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August 26, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Early Retirement Assistance Scheme for Staff in Downgraded Positions

The attached paper outlining an early retirement assistance scheme for staff in downgraded positions is being brought to the agenda for discussion on a date to be announced. A proposed decision appears on page 9.

Mr. Struckmeyer (ext. 8202) or Mr. Cole (ext. 8206) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Early Retirement Assistance Scheme for Staff in Downgraded Positions

Prepared by the Administration Department

August 25, 1986

I. Introduction

During the Board Meeting on January 30, 1986, Executive Directors discussed the treatment of staff members whose positions were downgraded in the job grading exercise which was implemented effective January 1, 1986. They agreed, in principle, to a number of measures that management might adopt to help alleviate the situation of such staff members. These measures included: (i) the provision of financial assistance to those who might elect to take early retirement from the Fund; (ii) the redeployment, through internal transfers, of those who have potential to perform in higher graded positions; and (iii) the use of the Fund's training facilities and policies to enhance the prospects of individuals in the group to compete for positions at higher grades within the Fund or to seek more suitable alternative employment outside the Fund. This paper addresses the first of these measures. It proposes the adoption of an early retirement assistance scheme, under which the Fund's existing policy on termination benefits would be applied so as to provide financial assistance to staff members in downgraded positions who are at or near the age when they can take early retirement, and who may voluntarily elect to separate from the Fund staff.

II. Recipients of Early Retirement Assistance

Some 270 staff members currently occupy positions which have been downgraded as a result of the job grading exercise. A few have already expressed a firm interest in separating from the Fund as a result, and a number of others may be inclined to adopt a similar course.

For those individuals who are not old enough to qualify for a pension on resignation from the Fund, the decision on whether to separate or stay will normally depend on whether they can obtain a satisfactory job elsewhere. Given the family and personal problems involved in a change of employment, particularly in cases where resignation from the Fund also means leaving Washington to take up residence in another country, the availability of suitable employment elsewhere may not in itself be a sufficient inducement to resign, at least in the short-term; but an assurance of alternative employment will usually be a necessary precondition to resignation. Essentially, therefore, a resignation by a younger staff member who has been downgraded reflects a decision to pursue the remainder of his career outside the Fund. It seems unlikely that the availability of a special termination payment by the Fund would have much influence on a career decision of this nature, and it is difficult to find an institutional reason sufficient to justify the substantial cost involved in making the payment to all downgraded staff members who take such a decision.

The situation is rather different for that much smaller group of downgraded staff who are at or over the age of 55, and who will, therefore, be entitled to receive a pension from the Fund immediately, if they choose to resign. For them, the decision to take early retirement from the Fund will not necessarily depend on the availability of alternative employment; indeed, given their age, alternative employment will often not be very easy to find. Because of their years of service and relative seniority, many members of the group are at their career ceiling and have salaries above the maximum of their new grades, with virtually no future promotion possibilities. The feasibility of retraining them for other careers within the Fund is also relatively limited, in comparison with younger staff members. For many, the provision of some special financial assistance if they resign from service would be likely to facilitate a decision to retire at an earlier date than originally planned, because it would help to compensate for the reduced pension rights resulting from this decision. From the point of view of the institution, this early retirement would help to reduce the potentially demoralizing impact on staff morale of having individuals in service whose salaries are frozen in nominal terms, and who have limited, if any, promotion possibilities. It would permit the institution to fill the vacated positions with new incumbents at the appropriate grade and salary, with the latter often being set at a significantly lower level. In a few cases, it would also facilitate a streamlining of the Fund's organizational structure through the abolition or consolidation of vacated positions.

Of the 270 staff members in downgraded positions, 86 (32 percent) will be close to, or will already have reached, the age of 55 on December 31, 1987, when the two-year grandfathering period expires. Of these 86 individuals, 36 have been classified under the job grading exercise in Grades B1 and above, 44 in Grades A9-A14, and 6 in Grades A1-A8. In other words, 42 percent of the group are in managerial positions, and nearly all the remainder are in professional positions. Virtually all members of the group (82 out of 86) currently have salaries above the ceiling of their new grades. For the reasons outlined above, it is proposed to orient the retirement assistance scheme toward this group of staff.

III. Possible Models for an Early Retirement Assistance Scheme

In considering specific arrangements for providing retirement incentives for those downgraded staff who are at or near early retirement age, due attention must clearly be given to arrangements developed by the Fund in the past for dealing with comparable situations. For many years, the Fund has operated a termination benefits policy, under which financial incentives may be provided to staff members to separate voluntarily when this seems to be in the interests of the institution. In addition, a few years ago the Fund adopted a special pension augmentation scheme which operated for a limited period, and was designed to encourage early retirement by a selected number of individuals. Each of these schemes is outlined briefly below.

a. Termination Benefits Policy

A standing policy permitting termination payments to encourage or assist the separation or early retirement of a Fund staff member was first introduced in 1947. Under the original policy, termination payments could be made at the rate of one-half month's salary for each year of service, subject to a maximum of six months' salary. These payments were utilized largely for separations resulting from prolonged illnesses and, in a few cases, to make it easier for staff members in the early years of their service to resign voluntarily when it was evident that they were not likely to be successful in the Fund.

In February 1972, the termination benefits policy was substantially enlarged when the Executive Board approved an increase in permissible termination payments from the equivalent of half a month's salary to the equivalent of one month's salary for each year of service, up to a maximum of 18 months' salary. 1/ The specific objective in liberalizing the policy was to encourage the separation of relatively older staff members who were no longer fully productive, and for whom no alternative positions were available within the Fund. Under the revised policy, termination payments could be made when management deemed this to be in the interest of the good administration of the organization, and the separations were uncontested by the staff members concerned. Such payments could, at the option of the individual, be made either in a lump sum on the individual's resignation, or through provision of a period of extended terminal leave during which the individual remained in the Fund's employment, but in leave status. In January 1980, the Executive Board approved a further liberalization of the termination payments

1/ (EBAP/72/32; 2/4/72 and EBAP/72/32, Supplement 1; 2/29/72).

policy by raising the maximum termination payment from one to one and a quarter months' salary for each year of service, subject to a maximum of 22 1/2 months' salary. 1/

Termination payments are made from a Termination Benefits Fund (TBF) and are subject to a budgetary constraint approved by the Executive Board each year in the annual Administrative Budget. In recent years, the TBF budget has been set at a level equivalent to roughly 0.8 percent of staff wage bill, and approximately 10 staff members each year have received termination payments. It has been estimated that roughly 75 percent of the cost of the TBF is offset over a period of 6 to 8 years due to salary recovery (e.g., the replacement of a staff member separating by a staff member with a relatively lower salary), the abolition in a few cases of positions occupied by staff members separating with termination payments, and the fact that vacancies created by separations often remain unfilled for a period of time.

b. Pension Augmentation Scheme

In January 1980, the Executive Board approved a one-time pension augmentation scheme to encourage the early retirement of selected senior staff members in Ranges J and above. 1/ The objective of the 1980 scheme was to encourage the early retirement of up to 20 senior staff members whose productivity in key positions had declined, and to make room for the promotions of relatively younger and deserving staff members. Under this scheme, staff members in Ranges J and above who were at least 55 years old were offered an opportunity to apply for early retirement. The management reserved the right to accept or reject applications under the scheme, consistent with the interests of the Fund. Staff members whose applications were accepted were granted a special service credit of half the years of service remaining until the staff member reached mandatory retirement age of 65. They then received a supplementary pension from the Administrative Budget for the additional years of service credited under the scheme, and a cash payment at the rate of one and one quarter months' salary for each such year of service credit under the scheme. Seventeen senior staff members retired under this scheme, at a total cost of approximately $4 million.

1/ (EBAP/79/355; 12/4/79 and EBAP/79/355, Supplement 1; 1/16/80).

IV. Outline of the Proposed Scheme

Like the scheme for downgraded staff now being considered, the 1980 pension augmentation scheme was intended to facilitate the early retirement of older staff members. However, the 1980 scheme had several features which should not be repeated. First, the cost to the institution was very large relative to the number of staff members who were retired under the scheme. Moreover, by building the financial incentives for early retirement directly into pension entitlements, the Fund committed itself to assuming indefinite long-term liabilities, rather than a finite cost over a limited period of time. Secondly, the discretionary nature of the scheme, based as it was on individual applications which were decided upon by management, created some morale problems and raised fundamental questions of equity and fairness among those senior staff members whose applications were turned down on the ground that they were regarded as more useful to the institution. Thirdly, additional problems of equity and fairness were created because the benefits offered under the limited one-time scheme were substantially greater than those available under the Fund's standing TBF policy to staff members resigning before the one-time scheme came into operation or after it was closed, or who were not fortunate enough to be selected for the pension augmentation scheme itself.

It is possible to develop a special early retirement assistance scheme applicable solely to downgraded staff which avoids the first and second of these defects. However, to the extent the financial benefits offered under the special scheme are either more or less attractive than those available under the standing TBF policy, problems of equity and consistency of treatment will inevitably arise. If, for example, the maximum amount of financial assistance that could be provided to a downgraded staff member under the early retirement assistance scheme were fixed at a level less than that available under the termination benefits policy, downgraded staff would naturally prefer to request assistance under the termination benefits policy. The management would then be obliged either to reject all such requests, thereby depriving at least some of the downgraded individuals of assistance which they might have been able to obtain had they not been downgraded or had a special scheme to help downgraded staff not been introduced at all; or to allow some downgraded staff members access to termination benefits while limiting the rest to the lower level of assistance available under the early retirement assistance scheme. This latter course of action would make invidious and no doubt disputable distinctions based on more or less arbitrary or subjective criteria. Comparable problems of equity and consistency would arise as between different groups of staff, if the level of assistance available under the temporary early retirement assistance scheme were to be more generous than that available under the permanent termination benefits policy.

To avoid problems of this nature, it is recommended that the level of financial assistance available to downgraded staff who choose to take early retirement should be exactly the same as the maximum currently available on a case-by-case basis to other separating staff members under the termination benefits policy, i.e., the equivalent of one and a quarter months' salary for each year of service, up to a maximum of 22 1/2 months. Specifically, it is proposed that the assistance be provided within the framework of the termination benefits policy itself. This policy is already used by the institution in a flexible manner, to facilitate the voluntary separation of staff members in several different types of situations where separation is considered to be in the interest of good administration of the Fund. It would seem perfectly appropriate to include among these situations the separation of downgraded staff who are at or near early retirement age.

The proposal to apply the provisions of the termination benefits policy to assist this group of staff is subject to one minor qualification. As the policy now stands, the management delegates to the Director of Administration to determine in each individual case whether to provide financial assistance, and if so, how much assistance should be provided within the specified limit. It would not seem appropriate to retain this discretion in the case of downgraded staff; all share the common disadvantage of having been adversely affected by the job grading results, and all should be entitled to be treated on the same consistent basis if they elect to retire from the Fund.

Taking into account the conclusions and recommendations discussed above, it is proposed that the early retirement assistance scheme have the following specific features:

1. The scheme would operate within the framework of the existing policy on termination payments. Consistent with that policy, the Fund would, on request, provide to a staff member who is eligible for early retirement assistance and who voluntarily separates from the Fund 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 the staff member's option, these resources could be disbursed in a lump sum at the time of separation, or in the form of payment during a period of terminal leave.

2. Early retirement assistance would be open to all staff members who:

a. occupy positions which have been downgraded as a result of the job grading exercise;

b. as of December 31, 1987 (i.e., the expiration of the two-year grandfathering period) have reached the minimum early retirement age of 55, or are within its reach through the provision of a period of terminal leave; and

c. agree to separate from the staff or to begin their period of terminal leave no later than December 31, 1987.

3. For those staff who meet the criteria outlined in paragraph 2, automatic access would be provided to the maximum benefit applicable under the current termination payments policy in accordance with their years of Fund service. However, regardless of length of service, no staff member would be allowed to receive financial assistance in excess of the number of months remaining until he reaches the mandatory retirement age of 65.

4. Eligible staff members wishing to take advantage of this early retirement assistance scheme would be required to indicate to the Director of Administration their intention to separate by June 30, 1987.

It should be noted that staff members in downgraded positions who are not within reach of early retirement age but might wish to seek financial assistance in conjunction with a resignation from the Fund staff, or who are at early retirement age but are not in a position to act within the time frame contemplated by the early retirement assistance scheme as outlined above, would be free to apply at any time for a TBF payment in the normal way. Their applications would be considered on a case-by-case basis along with other applications for access to the TBF, and within the limits of budgeted resources available in the TBF.

V. Potential Demand for Scheme and Cost Estimates

It is very difficult to estimate precisely what the demand will be for the early retirement assistance scheme among the 86 eligible staff members, as there are numerous variables that each individual will take into account in reaching a decision. For some, visa problems for themselves or their children are likely to create disincentives to early retirement. For others, the expenses of educating their children or the fact that their pensions would be relatively low would probably make it financially difficult for them to retire. In addition, many of the affected staff enjoy their work and would simply prefer to be employed rather than retire. Taking these various factors into account, it is estimated that slightly less than half of the 86 eligible staff members may opt for early retirement under the proposed scheme.

Based on this estimate, the anticipated cost of the scheme would be approximately $4.5 million, spread over four fiscal years. The annual appropriations for the TBF required in the current and the next three Administrative Budgets in order to cover this cost would be roughly as follows:

FY 1987		$0.9 million 1/
FY 1988		$2.4 million
FY 1989		$0.7 million
FY 1990		$0.5 million
	Total	$4.5 million

These annual amounts would be in addition to the amounts appropriated in each of these years for the discretionary payments from the Termination Benefits Fund. 2/ The bunching of payments in FY 1988 results from the expectation that a number of staff will elect a lump-sum payment rather than the terminal leave option upon taking early retirement at the end of 1987 when the grandfathering period expires. A more precise estimate of the distribution of the cost will be available by the time of the preparation of the FY 1988 Administrative Budget, at which point the intentions of most of the staff members eligible for the scheme will be known.

VI. Decision

As noted above, the early retirement assistance scheme proposed in the paper would be implemented within the general framework of the Fund's standing policy on termination benefits, and the resources needed for this purpose would be provided by additional annual budgetary appropriations to the Termination Benefits Fund. The principle that

1/ Provision for this amount was included in the Administrative Budget for FY 1987 approved by the Executive Board on April 14, 1986.

2/ Over the next year, a very restrictive stance would be taken in approving termination payments under the existing discretionary TBF policy. This will permit these funds to be utilized, if necessary, for the early retirement assistance scheme in the unlikely event that the estimated cost of $4.5 million proved too conservative.

this assistance should be made available to staff in downgraded positions to facilitate their taking early retirement was supported by Executive Directors during the discussion of "grandfathering" arrangements, and an appropriation of $0.9 million for payments during the current financial year was included in the FY 1987 Administrative Budget adopted by the Executive Board on April 14, 1986. The formal endorsement of the Executive Board is now requested both to the scheme itself and to the allocation of up to $4.5 million to finance the scheme by annual appropriations over the period FY 1987-1990. Accordingly, the following decision is proposed for consideration by the Executive Board:

> The early retirement assistance scheme outlined in Section IV of EBAP/86/207 is approved; and the Managing Director is authorized to make commitments of up to $4.5 million in termination payments under the scheme during the period ending April 30, 1990.