

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

MASTER FILES

ROOM C-130

05

EBAP/87/81

CONFIDENTIAL

April 16, 1987

To: Members of the Executive Board
From: The Acting Secretary
Subject: Staff Compensation - 1987 Review and Adjustment

Attached for consideration by the Executive Directors is a memorandum from the Managing Director on the 1987 review and adjustment of staff compensation, which will be brought to the agenda for discussion on an early date to be announced.

Ms. D. Anderson (ext. 7257) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

April 15, 1987

To: Members of the Executive Board

From: The Managing Director

Subject: Staff Compensation--1987 Adjustment

I am setting out in this memorandum my recommendation for an adjustment in salaries based on the report of Hay Associates, "Survey of Compensation Increases in France, Germany, and the United States, 1986-87", which is attached.

1. 1987 Compensation Survey

Since the present compensation system was established, there have been two comprehensive reviews of staff compensation based on surveys of the levels of compensation in comparator organizations in the United States, France, and Germany--the first in 1980 and the second in 1984. When the present system was established, it was decided that, in the intervening years between the comprehensive reviews, salaries should be adjusted in the light of changes in compensation in the U.S. comparators over the previous 12 months, with a check being made for staff in Grades A9-B2 on compensation changes in France and Germany to ensure that U.S. levels of pay have remained internationally competitive. After the comprehensive review in 1984, surveys of increases in compensation were made in 1985 and 1986.

It would have been open to the Executive Boards of the Bank and the Fund to decide to conduct another comprehensive review in 1987, but this seemed inappropriate in the light of the major survey being undertaken by the Joint Bank/Fund Committee of Executive Directors on Staff Compensation (JCC). Accordingly, this year has been treated as an "intervening year," and the Bank and the Fund retained Hay Associates, the compensation consultant, to conduct a survey of increases in compensation in the public and private sector comparators in the United States in the period since May 1, 1986--the effective date of the adjustment resulting from the 1986 Review. The aim of the survey was to establish the increases in comparator salaries in the period between May 1, 1986 and April 30, 1987; this includes all changes implemented up to the date of the Consultant's Report and any other known changes that will be implemented through April 30, 1987.

2. Survey Findings

The findings of the survey are contained in the Consultant's Report which is attached. The main results are shown in Table 1 below, which sets out percentage changes in gross and net compensation in U.S. comparators for Grades A1 to A8 and Grades A9 to B2. Consistent with the basis on which the comprehensive surveys are conducted, the figures shown in Table 1 for the U.S. private sector represent the average increase in direct cash compensation, which reflects all forms of increases.

Table 1. Compensation Changes in the U.S. Market
(Average increases in percent)

	U.S. Comparators: Average Salary Increases					
	Ranges A9-B2			Ranges A1-A8		
	Net			Net		
	1986	1987		1986	1987	
	Gross	Tax	Tax	Gross	Tax	Tax
		Tables	Tables		Tables	Tables
Public Sector	5.2	4.5	7.4	8.3	7.2	8.8
Private Sector	5.9	4.8	7.4	5.1	4.6	6.0
Combined	5.6	4.7	7.4	6.7	5.9	7.4
Less Fund Merit						
Increases			-2.4			-2.4
Indicated General						
Increase			5.0			5.0

Note: Tax tables are provided by the tax consultants, Arthur Andersen and Co., and reflect tax rates, deductions, and exemptions applicable in 1986 and 1987. These tables are used by Hay Associates to net-down comparator compensation as well as by the Fund and the Bank to gross-up pay of U.S. staff for the purposes of applying the tax allowance system in the two organizations.

On the basis of the agreed formula of equal weighting for the public and private markets, net salary increases in the U.S. comparator market in the period covered by the survey were equal to 7.4 percent for both professional and support staff. Because this percentage reflects all forms of increases granted by the comparators, it is necessary to deduct 2.4 percentage points, which is the average Fund merit increase, so as to arrive at the general salary increase (5.0 percent) for all grades that is indicated by the application of the agreed principles.

Part of the overall increase is the result of the recently enacted U.S. Tax Reform Act, which reduced deductions, increased personal exemptions, and reduced Federal tax rates. The effect, as calculated by the tax consultants, has been to increase average comparator pay on a net-of-tax basis by 2.7 percent for professional staff and 1.5 percent for support staff. Even if there had been a zero increase in the gross compensation of the comparators, average net compensation would have increased by these percentages. Irrespective of any salary increases, the tax changes will lead to a reduction in the tax allowances payable by the Fund to its U.S. staff.

The results of the check made on increases in real incomes in the comparators in France and Germany for ranges A9-B2 are set out in Table 2.

Table 2. Pay Movement (including Merit Increases)
in the United States, France, and Germany

(Ranges A9-B2)

	United States	France	Germany
Increase in Gross Pay	5.6	1.3	4.3
Increase in Net Pay <u>1/</u>	7.4	2.15	1.85
Increase in CPI <u>2/</u>	1.4	3.4	(0.5)
Real Net Increase (decrease)	5.9	(1.2)	2.4

1/ Net increases in the U.S and France are higher than gross increases due to lower taxes. Net increases in Germany are significantly lower than gross increases due to lower average deductions shown by the most recent deduction statistics for Germany.

2/ Based on the latest CPI data: February 1986 to February 1987 for France and Germany, and January 1986 to January 1987 for the U.S. Washington area. March to March CPI for Washington will be available by the end of April 1987.

These results indicate that real increases in net income in the U.S. comparator organizations have been substantially larger than in France and Germany. At the same time, it should be recognized that the competitive position of Fund salaries has been significantly affected by exchange rate developments. The comprehensive survey in 1984 showed that actual pay levels in the U.S. comparator market were well above pay levels in France and Germany, reflecting to an important extent the strength of the U.S. dollar at that time. It is difficult to establish precisely how the situation has changed in the intervening period as a result of the weakening of the U.S. dollar, but it is clear that the differential in favor of Fund salaries in 1984 has been substantially reduced if not yet completely eliminated.

3. Recommended Decision

As Executive Directors are aware, the Joint Bank/Fund Committee of Executive Directors is reviewing the operation of the methods of determining compensation in the Fund and the Bank, and Hay Associates--at the direction of the Committee--are engaged in an extensive data collection exercise, the results of which are expected towards the end of this year. The Chairman of the Committee has informed the management of the Fund and the Bank that the final conclusions, in the light of the results of the data collection project, would be reached during the period December 1987-January 1988, after which it is planned to finalize the Committee's report to the two Executive Boards. It is, therefore, unlikely that the Executive Boards will be in a position to review, discuss, and take decisions on a new compensation system before April of next year at the earliest. On the last occasion when compensation was discussed by the Executive Board, there was a widespread view that the Fund should continue to implement the existing system until a new system was agreed.

I recognize that some aspects of the present review may give rise to reservations about the appropriateness of the full increase indicated by the survey. In particular, the increases in the U.S. comparators are relatively large in comparison with developments in France and Germany, and with the rate of inflation in the United States over the last year. On the other hand, our compensation adjustment system is based, not on changes in the CPI, but on movements in comparator salaries, and the resulting adjustment in the salary structure has been below the rate of inflation at times in the past. Moreover, while compensation increases in France and Germany were much less than in the United States, exchange rate developments have substantially reduced the international competitiveness of Fund salaries, which is likely to be reflected in a further worsening of the Fund's ability to recruit internationally. With the continuing heavy workload, we must also weigh very carefully the adverse effects on staff morale of a decision not to give full effect to the results of the comparator survey.

On balance, therefore, and in accordance with the principle of applying the existing system until it is changed, I recommend that the Executive Board approve a general salary increase of 5 percent. The survey results for the Bank are identical to those of the Fund, and it is understood that essentially the same increase is being put forward for the consideration of the Executive Board in the Bank.

The estimated cost in FY 1988 of the recommended general increase is \$7.5 million. The proposed Administrative Budget for FY 1988 does not include the cost of a general salary adjustment, although as indicated in paragraph 18 of the budget document (EBAP/87/69), the staff included an allowance for an adjustment of the order of 5 percent when setting a "target figure" for total FY 1988 expenditures. If the recommendation for the general increase of 5 percent is adopted, a formal decision increasing the appropriation under the FY 1987 Administrative Budget for the categories of "Salaries" and "Other Personnel Expenses" will be put forward for approval by the Executive Board.

Attachment

Hay
Management
Consultants

WORLD BANK AND
INTERNATIONAL MONETARY FUND

SURVEY OF COMPENSATION INCREASES
IN
FRANCE, GERMANY AND THE UNITED STATES
1986-1987

April 1987

WORLD BANK AND
INTERNATIONAL MONETARY FUND

SURVEY OF COMPENSATION INCREASES
IN
FRANCE, GERMANY AND THE UNITED STATES
1986-1987

TABLE OF CONTENTS

<u>Chapter</u>	<u>Page</u>
I. INTRODUCTION.	1
II. METHODOLOGY	2
A. Introduction.	2
B. Explanatory Notes	2
C. Terminology	4
III. SUMMARY OF FINDINGS: 11-17/A1-A8 POSITIONS	6
IV. SUMMARY OF FINDINGS: 18-26/A9-B2 POSITIONS	8

Appendices

- A. 1987 Survey Comparators
- B. Effects of United States Tax Changes, 1986-1987

I. INTRODUCTION

At the request of the World Bank and International Monetary Fund, The Hay Group recontacted participants in the 1984 Survey of Compensation in France, Germany and the United States to determine overall changes in compensation practices for the last twelve months.

The data presented in this report are based on the practices of seventeen of the eighteen 11-17/A1-A8 comparators, and thirty-seven of the forty 18-26/A9-B2 comparators which participated in the 1984 Survey.^{1/} Formal and informal interim reports have also been provided to the Bank and Fund during the course of the 1987 Survey.

The tabular data presented in this report provide gross and net percentage increases in Direct Compensation for the overall averages (weighted by grade level, i.e. 11-17/A1-A8, 18-26/A9-B2). The data are presented separately for the Public and Private Sectors. The Private Sector is represented by a consolidation of the Financial and Industrial subsectors for 18-26/A9-B2 level positions. The gross and net percentage increases in Salary Structure Midpoints for U.S. comparators are presented similarly.

The increases reported by comparators reflect overall changes for the relevant Bank/Fund group (i.e., 11-17/A1-A8 are distinguished from 18-26/A9-B2).

The calculation of net-of-tax figures was performed on the basis of tax tables provided to the Bank and Fund by Arthur Andersen & Company.

^{1/} See Appendix A for a listing of the comparators which participated in the 1987 Survey.

II. METHODOLOGY

A. Introduction

The objective of the 1987 Compensation Update Survey is to determine the extent of overall increases in Direct Compensation and Midpoint of Salary Structure over the past twelve months among participants in the 1984 Survey. The same methodology as was used in the 1986 Update Survey was utilized to satisfy this objective. The following section provides more detailed explanations of certain elements of the methodology.

B. Explanatory Notes^{1/}

As stated above, the methodology applied to the 1987 Update Survey is the same as that applied to the 1986 Update Survey. The following notes are provided in order to elucidate some of these methodological elements.

1. To calculate the gross percent increase in Direct Compensation for U.S. Civil Service positions, figures for the three different types of increase were obtained from the U.S. Office of Personnel Management, and compounded. The three types of increase are: (1) the general increase; (2) the primary form of merit increase, which is based on length of service in the current step in grade; and (3) a secondary type of merit increase, termed a quality step increase (QSI), which is based on excellence of performance. For 1986-1987, the combined merit increase was 2.2%. Effective 1/1/87 there was a

^{1/} As before, the calculation of net-of-tax figures was performed on the basis of tax tables provided to the Bank and Fund by Arthur Andersen & Company.

3.0% general increase for all Civil Service positions. In addition, there was a special pay increase for certain support staff positions within the U.S. Public Sector which becomes effective in April 1987. The overall size of the impact of this special increase was estimated at 3.0% for both the direct compensation and midpoint of salary structure. This value was estimated by taking into account both the variation in the size of the increase (by Federal grade level) and the proportion of the World Bank and IMF support staff populations to which the increases are relevant.

2. A number of U.S. comparators reported that they did not change their Salary Structure Midpoints during the twelve month period since May 1986. One of the twelve private sector 11-17/A1-A8, and two of fifteen^{1/} private sector 18-26/A9-B2 comparators did not change their Salary Structure Midpoints. These zero increases are included in the calculations employed to arrive at the average increase in Salary Structure Midpoint figures which are presented in the tables in this report; footnotes to the tables report the results obtained if such zero changes are excluded from the calculations.
3. In the United States, taxation changes at certain compensation levels had the effect of yielding net percent increases in compensation which exceed the gross percent increases. Appendix B presents an example of the effects of such changes on Direct Compensation for the U.S.

^{1/} One 18-26/A9-B2 comparator has no salary structure.

C. Terminology

1. Base Salary and Direct Compensation

As applied in the survey, Direct Compensation consists of all earned cash payable to an employee. It may be considered to consist of two components: (1) Base Salary; and (2) variable cash compensation. The latter category consists of all earnings, payable in cash, which are in addition to base salary, e.g., profit sharing, bonus or incentive awards. Whereas Base Salaries are essentially fixed, guaranteed payments, variable cash compensation elements are awarded on the basis of individual, unit and/or overall organizational performance. Such awards therefore can vary from year to year and do not bear a fixed relationship to Base Salary.

2. General Increases

General increases are defined as compensation increases provided to all employees on the basis of cost of living or pay comparability adjustments. They are not related to individual performance, tenure or other criteria. Although the size of the increase may vary by grade level, all relevant eligible employees must receive an increase for it to be defined as a general increase. In cases where participants award more than one general increase, the cumulative sum (compounded) is used (e.g., in the U.S. Public Sector for certain support staff).

3. Merit and Step Increases

Merit increases are defined as variable increases in compensation resulting from the recognition of meritorious service. They are awarded on an individual basis, and some eligible employees may not receive merit increases.

Step increases are awarded for a variety of reasons -- typically for tenure and/or quality of performance. Again, not all eligible employees may receive step increases, and the average size of the increase varies.

Merit and step increases are weighted to reflect the proportion of the relevant eligible comparator population receiving an increase.

4. Midpoint of Salary Structure

The salary structure provides the boundaries within which the level of base salary is determined. Most organizations use a control point -- most commonly the midpoint of the range between minimum and maximum -- to control salary expense and distribute salary increases. In the Private Sector, base salaries above midpoint typically reflect above-average performance, while base salaries below midpoint typically reflect below-average performance or the existence of recently hired or promoted incumbents. In the U.S. Private Sector, individual compensation does not increase commensurately with increases in the midpoint of structure.

In the Public Sector, a formal midpoint is not typically used as a control point, and average base salaries tend to increase above this level. Performance is more generally assumed to follow years of service.

III. SUMMARY OF FINDINGS

11-17/A1-A8 POSITIONS

DIRECT COMPENSATION AND SALARY STRUCTURE MIDPOINTS

Data on changes in compensation were collected from seventeen (17) of the eighteen (18) U.S. comparators that participated in the 1984 Survey.

The U.S. Public Sector Direct Compensation results are based on the combined merit increase, and the two general increases granted in 1987 (as discussed in Section II.B). These results were combined with the increases for other U.S. public sector organizations to arrive at the overall gross percent increase.

The U.S. Private Sector Direct Compensation results are based upon data provided by 12 of the 13 comparators. All 12 provided only merit increases. Gross percent increases in average Direct Compensation range from 2.2% to 7.5%.

The U.S. Private Sector Salary Structure Midpoint results are based upon the data provided by 11 of the 13 participants. One comparator did not participate in the 1987 Survey, and one comparator was unable to supply midpoint movement information. The average gross and net increases in the tables reflect the inclusion of zero movement in the calculations: footnotes report the results based on excluding such data.

The following tables present overall gross and net percent increases in Direct Compensation and Salary Structure Midpoints for the relevant time period.

A. Direct Compensation

1. U.S. Public Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
11-17/A1-A8	8.3 ^{1/}	8.8 ^{1/}

2. U.S. Private Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
11-17/A1-A8	5.1	6.0

B. Salary Structure Midpoints

1. U.S. Public Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
11-17/A1-A8	6.1 ^{2/}	7.0 ^{2/}

2. U.S. Private Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
11-17/A1-A8	4.4 ^{3/}	5.5 ^{3/}

^{1/} Excluding the special pay increase for selected clerical, secretarial and related positions, the gross and net percent increases are 5.2% and 6.2%, respectively.

^{2/} Excluding the special pay increase for selected clerical, secretarial and related positions, the gross and net percent increases are 3.0% and 4.4%, respectively.

^{3/} If the comparator which did not change its structure were excluded, the average gross percent increase would be 4.8%, and the average net percent increase would be 5.8%.

IV. SUMMARY OF FINDINGS

18-26/A9-B2 POSITIONS

DIRECT COMPENSATION AND SALARY STRUCTURE MIDPOINTS

Of the twenty-two (22) U.S. Comparators in the 1984 Survey, data on changes in compensation were collected from twenty (20) organizations. One comparator in the Industrial Subsector merged into a non-survey organization, and another underwent a major re-organization which precluded its participation.

In the U.S. Public Sector, the Federal Reserve Bank of New York provides only merit increases, while the other comparators provide general and merit/step increases based on tenure and performance.

All sixteen (16) Private Sector organizations rely solely on merit increases to provide compensation increases to personnel. Gross percentage changes in Direct Compensation were variable, ranging from 3.5% to 8.6%. Two (2) U.S. Private Sector comparators did not adjust their salary structures (one in each subsector). Gross percent increases in Salary Structure Midpoint were highly variable, ranging from 1.8% to 10.0% for the thirteen (13) remaining comparators.^{1/}

The 1987 tax tables used to compute net figures include the effects of tax changes and increases in average deductions. Appendix B provides an example of the impact of these changes.

^{1/} One comparator which does not have a Salary Structure is excluded from consideration.

The following tables present the gross and net percent increases in Direct Compensation and Salary Structure Midpoints for the relevant time period.

A. Direct Compensation - United States

1. U.S. Public Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	5.2	7.4

2. U.S. Private Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	5.9	7.4

B. Salary Structure Midpoints - United States

1. U.S. Public Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	2.9 ^{1/}	5.4 ^{1/}

2. U.S. Private Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	4.2 ^{2/}	5.6 ^{2/}

^{1/}

Without zeros, the Gross and Net percent increases were 2.9 and 5.2, respectively.

^{2/}

If the two comparators which did not change their Salary Structure Midpoints were excluded, the average gross percent increase would be 4.8%, and the average net percent increase would be 6.1%.

C. Direct Compensation - France

All nine participants in the 1984 Survey provided data for the 1987 Survey (six in the Private Sector and three in the Public Sector). Four of the nine comparators provide both general and merit increases. The remaining three provide merit increases only.

The following tables present the overall gross and net percentage increases in Direct Compensation. As previously noted, the net increase in Direct Compensation from 1986 to 1987 exceeds the gross increase because of a decrease in tax rates.

1. French Public Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	0.5 ^{1/}	1.5 ^{1/}

2. French Private Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	2.0	2.8

^{1/} Without zeros the average Gross and Net increases are 1.5% and 2.3%, respectively.

D. Direct Compensation - Germany

Seven of the nine participants in the 1984 Survey provided data for the 1987 Compensation Update Survey; (two in the Public Sector and five in the Private Sector).

Four of the nine comparators provide both general and merit increases. The remaining three provide merit increases only. Private Sector gross percentage increases range from 0.8% to 8.0%.

The following tables present the gross and net percentage increases in Direct Compensation over the last twelve months.

1. German Public Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	3.3	0.9

2. German Private Sector
(World Bank & International Monetary Fund)

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	5.2	2.8

APPENDIX A

1987 SURVEY COMPARATORS

APPENDIX A

1987 11-17/A1-A8 SURVEY COMPARATORS

Public Sector

Agency for International Development
Bureau of Labor Statistics
Department of Commerce
Department of Treasury
Federal Reserve Board

Private Sector

Acacia Group
American Bankers Association
American Chemical Society
American Gas Association
American Petroleum Institute
Arthur Andersen & Company
Brookings Institution
Communications Satellite Corporation
U.S. Chamber of Commerce
Federal National Mortgage Association
International Business Machines (IBM)
Mobil Oil

FRANCE

Public Sector

Banque de France
Caisse Centrale de Coopération Economique
Ministère de l'Economie

Private Sector

Industrial

Compagnie Française des Pétroles
Lafarge-Coppée
Rhône-Poulenc

Financial

Credit Agricole
Crédit Industriel et Commercial
Crédit Lyonnais

GERMANY

Public Sector

Bundesministerium der Finanzen
Deutsche Bundesbank

Private Sector

Industrial

Hoechst
Metallgesellschaft
Veba Oel

Financial

Berliner Handels-und Frankfurter Bank (BHF)
Dresdner Bank

UNITED STATES

Public Sector

Agency for International Development
Department of Treasury
Federal Reserve Bank of New York
Federal Reserve Board

Private Sector

Industrial

Dow Chemical
General Telephone & Electronics
International Business Machines (IBM)
Johnson and Johnson
Merck
R. J. Reynolds Industries
Union Carbide

Financial

Bank of America
Chase Manhattan Bank
Citicorp
First Chicago
Goldman Sachs
Manufacturers Hanover
Mellon Bank
Merrill Lynch
Morgan Guaranty Trust

APPENDIX B

EFFECTS OF U.S. TAX CHANGES, 1986-1987

APPENDIX B

EFFECTS OF U.S. TAX CHANGES, 1986-1987

The 1986 Tax Reform Act made major changes in the determination of federal income taxes. The Act increased personal exemptions, decreased tax rates, and eliminated or reduced many deductions from income. The overall effect has been to reduce income taxes, thereby increasing net pay for employees in the US market.

The following table illustrates the effects of tax changes brought about by the 1986 Tax Reform Act in the U.S. between 1986 and 1987. The table provides average gross and net percentage increases for the U.S. market using a 50/50 mix of the public and private sector results.

Impact of Changes for 11-17/A1-A8 and 18-26/A9-B2 Positions

<u>Grade Level</u>	<u>Gross Increase (%)</u>	<u>Net Increase (%)</u>		<u>Impact of Tax Changes (%)</u>
		<u>Based on 1986 Tax Tables*</u>	<u>Based on 1987 Tax Tables*</u>	
	-			
11-17/A1-A8	6.7	5.9	7.4	1.5
18-26/A9-B2	5.6	4.7	7.4	2.7

* Tax tables provided to the Bank/Fund by Arthur Andersen and Company.

1

