

**EXECUTIVE
BOARD
MEETING**

EBAP/16/12

CONFIDENTIAL

February 23, 2016

To: Members of the Executive Board
From: The Secretary
Subject: **2016 Review of Staff Compensation**

Board Action:	Executive Directors' consideration (Formal), together with EBAP/16/13 (2/23/16)
Tentative Board Date:	Wednesday, March 23, 2016
Proposed Decision:	Page 6
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Questions:	Mr. Clarke, HRD (ext. 34086)



2016 REVIEW OF STAFF COMPENSATION

February 23, 2016

EXECUTIVE SUMMARY

This paper proposes a 2.3 percent increase in the Fund's salary structure for 2016. The proposal is based on the indexation formula applicable in the second and third years of the cycle for staff compensation approved by the Executive Board in 2006.¹

Under the Fund's rules-based compensation system, adjustments to the salary structure are considered annually on a three-year cycle. In the first year of the cycle (most recently, 2015), decisions on staff compensation are based on customized market surveys representative of salaries for Grades A1–A8 and A9–B2 in the United States. Salaries at B3–B5 are set in relation to B1–B2 and management salaries. Recruitment and retention experience is also considered and the results for A9–B2 are tested for international competitiveness against salaries in France, Germany, and Japan. In the second (2016) and third (2017) years of the cycle, the entire A1–B5 salary structure is adjusted on the basis of an indexation formula, which is comprised of published indices of salary movements in the U.S. public and private sectors. The structure increase is effective May 1, 2016.

The first section of the paper presents the results of the 2016 indexation formula, which determines the increase in the salary structure for Grades A1–B5, subject to established safeguards. The section that follows indicates the next steps in administering staff salary adjustments. The proposed decision is presented for approval on page 6.

¹ See *Employment, Compensation, and Benefits Review—Proposed Decisions* (EBAP/06/38, 3/31/06) and *Staff Compensation—Indexation and Merit Pay* (EBAP/07/37, 3/20/07).

Approved By
Mark Plant

Prepared by Mario Bergman, Keith Kelly, Matt Kostman, and Robin Nowell-Smarr of the Human Resources Department, in consultation with the Finance and Legal Departments and the Office of Budget and Planning

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INDEXATION FORMULA

1. The indexation formula comprises a public and a private sector index. The public sector component is the announced percentage salary increase for the U.S. federal civil service, including locality pay for the Washington metropolitan area for the current year.² The private sector component is the mean percentage change in salary budgets forecast for the current year in the annual WorldatWork Salary Budget Survey for the category of exempt salaried employees.³ The public and private sector components are given equal weight in the indexation formula.

2. The formula indicates a 2.3 percent increase in the salary structure for 2016. The U.S. Office of Personnel Management reports an increase of 1.46 percent for the Washington metropolitan area for 2016. The private sector component for 2016, reported by WorldatWork, is 3.1 percent. Weighted equally, the average of the public and private sector indices results in a 2.3 percent increase in the Fund's salary structure, to be distributed uniformly across all grades, effective May 1, 2016.

3. Application of the formula is subject to safeguards. These safeguards are intended to mitigate the risk that increases indicated by the indexation formula could deviate from salary movements in the Fund's comparator markets, with potentially adverse consequences for the Fund's competitiveness.⁴ Since this approach was adopted in 2006, three compensation cycles have been completed and these risks have not materialized. The formula continues to track well compensation developments in the U.S. comparator market. The compensation system adopted by the Executive Board does not provide for downward adjustments in indexation years; an upward adjustment to the salary increase indicated by the indexation formula may be considered where:

- There is compelling evidence to suggest that movements in the index are unrepresentative in a material way of general salary trends in the U.S. comparator market; or
- Changes in U.S. tax policy make it likely that there will be significant increases in net salaries at the Fund at the time of the next comparator-based review; or
- Movements in the euro-dollar⁵ exchange rate create significant competitiveness problems for staff recruitment that warrant remedial action prior to the next comparator-based review.

² The approved salary scale is published by the Office of Personnel Management at www.opm.gov/policy-data-oversight/pay-leave/salaries-wages.

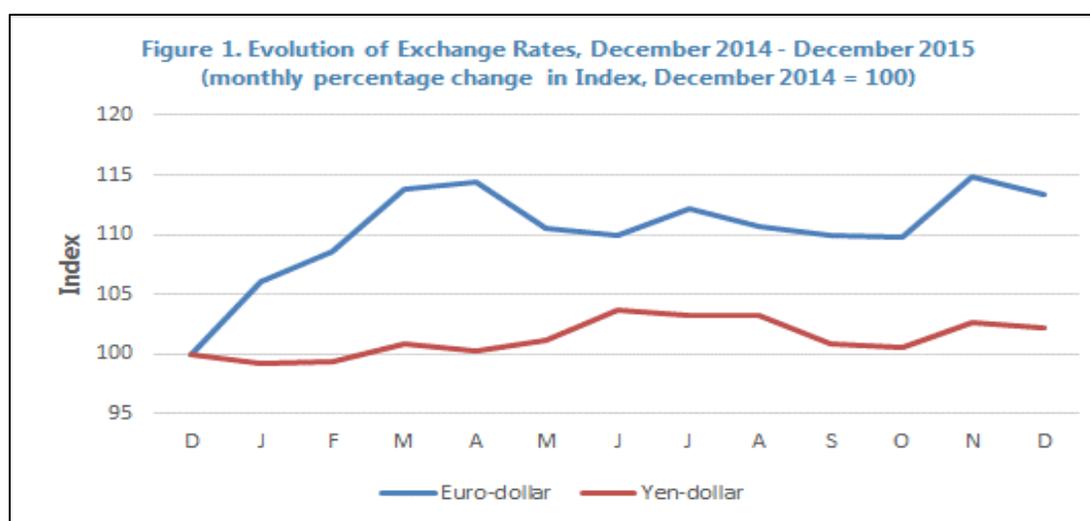
³ Exempt salaried employees are defined as those employees who are not eligible for overtime pay. The data are published by the provider at www.worldatwork.org/Content/research/html/salariesurvey-home.jsp.

⁴ See the accompanying paper on *Recruitment and Retention Experience in 2015*.

⁵ With the inclusion of Japan in the international comparator market, the yen-dollar exchange rate is also relevant.

4. No adjustment on the basis of the safeguards provision is proposed for 2016. In accordance with standard procedure, the scope for adjusting the proposed structure increase based on the aforementioned safeguards was thoroughly examined.

- In an indexation year, the arithmetic mean of the public (federal) and private sector indices determines the level of the proposed increase, and available, relevant data confirm that the indicated increase is representative of trends in the U.S. comparator market.⁶
- There have been no relevant changes in U.S. tax policy, nor have any changes been announced that would lead to significant increases in net salaries in the United States at the time of the next full, comparator-based review in 2018.⁷
- During the past year, both the euro and the yen depreciated against the dollar. (Figure 1).⁸ With respect to the euro, this is a continuation of a trend that began to develop toward the end of the reference period for the 2015 compensation review (November 2013 – October 2014). While these exchange rate developments point to a strengthened competitive positioning of Fund salaries against the international comparator markets, it is too early to tell whether this position will persist (see Annex).



⁶ The Bureau of Labor Statistics reports in its Employment Cost Index (ECI, released 1/29/16) an increase of 1.9 percent for private industry workers and 2.5 percent for state and local government workers through December 2015 (year-over-year). These increases are broadly consistent with the overall increase indicated by the indexation formula, notwithstanding the conclusion (reported to the Board in 2007) that the ECI does not measure all of the components of the U.S. comparator market that are defined by the rules of the compensation system (i.e., it excludes federal agencies).

⁷ The Fund's tax consultant, PricewaterhouseCoopers, provides the tax data used in the full, comparator-based review and apprises HRD of relevant tax law changes that could impact staff compensation.

⁸ Source: IMF Economic Data Sharing System

NEXT STEPS IN ADMINISTERING SALARY ADJUSTMENTS

5. It is recommended that the salary structure be increased by 2.3 percent. The increase would be applied uniformly to the salary range midpoints for Grades A1–B5, as shown in the Attachment, and would be distributed to individual staff on the basis of their position in the salary range with effect from May 1, 2016.

6. The proposed structure increase will be reflected in the proposed FY2017-2019 budget. The proposed increase will be included in the Global External Deflator, which is used to translate the administrative budget from real to nominal terms, and thus will be reflected in the proposed FY2017-2019 medium-term budget.⁹ The envelope for merit increases is determined separately in May–June 2016 within the budget envelope and in accordance with rules established by the Executive Board.¹⁰ The merit pay envelope is determined based on the erosion in average staff salaries that occurs over the previous financial year. The envelope is calculated as the difference between the average midpoint and average actual salary using the grade structure at the end of the year. Details on the size and distribution of merit increases will be provided in the FY2016 administrative budget outturn paper after the financial accounts for the year have been closed.

⁹ See *The Global External Deflator: Setting Nominal Budget Envelopes in the Fund's Medium-Term Budget*, (EB/CB/09/1, 1/29/09)

¹⁰ See *Salary Adjustments and the Budget—A Reform Proposal* (EBAP/11/12, 2/18/11 and Sup. 2, 3/2/11).

Proposed Decision

It is recommended that the Executive Board approves the following proposed decision:

With respect to the 2016 compensation exercise, the salary structure for Grades A1–B5 shall be increased by 2.3 percent with effect from May 1, 2016, as indicated in the salary ranges provided in the Attachment.

Attachment. May 1, 2016 Salary Structure

May 1, 2016 Salary Structure (in U.S. dollars)			
Grade	Minimum	Midpoint	Maximum
A1	30,380	37,980	45,560
A2	34,010	42,500	51,010
A3	38,080	47,590	57,110
A4	42,650	53,310	63,990
A5	47,800	59,760	71,730
A6	53,470	66,860	80,230
A7	59,950	74,930	89,910
A8	67,150	83,950	100,730
A9	69,700	87,120	104,530
A10	80,720	100,910	121,090
A11	92,320	115,380	138,460
A12	105,500	131,870	158,250
A13	120,990	151,250	181,500
A14	143,950	179,940	215,930
A15/B1	165,590	206,990	248,400
B2	195,680	239,710	283,740
B3	231,570	266,300	301,040
B4	266,660	303,590	340,550
B5	310,220	349,650	389,060

Annex. Real Exchange Rate Movements and Fund Competitiveness

1. The value of the U.S. dollar increased vis-à-vis the euro and yen over the past year.¹

Real exchange rate movements during the twelve-month reference period suggest the continued increase in competitiveness of Fund salaries against the international markets. As shown in Table 1, the U.S. dollar appreciated against the euro by 8.8 percent and against the yen by 7.0 percent.

	France and Germany			Japan		
	Euro/\$	PPP	Average	Yen/\$	PPP	Average
Nov 2013 - Oct 2014	0.74	0.81	0.77	103.25	105.96	104.60
Nov 2014 - Oct 2015	0.88	0.80	0.84	120.30	103.60	111.95
Change (percent)	18.9	-0.5	8.8	16.5	-2.2	7.0

2. The Fund's payline is highly competitive against the international markets. Detailed compensation data for France, Germany, and Japan are not available in the years between full, comparator-based reviews of staff compensation. The Fund's approach to checking international competitiveness in the intervening indexation years is to adjust gross salary data from the last full, comparator-based review by the proposed increase. The adjusted international market salaries are then converted to U.S. dollars by applying the current average of nominal exchange rates and purchasing power parities. On this basis, the Fund's 2016 payline would increase by just under 10 percentage points relative to the combined paylines of France, Germany, and Japan (Table 2). As noted, however, this comparison does not take into account actual salary developments in comparator markets and may therefore overstate the margin of competitiveness.

¹ Under the methodology outlined in *Employment, Compensation, and Benefits Review (EBAP/06/38, 3/31/06)*, the average exchange rate over the 12-month reference period (November-October) is compared to the average rate for the same period in the previous year. The exchange rate is the simple average of the nominal exchange rate and the purchasing power parity rate for France, Germany, and Japan.

**Table 2. Fund Payline Premium Relative to the International Comparator Market
(in percent)**

Grade	Fund Midpoints		Fund over FRA/DEU/JPN (percent)	
	2015	Proposed 2016	2015	2016
A9	85,160	87,120	10.7	20.0
A10	98,640	100,910	11.5	20.9
A11	112,790	115,380	19.0	28.9
A12	128,910	131,870	13.9	23.6
A13	147,850	151,250	19.5	29.6
A14	175,890	179,940	21.3	31.6
A15/B1	202,340	206,990	15.7	25.4
B2	234,320	239,710	2.8	11.3
Staff Weighted Average			16.9	26.8