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**Item No. 10 on the Agenda: Implementation of the new compensation and social security package offered to UNIDROIT staff**

(prepared by the UNIDROIT Secretariat)

<i>Summary</i>	<i>Update regarding the implementation of the new compensation and social security package offered to UNIDROIT staff</i>
<i>Action to be taken</i>	<i>To take note of the update regarding the implementation of the compensation and social security reforms and next steps</i>
<i>Related documents</i>	<i>F.C. (85) 8; F.C. (85) 7, A.G. (76) 7 rev., A.G. (76) 10, F.C. (83) 9, F.C. (81) 5, F.C. (81) 6 rev.</i>

## **Introduction**

1. Following an extensive review, at its 83<sup>rd</sup> session (Rome, 21 September 2017), the Finance Committee recommended the adoption of important compensation and social security reforms, which would improve UNIDROIT's sustainability by enhancing staff mobility and ensuring that UNIDROIT was an attractive workplace.<sup>1</sup> At its 76<sup>th</sup> session (Rome, 7 December 2017), the General Assembly adopted those reforms, together with the necessary revisions to the UNIDROIT Regulations. The General Assembly further provided the Secretariat with flexibility in the timing of their implementation, which would be reviewed by the Finance Committee. Accordingly, the Secretariat provided updates to the Finance Committee regarding implementation of the reforms, as well as next steps to further improve UNIDROIT's sustainability and administration, at its 84<sup>th</sup> and 85<sup>th</sup> sessions (Rome, 15 March 2018 and 4 October 2018).

2. *The General Assembly, at its 77<sup>th</sup> session (Rome, 6 December 2018), is invited to take note of the following update, which summarises those provided to the Finance Committee, in particular regarding (I) the compensation reforms; (II) the social security reforms; and (III) next steps.*

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<sup>1</sup> UNIDROIT 2017 – F.C. (83) 9, Item No. 9.

## I. COMPENSATION REFORMS

3. At its 76<sup>th</sup> session (Rome, 21 December 2017), the General Assembly adopted the recommended transition of UNIDROIT staff to the UN salary scales and, pursuant to the request of the Deputy Secretary-General, provided flexibility in the timing of their implementation, which would be reviewed by the Finance Committee.<sup>2</sup>

4. As reported to the Finance Committee at its 84<sup>th</sup> session (Rome, 15 March 2018) and to the Governing Council at its 97<sup>th</sup> session (Rome, 2-4 May 2018), the Secretariat, with the assistance of the expert consultant on compensation matters, implemented the transition to the UN salary scales localised for Rome and, as of February 2018, all staff have been transitioned to those salary scales.<sup>3</sup>

5. At the Finance Committee's 84<sup>th</sup> session (Rome, 15 March 2018), various inquiries were raised regarding that transition, including with respect to the compensation reforms' budgetary impact and to reservations that had been expressed concerning the use of the UN salary scales together with retention of certain allowances linked to the Co-Ordinated Organisations' system of allowances.<sup>4</sup> Those inquiries were discussed during the session, and the Secretariat also committed to provide further information at the Finance Committee's next session.<sup>5</sup>

6. At the Finance Committee's 85<sup>th</sup> session, the Secretariat provided the requested information, and the Finance Committee further considered those inquiries. First, with respect to the budgetary impact, the Secretariat reported that, as shown through the budgetary documentation for 2018 and 2019,<sup>6</sup> the transition of staff to the UN salary scales localised for Rome was expected to be less costly than forecasted by the expert consultant on compensation matters. For 2019, for example, the expert consultant had predicted that UNIDROIT's gross annual salaries would amount to roughly 1,327,000€,<sup>7</sup> whereas the Secretariat's forecast based on current staffing for that year is roughly 1,302,000€.<sup>8</sup> Second, with respect to the reservations about the compensation package, the Finance Committee discussed whether the combination of the UN salary scales with certain Co-Ordinated Organisation allowances (i.e. expatriation, spouse and child allowances) resulted in a compensation package that was actually more costly than what was in place at the UN. In this regard, it was recalled that the Finance Committee had recommended, after lengthy debate, a different solution than adopting the UN salary scales together with the UN system of allowances, which would have been too expensive.<sup>9</sup> Nevertheless, the Secretariat committed to provide the Finance Committee with a chart comparing net salaries for all categories and grades across common family situations for consideration at its 86<sup>th</sup> session (Rome, Spring 2019).<sup>10</sup>

<sup>2</sup> UNIDROIT 2017 – A.G. (76) 10, paras. 62-64.

<sup>3</sup> UNIDROIT 2018 – F.C. (84) 5, para. 38; UNIDROIT 2018 – F.C. (84) 4, part I; UNIDROIT 2018 – C.D. (97) 19, Item No. 15(b).

<sup>4</sup> UNIDROIT 2018 – F.C. (84) 5, paras. 37-49; *id.* paras. 42, 47 (asserting that the combination of the UN salary scales together with certain allowances linked to the Co-Ordinated Organisations' system of allowances resulted in a compensation package that was costlier than what was in place at the UN, that UNIDROIT's expatriation and child allowances were actually higher than those offered by the UN" and that "the final net salary was higher").

<sup>5</sup> UNIDROIT 2018 – F.C. (84) 5, paras. 38, 42-43, 45-49.

<sup>6</sup> See UNIDROIT 2018 – F.C. (85) 3 (Adjustments to the Budget for the 2018 financial year); UNIDROIT 2018 – F.C. (85) 6 (Draft Budget for 2019 and observations submitted by Member States).

<sup>7</sup> UNIDROIT 2017 – F.C. (81) 5, app. 1, Table 4 at page 12 (showing a comparison of projections of the UNIDROIT status quo and the UN model with expected salary increases and noting that gross salaries for 2019 were forecast to be 1,327,000€ under the UN model and 1,324,000€ under the UNIDROIT status quo).

<sup>8</sup> This gross figure differs from what is set forth in the Draft Budget for 2019 (UNIDROIT 2018 – A.G. (77) 7), specifically Article 1 of Chapter 2 (Salaries of Categories D, P and GS staff and consultant), because that Article reflects a net figure.

<sup>9</sup> UNIDROIT 2018 – F.C. (85) 8, paras. 54-55.

<sup>10</sup> *Id.* paras. 50, 55.

7. Consistent with the General Assembly's adoption of the compensation reforms (see paragraph 3 above), the Secretariat will continue to provide updates regarding the implementation of those reforms to the Finance Committee for its review.

## II. SOCIAL SECURITY REFORMS

8. At its 76<sup>th</sup> session (Rome, 21 December 2017), the General Assembly adopted the recommended pension scheme as well as the plan for health and related insurances.<sup>11</sup> Pursuant to the Deputy Secretary-General's request, the General Assembly provided flexibility in the timing of their implementation, which would be reviewed by the Finance Committee.<sup>12</sup> As reported to the Finance Committee at its 84<sup>th</sup> and 85<sup>th</sup> sessions (Rome, 15 March 2018 and 4 October 2018), as well as to the Governing Council at its 97<sup>th</sup> session (Rome, 2-4 May 2018) – though it was hoped that the social security reforms would be implemented by the middle of 2018 – such implementation remains ongoing.

9. With respect to pension aspects, the Secretariat has taken various steps to implement the new pension plan, which was developed by the International Service for Remunerations and Pensions (ISRP).<sup>13</sup> Those steps, in general, relate to the following two key issues:

- *Identification of staff members:* The Secretariat has sought to identify staff members who might wish to opt into the new plan by circulating the relevant documents and holding a meeting with all interested staff on 4 June 2018 with respect to implementation of that plan and any questions or concerns about it. During that meeting, various questions were raised by staff considering the possibility of transitioning into the new plan. While staff were provided with estimates of pension benefits based on three general employee profiles, it became clear that staff were interested in receiving, in more precise terms, estimates of pension benefits tailored to their particular circumstances (e.g. anticipated years of participation; family situation). Accordingly, following that meeting, the Secretariat reached agreement with ISRP for the development of an online pension benefits simulator, which would estimate benefits – including future pension entitlements, as well as leaving allowances if a staff member did not reach the minimum ten years of service to obtain a pension entitlement – based on data entered by each staff member (e.g. career length; age at retirement; salary grade and step; applicable allowances). Because ISRP had already developed the tool for the Co-Ordinated Organisations, the agreement to develop and tailor that tool for UNIDROIT's new pension plan was very economical. The tool has recently been made available to the Secretariat and will be used to assist staff in determining whether to seek to join the new pension plan.
- *Administration:* The Secretariat has continued discussions with ISRP regarding administration of the pension plan. Those discussions have focused on finding an economical and secure solution for fund administration, in particular during the transitional period until more UNIDROIT staff are covered by the new plan. In this regard, a meeting was held in Rome with Ms Leticia Andrés-Sánchez, the Head of the Fund Administration Unit at ISRP on 26 June 2018, during which she described ISRP's full range of administration services (e.g. implementing an investment strategy; managing cash flows; and accounting and reporting on the fund for both the employer and the employees).<sup>14</sup> While those services are comprehensive and attractive, in particular because pension-related matters would largely be handled by ISRP, the proposal requires a minimum

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<sup>11</sup> UNIDROIT 2017 – A.G. (76) 10, paras. 69-70.

<sup>12</sup> *Id.*

<sup>13</sup> ISRP is a common service platform for the 6 Co-ordinated Organisations and other international organisations, providing services for their pension schemes and remuneration policies.

<sup>14</sup> For a fuller description of those services, see UNIDROIT 2017 – F.C. (81) 6 rev., app. 1, part 5 at pages 14-20.

annual fee of 23,000€.<sup>15</sup> In the Secretariat's view, this proposal appears to be too costly for the transitional period in which only a few staff members may participate in the plan. As a result, the Secretariat continues to consider other options for the transitional years, including using the services of a local bank for that period.

10. With respect to health and related insurances, the Secretariat remains eager to finalise the arrangements for them. The Allianz "Silver" quotation, which was recommended by the Finance Committee and adopted by the General Assembly, remains the preferred plan, but that quotation, as well as the others received by the Secretariat, are contingent upon identifying the particular pool of members for that plan.<sup>16</sup> As a result, it remains a concern that the rates may increase in the event that the participants in the plan are too few.<sup>17</sup> As soon as the particular pool of staff members joining the plan are identified, the Secretariat will be in contact with those providers who have already provided quotations. In the meantime, the Secretariat has also reached out to other possible providers to ensure that UNIDROIT ultimately obtains the most affordable rate for the requisite coverage.

11. With respect to the anticipated budgetary impact of the social security reforms, the Secretariat does not anticipate that implementation of the new pension plan and finalisation of the health and related insurance arrangements will result in budgetary increases beyond those that would have occurred had existing social security arrangements, in particular the Italian social security system (INPS), continued to be used. Indeed, even taking into account the costs for fund administration services and health and related insurances, the alignment of UNIDROIT's new plan to the Co-Ordinated Organisations' Third-Pension Scheme (TPS) – currently in place at the Council of Europe and to be used by the Council of Europe Development Bank and the International Criminal Police Organization (Interpol) – is expected to be budget neutral, as the cost sharing under the new plan is 45% (staff member) to 55% (UNIDROIT), whereas under the INPS it is roughly 25% (staff member) to 75% (UNIDROIT).

12. Consistent with the General Assembly's adoption of the social security reforms (see paragraph 8 above), the Secretariat will continue to work towards implementation of those reforms in an efficient, economical and timely manner and will provide updates to the Finance Committee for its review.

### **III. NEXT STEPS**

13. At the Finance Committee's 84<sup>th</sup> session (Rome, 15 March 2018), there were preliminary discussions of possible next steps – which had been raised during the review of the compensation and social security package offered to UNIDROIT staff – to further improve UNIDROIT's sustainability and administration. These steps, in particular, relate to the further development of job descriptions for UNIDROIT staff and review of the UNIDROIT Regulations. At the Finance Committee's 85<sup>th</sup> session (Rome, 4 October 2018), the Secretary-General elaborated upon his intentions with respect to both of those steps.<sup>18</sup>

14. First, with respect to job descriptions, the Secretary-General stated that, with the transition to the new compensation and social security system, full job descriptions tailored to that system were needed and that it might be necessary to hire an expert consultant to support the development

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<sup>15</sup> In addition to that fee, there would also be an annual asset management fee of 0.20-0.25% of the assets managed.

<sup>16</sup> UNIDROIT 2017 – A.G. (76) 10, paras. 67, 69-70.

<sup>17</sup> *Id.* para. 69 (noting that "updated insurance rates would be required based on the implementation date").

<sup>18</sup> UNIDROIT 2018 – F.C. (85) 8, para. 49; UNIDROIT 2018 – F.C. (85) 7, part III.

of those descriptions, which would be based on the categories and grades in the UN salary scales. He further stated that, as a small Organisation, such descriptions would have to be developed with a certain flexibility in order to be able to adapt to various circumstances. In concluding his proposal, which was then discussed by the Finance Committee, he noted that the Secretariat would share those descriptions with the Finance Committee at its 86<sup>th</sup> session (Rome, Spring 2019).<sup>19</sup>

15. Second, with respect to the review of the UNIDROIT Regulations, the Secretary-General recalled that prior discussions had focused on whether a polishing of the Regulations was necessary.<sup>20</sup> He stated that, in his view, the Regulations were in need of a more in-depth review and required further work than a mere polishing. He further stated that the language was a bit outdated and there were certain important aspects that were not regulated or insufficiently regulated (e.g. spousal allowances; parental leave; and medical certifications for sick leave). Accordingly, he pointed out that he would conduct a broader review of the Regulations, which would be subject to the procedure set out in Article 17(1) of the UNIDROIT Statute.<sup>21</sup> In doing so, he would consult with staff to identify possible gaps or other inadequacies in the Regulations and would welcome any input from Member States before ultimately making a proposal in this regard, consistent with Article 17(1), to the Governing Council at its 98<sup>th</sup> session (Rome, 8-10 May 2019).<sup>22</sup>

16. Overall, in considering the Secretary-General's proposal regarding job descriptions and his intention to conduct a broader review of the UNIDROIT Regulations, the Finance Committee recommended the further development of job descriptions, as well as the review of the Regulations.<sup>23</sup>

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<sup>19</sup> UNIDROIT 2018 – F.C. (85) 8, paras. 49, 55.

<sup>20</sup> See, e.g., UNIDROIT 2018 – F.C. (84) 5, paras. 46, 48.

<sup>21</sup> UNIDROIT Statute, art. 17(1) ("Rules governing the administration of the Institute, its internal operations and the conditions of service of the staff shall be adopted by the Governing Council and must be approved by the General Assembly and communicated to the Italian Government.").

<sup>22</sup> UNIDROIT 2018 – F.C. (85) 8, paras. 49, 55.

<sup>23</sup> *Id.* para. 56.