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Item No. 9 on the Agenda: Review of the compensation and social security package offered to UNIDROIT staff

(prepared by the UNIDROIT Secretariat)

Summary	*Background information on the review of the compensation and social security package offered to UNIDROIT staff and circulation of comments received on the proposed reforms*
Action to be taken	*To consider the proposed reforms and comments received in order to recommend a course of action to the General Assembly at its 76th session (Rome, 7 December 2017)*
Related documents	*UNIDROIT 2017 – F.C. (82) 3; UNIDROIT 2017 – F.C. (81) 5; UNIDROIT 2017 – F.C. (81) 6 rev.*

1. At its 81st and 82nd sessions (Rome, 6 April 2017 and 13 July 2017 respectively), the Finance Committee considered the compensation and social security package recommendations arising out of the fourth meeting of the open informal working group on compensation and social security (IWG), which took place after the General Assembly's 75th session (Rome, 1 December 2016).

2. First, regarding compensation aspects, the Finance Committee considered at those sessions the IWG's compensation recommendations, which were the result of an examination of various options, including (a) maintaining UNIDROIT's current compensation structure, (b) placing all staff on the salary scales of the Co-Ordinated Organisations, or (c) placing all staff on the UN salary scales localised for Rome. The Finance Committee also considered the report that the Secretariat had obtained – pursuant to the IWG's recommendations – from its outside consultant on compensation aspects (document F.C. (81) 5). In observing that UNIDROIT's compensation structure was rather complex and unclear, that report supported the transitioning of all staff, as of 1 January 2018, to their respective places on the UN salary scales localised for Rome, which was found to entail significantly lower costs than placing all staff on the salary scales of the Co-Ordinated Organisations, and contained a forecasting of costs, which showed only a slight increase

in costs that could be covered by other chapters within the existing budget.[1] Following deliberations, the Finance Committee supported recommending to the General Assembly the transition of UNIDROIT staff to the UN salary scales.[2]

3. Second, regarding social security aspects, the Finance Committee similarly considered at those sessions the IWG's social security package recommendations which, in seeking to address the staff mobility issues arising from UNIDROIT's reliance on the Italian social security system for covering most of its staff, had requested that the Secretariat follow up: (a) with the International Service for Remunerations and Pensions (ISRP) to request a final report proposing a pension scheme tailored for UNIDROIT and aligned to the Third Pension Scheme (TPS), which was in place at the Council of Europe and appeared to be the most feasible alternative to current arrangements; and (b) with health, disability and life insurance providers to determine which proposals were most consistent with the UN health insurance plan. The Finance Committee also considered the report and related proposals that the Secretariat had obtained – pursuant to the IWG's recommendations – from ISRP and insurance providers (document F.C. (81) 6 rev.), which showed that a feasible and cost-effective social security alternative resolving the mobility issues could be established for future staff of UNIDROIT. Following deliberations, the Finance Committee generally backed the proposed pension scheme on the understanding that it would only apply to future staff members or recently recruited staff members which opted to join the new scheme, and that it would not entail mandatorily transitioning existing staff members from the social security schemes in which they participated into the new scheme. The Finance Committee further agreed to request that the Secretariat circulate the documents on the proposed social security package – together with the documents on the recommended transition to the UN salary scales – to member States to seek comments for consideration at the Finance Committee's next session.[3]

4. Accordingly, the Secretariat circulated documents F.C. (81) 5 and F.C. (81) 6 rev. to member States, requesting the submission of any comments on the proposed reforms to the Secretariat (info@unidroit.org) by 5 September 2017. Comments were received by the UNIDROIT Secretariat from the United States of America on 13 September 2017 and from Germany on 20 September 2017, and those comments are included as Appendices to this document.

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1 UNIDROIT 2017 – F.C. (81) 2, pages 4-6.

2 UNIDROIT 2017 – F.C. (82) 3, para. 48.

3 *Id.* para. 57.

APPENDIX I

United States Department of State

Washington, D.C. 20520

The United States of America appreciates the opportunity to comment on the UNIDROIT draft Compensation and Social Security Package, including the Pension Plan. We believe that the review of the compensation and social security package has been fruitful and that further discussions by the Finance Committee will generate an option member states will be able to adopt. We would like to thank the Secretariat for all of its efforts on the draft.

Regarding the Finance Committee's recommendation for the transition of UNIDROIT staff to the UN salary scale, we would welcome information from the Secretariat on the reduction in administrative burden associated with this transition, including any foreseeable cost savings, as the Secretariat has previously stated that the transition is needed primarily due to the "considerable administrative burden" of the current system. F.C. (81)7 at para. 37. In the absence of clearly foreseeable cost savings via a reduction in that administrative burden, we support the option of hiring new staff members under the UN salary scale and not applying it retroactively to current UNIDROIT staff.

As we consider changes to the salary scales, and in line with the suggestion of conducting job evaluations to ensure duties and grades are aligned, we would like to highlight the importance of effective performance management. An effective performance management policy is transparent, rewards high performers and addresses underperformance, and aligns the goals of the organization with the goals of the office and with individual performance. Alignment of duties with grade levels can be done while communicating to staff what is expected in terms of their performance.

Regarding the proposed pension scheme, we support efforts to develop a viable alternative to the Italian pension system. We look forward to discussing the TPS option in further detail, including the impact on member state assessments over time.

We greatly appreciate the excellent work of the Secretariat, and we look forward to participating in further discussions.

APPENDIX II

UNIDROIT Finance Committee, 83. Session, 21. September 2017

German position paper to Draft Agenda, Item 9: Review of the compensation and social security package offered to UNIDROIT staff (F.C. (81) 5 and F.C. (81) 6 rev.)

I. General Remarks

We regret the FC's recommendation to the General Assembly not to follow either the UN Common System completely or the remuneration system of the Coordinated Organizations.
Furthermore we still believe that job descriptions would be the best and only objective basis for the reliable classification of the staff. Bearing in mind the small number of personnel this must be feasible.
Thus we would appreciate a corresponding objective job evaluation, maybe carried out by ISRP. For the purpose of comparison one could probably refer to the Hague Conference on Private International Law, a small International Organization with comparable tasks.

II. Comments and Questions by Germany regarding the introduction of a new pension system (Document F. C.(81) 6 rev)

From the German point of view, full cost-coverage by contributions is a prerequisite for a transition from the Italian national pension system to the organization's own internal pension system. Hence, the only scheme that could be considered is a full-funded pension scheme where contributions are calculated based on the aggregate cost actuarial method (cf. Appendix 1, no. 4.8). The assumed discount rate should be as low as possible, i.e. 2.55% or even less (cf. Appendix 1, no. 4.11). Since contributions are reviewed every five years on the basis of an actuarial study, the outlook may be changed and contributions be reduced after the next review if the fund shows an unexpectedly strong performance. Nevertheless an assumed discount rate of 2.55% is considerable high for a pension fund based on contributions of only 17 persons. In regard to the current field of low interest rates, there must be awareness to the riskiness of such investments.

This view is shared by the ISRP (cf. Appendix 1, no. 4.4).
We do not support the continuous granting of the family allowances also to pensioners that are currently paid to active staff members only. Therefore, there is no need for the ISRP to adjust its calculations.

Questions regarding the costs of the TPS
According to the ISRP, only marginal costs could arise for integrating new UNIDROIT pensions if the pension scheme is identical to the TPS of the Council of Europe. Any deviation from this TPS should be avoided, as far as possible, as this could lead to significant additional costs.

1. What are the estimated costs? The figures given in no. 2.18 will probably cover the costs for the administration of pensions and pay operations; it is doubtful, however, that these estimated costs will also cover the actuarial studies necessary for calculating and managing contributions and investing resources in a pension reserve fund.

2. Does UNIDROIT also pay fees exceeding regular contributions to the Italian state pension scheme, and if yes, how much?

3. A pension fund needs to have a certain size in order to achieve a rate of return through investments. With only 17 people who pay into the scheme, this will be difficult. How can the target return rate,

based on which contributions are calculated, be achieved by such a small organization and so few resources?

Will the resources of the funds of all associated organizations be pooled and invested to achieve larger return rates, or will they be invested separately? (No. 5.19 *„The investment strategy of the Funds is always the result of an individual study of the objectives of each Organization, and the Funds are managed and administered separately.")*
What is meant by "mutual funds"?

4. Staff members may possibly be allowed to change into the new system. How will the costs which would be incurred by recognizing years of service for which no contributions were paid be covered? <u>These cost, too, need to be identified and taken into account in the overall assessment.</u> Are there plans of concluding a transfer agreement with Italy?