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April 11, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Staff Compensation - 1986 Review and Adjustment

Attached for consideration by the Executive Directors is a memorandum from the Managing Director on the 1986 staff compensation review. This subject has been scheduled for discussion on Monday, May 5, 1986.

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

To: Members of the Executive Board
From: The Managing Director
Subject: Staff Compensation--1986 Adjustment

April 11, 1986

I. 1986 Compensation Survey

In 1979 the Executive Board decided that normally every third year there would be a comprehensive review of staff compensation based on surveys of the levels of compensation in comparator organizations. At the same time it was also decided that, in the intervening years, 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 ranges F to J (now corresponding to Ranges A9-B2) on compensation changes in France and Germany to ensure that U.S. levels of pay have remained internationally competitive.

The Fund conducted comprehensive reviews of Fund salaries in 1980 and 1984, based on surveys of salaries paid in comparator organizations in the public and private sectors in France, Germany, and the United States. In 1981, 1982, 1983, and 1985 (i.e., the intervening years), surveys were conducted of increases in compensation in the comparators in those three countries over the previous 12 months.

The 1986 review is also an "intervening year" review, and in accordance with the established practice 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 between March 1985 and March 1986. The survey covered movements in average pay in the comparators in the United States for staff in salary ranges A1-A8 and A9-B2. Hay Associates have also provided the average pay movement for Range A9-B2 comparators in France and Germany over the same period. The Consultant's report, "Survey of Compensation Increases in France and Germany and in the United States, 1985-1986," is attached.

The findings of the survey are summarized in Section II. Section III sets out for the consideration of Executive Directors a proposed decision to adjust salaries in line with the results of the survey.

II. Survey Findings

The main results of the survey are shown in Table 1, which sets out percentage changes in gross and net compensation in U.S. comparators for Grades A1 to A8 and Grades A9 to B2. The table also shows the effect of deducting from the increases in the net pay of comparators the customary average Fund merit increase of 2.4 percent that will become effective on May 1, 1986.

Table 1. Compensation Increases in the U.S. Market
March 1985 to March 1986

(Average increases in percentage terms)

	U.S. Comparator Average Salary Increases			
	Gross	Net	Gross	Net
	Ranges A9-B2		Ranges A1-A8	
Public Sector	2.8	3.5	2.1	2.1
Private Sector	6.4	7.0	5.9	5.4
Combined	4.6	5.3	4.0	3.8
Less Fund Merit Increase		<u>2.4</u>		<u>2.4</u>
Indicated General Increase		2.9		1.4

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, comprising base salaries and bonuses and profit-sharing payments where applicable.

As shown in Table 1, on the basis of the Kafka formula of equal weighting for the public and private markets, net salary increases in the U.S. market between March 1984 and March 1985 were equal to 5.3 percent for the Range A9-B2 comparators. ^{1/} As this percentage reflects all forms of increase 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 (2.9 percent) that would be indicated by the application of the agreed principles. A similar calculation for Ranges A1-A8 would indicate an adjustment of 1.4 percent. The check for Ranges A9-B2 on the average pay movement in real terms in France and Germany (Table 2) suggests that the rate of real salary increase has been somewhat higher in France and Germany than in the United States.

^{1/} It will be noted that for Ranges A9-B2 the net increases for the U.S. comparators are larger than the gross increases. This is the result of the indexation of tax rates and an increase in the average deductions. See Attachment I, page 3 paragraph 3, and Appendix B.

Table 2. Percent Change in Compensation (Including Merit Increases)
in the United States, France, and Germany

March 1985 to March 1986

(Ranges F-J/A9-B2)

	United States	France	Germany
Increase in Gross Pay	4.6	5.3	3.9
Increase in Net Pay <u>1/</u>	5.3	6.4	5.2
Increase in CPI <u>2/</u>	5.2	4.2	1.3
Real Net Increase	0.1	2.1	3.9

1/ Net increases in Germany and France are higher than gross increases as a result of tax reductions in both countries.

2/ Based on the latest available CPI data: January 1985 to January 1986. The increase in the Washington area CPI of 5.2 percent from January 1985 to January 1986 encompasses an increase of 1.5 percent that occurred between January 1985 and March 1985. The increase for the ten months March 1985 to January 1986 was 3.7 percent. The figure for the Washington area CPI for March will not be available until the third week in April.

The table above indicates that real pay in France and Germany has been increasing at a somewhat faster rate than that of the U.S. comparator market over the last year or so. In the 1984 survey, when actual compensation was compared between France, Germany, and the United States, pay levels in the United States were significantly above those in France and Germany, which largely reflected the strength of the U.S. dollar. Present indications are that actual pay levels in the U.S. comparator market are still higher than levels in the comparators in France and Germany, but the gap is narrowing as a result of the weakening of the U.S. dollar. The question of the international competitiveness of the U.S. market is one of the issues under review by the Joint Bank/Fund Committee of Executive Directors on Staff Compensation.

III. Recommendations

As Executive Directors are aware, the Joint Bank/Fund Committee of Executive Directors on Staff Compensation is reviewing the operation of the methods of determining compensation in the Fund and the Bank.

It had been expected earlier that it might be possible for the results of this Committee's work to be available prior to the 1986 Review of Staff Compensation. This has not, however, proved possible, and the present objective of the Committee is to submit its report and recommendations to the Executive Boards of the Bank and the Fund in early August. Given the time that is likely to be required for Board discussion of these recommendations, and the need for up-to-date information on the implications of whatever comparator method is to be used, it seems unlikely that decisions of the Executive Board on the Committee's recommendations can be implemented before the end of the year. In these circumstances, and bearing in mind that the existing framework for determining staff compensation established by the Executive Board remains in effect unless and until a decision is taken to change it, it is proposed that the Executive Board follow the existing principles and procedures and implement the results of the 1986 Survey by approving a general salary increase of 1.4 percent for Grades A1 to A8 and 2.9 percent for Grades A9-B5.

The estimated cost for FY 1987 of the above increases is \$3.4 million. The proposed FY 1987 Administrative Budget makes no provision for a general salary adjustment. However, as noted in EBAP/86/75, paragraph 17, when setting a "target figure" for the FY 1987 budget proposal with the aim of achieving a result that would be comparable with actual expenditures in FY 1986, the staff assumed a general salary adjustment of 2.4 percent on average, with a cost of \$3.2 million. The cost now envisaged in the light of the results of the survey would be only \$200,000 higher than this assumption.

The survey results for the Bank are identical to those of the Fund, and the Bank Management will be making an almost identical proposal to its Executive Board. The only difference is that the 1.4 percent increase for the Fund Ranges A1 to A8 will apply only to Bank Ranges 11 to 17 as their Range 18 is included with their professional staff.

Accordingly, I recommend that the Executive Board decide that staff salaries in Ranges A1 to A8 and A9 to B5, and the maxima and minima of those salary ranges, be increased by 1.4 percent and 2.9 percent respectively, with effect from May 1, 1986.

If this decision 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

WORLD BANK AND
INTERNATIONAL MONETARY FUND

SURVEY OF COMPENSATION INCREASES
IN
FRANCE, GERMANY AND THE UNITED STATES
1985-1986

Atlanta
Boston
Chicago
Cincinnati
Dallas
Hartford

Houston
Kansas City
Los Angeles
Minneapolis
New York
Philadelphia
Pittsburgh
San Francisco
Seattle
Stamford
St. Louis
Walnut Creek
Washington, DC

April 1986

Conducted by:
The Hay Group



WORLD BANK AND
INTERNATIONAL MONETARY FUND

SURVEY OF COMPENSATION INCREASES
IN
FRANCE, GERMANY AND THE UNITED STATES
1985-1986

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. 1986 Survey Comparators
- B. Effects of United States Tax Changes, 1985-1986



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 all 18 of the support staff comparators, and 38 of the 40 higher level staff 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 1986 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). 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.

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 1986 Survey.

II. METHODOLOGY

A. Introduction

The objective of the 1986 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 1985 Update Survey was utilized to satisfy this objective, with the exception that no position-specific data were collected; rather, data were sought only on average increases. 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 1986 Update Survey is the same as that applied to the 1985 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

^{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.

in grade; and (3) a secondary type of merit increase, termed a quality step increase (QSI), which is based on excellence of performance. For 1985-1986, there was no general increase: the combined merit increase figure of 2.2% therefore represents the total gross percent increase in Direct Compensation for U.S. Civil Service positions over the last 12 months.

2. A number of comparators reported that they did not change their Salary Structure Midpoints during the twelve month period since March 1985. One of the thirteen private sector 11-17/A1-A8, and three of fifteen^{1/} private sector 18-26/A9-B2 comparators did not change their Salary Structure Midpoints. One 11-17/A1-A8 comparator reported (and confirmed) a decrease in its salary structure. These zero (and negative) 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 and negative changes are excluded from the calculations.
3. In the United States, taxation changes and increases in average deductions 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 corporate 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 France).

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 all eighteen (18) U.S. comparators that participated in the 1984 Survey.

The U.S. Public Sector Direct Compensation results are based upon use of the 2.2% gross increase for U.S. Civil Service comparators (as discussed in Section II.B) combined with the increases for other U.S. public sector organizations.

The U.S. Private Sector Direct Compensation results are based upon data provided by all 13 comparators. Of the 13, 12 provide only merit increases; one provides a combination of merit and cost of living increases. Gross percent increases in average Direct Compensation range from 4.6% to 8.0%.

The U.S. Private Sector Salary Structure Midpoint results are based upon the data provided by all 13 of the participants. One comparator did not adjust its structure, and one comparator reported a decrease in its structure. The average gross and net increases in the tables reflect the inclusion of the zero and negative increases 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 last twelve months.

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	2.1	2.1

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	5.9	5.4

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	0	0.4 ^{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	3.2 ^{2/}	3.1 ^{2/}

^{1/} This result is attributable to the combined effects of tax changes and increases in average deductions.

^{2/} If the comparator which did not change its structure, and the one which reported a decrease were excluded, the average gross percent increase would be 4.3%, and the average net percent increase would be 4.0%.

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 was unable to participate this year, and another has been merged into a non-survey organization.

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 4.6% to 8.1%. Three (3) U.S. Private Sector comparators did not adjust their salary structures (all three are in the Financial subsector). Gross percent increases in Salary Structure Midpoint were highly variable, ranging from 1.2% to 12.3% for the twelve (12) remaining comparators.^{1/}

The 1986 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 last twelve months.

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	2.8	3.5

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	6.4	7.0

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	0	1.0

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	4.1 ^{1/}	3.6 ^{1/}

^{1/} If the three comparators which did not change their Salary Structure Midpoints were excluded, the average gross percent increase would be 5.0%, and the average net percent increase would be 4.3%.

C. Direct Compensation - France

Eight of the nine participants in the 1984 Survey provided data for the 1986 Survey (five in the Private Sector and three in the Public Sector). Six of the eight comparators provide general increases (related to increases in the cost of living) and merit increases (which average 1.5% of gross base salary). The remaining two provide general increases only.

In the Public Sector, gross percentage increases in Direct Compensation range from 4.5% to 5.2%. In the Private Sector, gross percentage increases in Direct Compensation range from 5.1% to 7.4%.

The following tables present the overall gross and net percentage increases in Direct Compensation for the last twelve months. As previously noted, the net increase in Direct Compensation from 1985 to 1986 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	4.7	5.9

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

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	5.8	6.8

9. Direct Compensation - Germany

Seven of the nine participants in the 1984 Survey provided data for the 1986 Compensation Update Survey (three in the Public Sector and four in the Private Sector).

Public Sector gross percentage increases range from 3.2% to 4.0%. The average gross percent merit increase is 0.7% (only one of the three public sector comparators provides merit increases).

Private Sector gross percentage increases range from 3.3% to 5.0%. Two private sector comparators provide only merit increases; the other two provide a combination of merit and general increases.

The following tables present the gross and net percentage increases in Direct Compensation over the last twelve months. As previously noted, the net increase in Direct Compensation from 1985 to 1986 exceeds the gross increase because of a decrease in tax rates.

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

<u>Grade</u>	<u>Gross % Increase</u>	<u>Net % Increase</u>
18-26/A9-B2	3.6	4.8

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

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



APPENDIX A

1986 SURVEY COMPARATORS



APPENDIX A

1986 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
Arnold and Porter
Arthur Andersen & Company
Brookings Institution
Communications Satellite Corporation
U.S. Chamber of Commerce
Federal National Mortgage Association
International Business Machines (IBM)
Mobil Oil

1986 18-26/A9-B2 SURVEY COMPARATORS

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

Crédit Industriel et Commercial
Crédit Lyonnais

GERMANY

Public Sector

Bundesministerium der Finanzen
Deutsche Bundesbank
Kreditanstalt für Wiederaufbau

Private Sector

Industrial

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, 1985-1986



APPENDIX B

EFFECTS OF U.S. TAX CHANGES, 1985-1986

The following table illustrates the effects of tax changes and increases in average deductions in the U.S. between 1985 and 1986. 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 A-H/A-E and J-N/F-J Positions

<u>Grade Level</u>	<u>Gross Increase (%)</u>	<u>Net Increase (%)</u>		<u>Impact of Tax Changes (%)</u>
		<u>Based on 1985 Tax Tables</u>	<u>Based on 1986 Tax Tables</u>	
11-17/A1-A8	4.0	3.5	3.8	0.3
18-26/A9-B2	4.6	3.9	5.3	1.4

