nonfinancial benefits accrue to the Fund as a result of the ERAS.

1. Financial Benefits

The Board paper proposing the ERAS indicated that the administrative costs of the ongoing Termination Benefits Fund policy (on which the ERAS was patterned) tend to be offset over time by salary recovery. In the case of the ERAS, one component of the salary recovery derives from the fact that five of the 51 positions that were vacated by retiring staff members have been abolished, including two positions in Grades B1 and above, two positions in Grades A9-A14, and one support staff position. 2/

1/ In comparison, the per capita cost of the Fund's 1980/81 early retirement incentives scheme for staff in Grades B1 and above, which was based on an augmentation of pension benefits, is estimated at $250,000. The per capita cost of the financial assistance scheme provided to specified World Bank staff members who separated in 1987 following the reorganization is estimated at $265,000.

2/ A number of the remaining 46 vacant positions have taken several months to fill, and during the period of time in which they were vacant, additional savings were generated. In fact, six of these 46 positions still remain vacant, notwithstanding the fact that all staff members separating under the ERAS left by no later than December 31, 1987. In part, this reflects the additional time required in a few departments to determine how best to restructure a small number of positions left vacant by the ERAS. Of the 40 positions which have been filled to date, three are being occupied by contractual employees.

The major component of the salary recovery accrues from filling vacant positions by promotions of staff members at substantially lower salaries (and, therefore, salary-related benefits) than those maintained by the separating staff. The potential for such savings is high, not only because the spread in the Fund's salary structure between the grade minima and maxima is relatively wide (50 percent at lower levels and 35 percent at higher levels), but also because due to downgrading, many of the staff separating under the ERAS were at or even above the ceiling of the salary grades. The resulting vacancies were, therefore, filled at materially lower salary levels than those applicable to the separating staff members and in a number of cases closer to the minimum of the salary grade.

Table 3 shows estimates of the salary recovery resulting from staff separating under the ERAS. These estimates were calculated by assuming that staff members separating under the ERAS would, in the absence of the scheme, have remained on the Fund staff until the earliest of their "Rule of 90" date under the Staff Retirement Plan or normal retirement age. The cost to the Fund of their salaries, benefits, and allowances during this hypothetical period of continued employment was then compared with the equivalent cost of the employees who replaced them. For positions that were abolished, or during the time a position has remained unfilled, the entire hypothetical cost of continuing the retiring staff member is reflected as salary recovery.

Over a ten-year period, the salary recovery calculated on this basis is estimated at $6.1 million, or 83 percent of the total cost of the ERAS. 1/ Roughly half of the salary recovery can be attributed to staff separating in Grades B1 and above, even though this category of staff represents only one-third of the total ERAS participants. However, the estimate of salary recovery is a conservative one, because the calculations were made only on the basis of the first round of filling vacant positions left by departing staff members opting for the scheme. Additional financial savings will be generated by filling successive vacancies resulting from filling the original vacancy of a departing staff member with an internal candidate. No effort was made to calculate these additional savings, in part, because a number of these positions still remain vacant.

2. Additional Benefits

There are also a number of less quantifiable benefits resulting from the ERAS. Foremost among these is the fact that the scheme permitted 51 staff members who had been adversely affected by the Fund's job grading exercise to take early retirement at a date somewhat earlier than they might otherwise have done, and thereby reducing the potential negative impact of the downgrading on the incumbent's productivity and efficiency. Second, the ERAS permitted a number of internal promotions to take place, thereby allowing

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1/ The present value of the $6.1 million in salary recovery generated over a ten-year period corresponds to $5.0 million if an annual discount rate of 9 percent is applied. This would correspond to approximately 68 percent of the ERAS cost.

relatively younger and more mobile staff to move up into positions of higher responsibility. Staff benefitting from these promotion opportunities included a small number of individuals in downgraded positions who were ineligible for the ERAS but who were able to move up to vacant positions at higher grades. At the senior levels, in particular, the relatively large number of incumbents retiring under the ERAS has meant a significant infusion of "new blood" as well as new ideas and perspectives. It has also provided the opportunity, without loss of efficiency, to reduce slightly the overall number of senior positions in the Fund: two of the vacated senior positions were abolished, while two others were replaced with Grade A positions. Finally, the separations occurring under the ERAS permitted some significant organizational restructuring in the two largest divisions in the Fund, the Administrative Expenditures Division of the Treasurer's Department and the Administrative Services Division of the Administration Department. It is expected that these reorganizations will contribute to further economies and productivity gains in the future.

VI. Summary

The Early Retirement Assistance Scheme approved by the Executive Board in October 1986 made a significant contribution to limiting the adverse impact of the job grading exercise implemented at the beginning of 1986. The scheme permitted 51 staff members whose positions had been downgraded to take immediate early retirement thereby eliminating the risk of declining productivity or morale as a result of the job grading action. Although the total cost of the scheme ($7.4 million over FY 1987-88) was not insignificant, conservative estimates indicate that salary recovery will offset at least two-thirds of the cost of the scheme, over time, and the actual offset may be as high as 100 percent. Finally, the scheme has yielded a number of intangible benefits including the opening of promotion opportunities for relatively younger staff, the infusion of "new blood" into more senior positions, and the opportunity to reorganize a small number of functions where a concentration of vacancies occurred.

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Table 1. Profile of Staff Separating Under ERAS

	A1 - A8	A9 - A14	B1 & Above	Total
		Occupational Grouping		
Accounting	--	8	--	8
Administrative	6	11	--	17
Computing	--	--	1	1
Economic	--	4	13	17
Editorial	--	2	--	2
Language	--	1	2	3
Legal	--	1	1	2
Secretarial	1	--	--	1
Total	7	27	17	51
		Age at Separation		
Youngest	55	53-1/2	53-1/2	53-1/2
Average	57	58-1/2	59	58-1/2
Oldest	63	63	63	63
		Years of Service at Separation		
Shortest	20	11	18	11
Average	25	20	23-1/2	22
Longest	36	33	31	36

Table 2. Estimated Cost of Early Retirement Assistance Scheme, FY 1987-88

(In U.S. dollars)

Grade	No. of Staff	Direct Salary Cost	Tax Allowance 1/	Contributions to SRP 1/	Contributions to MBP & GLI 1/	Total Cost	Per-Capita Cost
A1-A8	7	$ 386,880	$ 45,780	$ 11,190	$ 5,720	$ 449,570	$ 64,220
A9-A15	27	2,662,120	943,940	144,190	27,070	3,777,320	139,900
B1 & Above	17	2,876,640	109,280	127,980	23,950	3,137,850	184,580
TOTAL	51	$5,925,640	$1,099,000	$283,360	$56,740	$7,364,740	$144,410

1/ Estimates.

Table 3. Salary Recovery Resulting from Staff Separating Under ERAS

(In U.S. dollars)

Financial Year	Grades A1-A8	Grades A9-A14	Grades B1 and Above	Total
1987-88	$ 53,880	$431,920	$678,900	$1,164,700
1989	87,230	696,080	595,410	1,378,720
1990	80,110	583,660	499,170	1,162,940
1991	69,360	470,640	310,730	850,730
1992	61,300	229,420	290,750	581,470
1993	40,550	160,210	218,260	419,020
1994	10,820	76,990	183,470	271,280
1995	10,100	50,980	154,500	215,580
1996	9,300	30,610	--	39,910
1997	--	23,040	--	23,040
Total	$422,650	$2,753,550	$2,931,190	$6,107,390

Assumptions Utilized in Calculating Salary Recovery

1. Salary recovery defined as the differential between the total remuneration (salary plus benefits) of the staff member separating and his successor. The additional salary recovery resulting from successive vacancies generated by filling the original vacancy internally is not included in the calculations.

2. The total cost of benefits are assumed to equal 60 percent of salary.

3. The salary recovery is calculated for each separating staff member up to the point in time when the staff member would have reached mandatory retirement age or the "Rule of 90," whichever is earlier.

4. An annual general salary adjustment of 2.5 percent is assumed.

5. An average merit increment of 2.5 percent per annum is assumed.