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Item No. 8 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 to consider possible next steps that were raised during the compensation and social security review</i>
<i>Related documents</i>	<i>F.C. (84) 4; F.C. (84) 5; A.G. (76) 7 rev.; A.G. (76) 10; F.C. (83) 9; F.C. (81) 5 (regarding compensation reforms); F.C. (81) 6 rev. (regarding social security reforms)</i>

Introduction

1. Following an extensive review, at its 83rd 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.¹ At its 76th 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 provides the following update regarding the implementation of the compensation and social security reforms, the budgetary impact of those reforms and possible next steps.

¹ UNIDROIT 2017 – F.C. (83) 9, Item No. 9.

I. IMPLEMENTATION OF THE REFORMS

A. Compensation

2. At its 76th 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 Secretary-General *a.i.*, provided flexibility in the timing of their implementation.²

3. As reported to the Finance Committee at its 84th session (Rome, 15 March 2018) and to the Governing Council at its 97th 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.³

4. At the Finance Committee's 84th session (Rome, 15 March 2018), various inquiries were raised regarding the implementation of the transition to the UN salary scales, and those inquiries were discussed during the session. The Secretariat also noted that it would provide further information at the Finance Committee's 85th session (Rome, 4 October 2018) regarding reservations expressed with respect to the compensations reforms, in particular concerning the use of the UN salary scales together with retention of certain allowances linked to the Co-Ordinated Organisations' system of allowances.⁴ It was said that this combination was costlier than what was in place at the UN.⁵ It was further said that "UNIDROIT's expatriation and child allowances were actually higher than those offered by the UN" and that "the final net salary was higher".⁶

5. In the Secretariat's estimation, however, the final net salary is not higher. With respect to salaries, the figures upon which those reservations were based were not "net", as they did not deduct UNIDROIT employee contributions for social security (i.e. pension and health and related insurances), in particular either 9.34% for the Italian social security system (INPS) in which the majority of UNIDROIT staff currently participates or 16.7% for the newly adopted scheme which was developed by the International Service for Remunerations and Pensions (ISRP) and will be used by new UNIDROIT staff and those current staff who opt into that scheme. With respect to allowances, while the UN does not provide an expatriation allowance and the OECD's dependent child allowance is higher than the UN's allowance, the UN system offers: (a) substantial rental subsidies for housing costs and (b) a generous education grant which reimburses admissible education costs up to a maximum of \$30,566 (USD) per child, per academic year.⁷ UNIDROIT's expatriation allowance, moreover, begins to sunset after the end of the third year of service and fully ceases after the end of the seventh year of service.⁸

B. Social security

6. At its 76th session (Rome, 21 December 2017), the General Assembly adopted the recommended pension scheme as well as the plan for health and related insurances and, pursuant

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

³ 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).

⁴ UNIDROIT 2018 – F.C. (84) 5, paras. 37-49.

⁵ See *id.*, paras. 42, 47.

⁶ *Id.* para. 47.

⁷ See Salaries and Allowances, HR Portal, <https://hr.un.org/handbook/category/7165> (providing documentation regarding the various allowances). The UN, in addition, provides other allowances not offered by UNIDROIT, such as an allowance for being proficient in multiple UN languages. See *id.*

⁸ UNIDROIT Regulations, art. 45.

to the Secretary-General *a.i.*'s request, provided flexibility in the timing of their implementation (UNIDROIT 2017 – A.G. (76) 10, paras. 69-70).

7. As reported to the Finance Committee at its 84th session (Rome, 15 March 2018) and to the Governing Council at its 97th session (Rome, 2-4 May 2018), the Secretariat, with the assistance of ISRP, has been working to implement the new pension scheme, as well as to make the necessary arrangements for health and related insurances.⁹ Though it was hoped that the new social security scheme would be in place by the middle of 2018, the Secretariat's efforts to implement the new scheme remain ongoing, including the following three developments.

8. First, regarding identification of staff members who might wish to opt into the new scheme, the Secretary-General *a.i.* held a meeting with all interested staff on 4 June 2018 with respect to the implementation of that scheme and any questions or concerns of staff. During that meeting, various questions were raised by staff considering the possibility of transitioning into the new scheme. 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). It is anticipated that this tool will be useful not only for current staff, but also for future staff, in particular for purposes of getting a more accurate sense of the scheme's benefits and parameters. Because ISRP has already developed the tool for the Co-Ordinated Organisations, the agreement to develop and tailor it for UNIDROIT's pension scheme was very economical, and it is expected that the tool will be ready by September 2018.

9. Second, the Secretariat has continued discussions with ISRP regarding administration of the pension scheme. 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 scheme. 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).¹⁰ While those services are comprehensive and attractive, in particular because pension-related matters would largely be handled by ISRP, the proposal requires a minimum annual fee of 23,000€.¹¹ 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 scheme. 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. Third, the Secretariat remains eager to finalise the arrangements for the health and related insurances. While the Allianz "Silver" quotation which was recommended by the Finance Committee is the preferred plan, that quotation, as well as the others received by the Secretariat, are contingent upon further defining the particular pool of members in that plan. As a result, it remains a concern that the rates may increase in the event that the participants in the plan are too few. As soon as the particular pool of members is defined, the Secretariat will be in contact with those providers who

⁹ UNIDROIT 2018 – F.C. (84) 5, para. 39; UNIDROIT 2018 – F.C. (84) 4, part II; UNIDROIT 2018 – C.D. (97) 19, Item No. 15(b).

¹⁰ For a fuller description of those services, see UNIDROIT 2017 – F.C. (81) 6 rev., app. 1, part 5 at pages 14-20.

¹¹ In addition to that fee, there would also an annual asset management fee of 0.20-0.25% of the assets managed.

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. Further to these developments, as well as the recent arrival of the new Secretary-General, Professor Ignacio Tirado, the Secretariat is continuing to work towards implementation of the new social security scheme in an efficient, economical and timely manner.

II. BUDGETARY IMPACTS OF THE REFORMS

12. During the General Assembly's 76th session (Rome, 7 December 2017) and as recalled at the Finance Committee's 84th session (Rome, 15 March 2018), the Secretariat noted that it would report on the budgetary impacts of the reforms to the Finance Committee.¹²

13. While only the compensation reforms have been implemented thus far, the Secretariat can report that, as shown through the budgetary documentation for 2018 and 2019,¹³ the transition of staff to the UN salary scales for Rome in February 2018 is expected to be less costly than what was forecast 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€,¹⁴ whereas the Secretariat's forecast based on current staffing for that year is roughly 1,302,000€.¹⁵

14. With respect to the social security reforms, the Secretariat does not anticipate that implementation of the new pension scheme and finalisation of the health and related insurance arrangements will result in budgetary increases beyond those that would have occurred had the existing INPS-based scheme 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 scheme 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 scheme is 45% (staff member) to 55% (UNIDROIT), whereas under the current INPS-based scheme it is roughly 25% (staff member) to 75% (UNIDROIT).

15. The Secretariat will provide a further update on implementation of the reforms and their budgetary impact to the General Assembly at its 77th session (Rome, 6 December 2018).

III. POSSIBLE NEXT STEPS

16. At the Finance Committee's 84th session (Rome, 15 March 2018),¹⁶ it was recalled that, during the review of the compensation and social security package offered to UNIDROIT staff, additional issues were raised for consideration as possible next steps, in particular (a) a review and

¹² UNIDROIT 2017 – A.G. (76) 10, paras. 69-70; UNIDROIT 2018 – F.C. (84) 5, para. 43.

¹³ 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).

¹⁴ 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).

¹⁵ This gross figure differs from what is set forth in the Draft Budget for 2019, specifically Article 1 of Chapter 2 (Salaries of Categories D, P and GS staff and consultant), because that Article reflects a net figure.

¹⁶ UNIDROIT 2018 – F.C. (84) 5, para. 40; UNIDROIT 2018 – F.C. (84) 4, part III.

update of the UNIDROIT Regulations and (b) the further development of job descriptions for UNIDROIT staff.

17. The Secretary-General *a.i.*, at the Finance Committee's 84th session (Rome, 15 March 2018), explained procedural aspects with respect to the possible next steps, noting that those issues were flagged in the documentation for that session:

not because the Secretariat was expecting a decision at the session. Indeed, they might need input from the Governing Council and the new Secretary-General. Instead, the Secretariat had been asked to flag them in the context of the compensation and social security review. ... Regarding a possible review and update of the UNIDROIT Regulations, there was a formal process provided in Article 17(1) of the UNIDROIT Statute, which stated in part that the "[r]ules 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". At the same time, when financial amendments had been considered, those amendments were always raised in the Finance Committee. Regarding job descriptions, there was not a specific procedure, unless it was felt that Article 17(1) applied to this issue as well. For both issues, the Secretary-General *a.i.* concluded by inquiring whether the Finance Committee would wish to discuss both of these issues and, if so, no final decision would be implied and any initial views could be shared with the Governing Council at its 97th session (Rome, 2-4 May 2018).¹⁷

18. The Finance Committee proceeded to have preliminary discussions on those possible next steps, with the Chair summarising that "there appeared to be support for adding the development of job descriptions to the future Agenda, though there were differing initial views on the level of detail to be provided in such descriptions" and that "there could be further consideration regarding whether to polish the Regulations."¹⁸ The Secretary-General *a.i.*, in turn, flagged the possible next steps to the Governing Council at its 97th session (Rome, 2-4 May 2018) and reported on the Finance Committee's initial reactions.¹⁹

19. Consistent with the Finance Committee's preliminary discussions, the Secretariat raises for further consideration the possible development of job descriptions and seeks the Finance Committee's authorisation for the review and preparation of such descriptions. Due to UNIDROIT's transition to the UN salary scales, such descriptions could make use of the UN system's structure and related qualifications, which establish basic requirements for various grades and steps and upon which UNIDROIT's job descriptions could be built. At the same time, however, it is important to keep in mind that UNIDROIT, as a small organisation, necessarily requires flexibility with respect to the various jobs and responsibilities in order for it to be able to function well. In this regard, subject to the views of the Finance Committee, the Secretary-General proposes the review and preparation – with the possible assistance of an expert consultant – of draft job descriptions, which would be based on the various grades set out in the UN system and could be shared with the Finance Committee at its 86th session in the spring of 2019.

20. With respect to the possible review and update of the UNIDROIT Regulations, the Secretariat notes that, while prior discussions had contemplated that such a review and update would effectively constitute a polishing of those Regulations, the new Secretary-General is considering the conduct of a more in-depth and substantive review, which would be subject to the procedure set out in Article

¹⁷ UNIDROIT 2018 – F.C. (84) 5, para. 40.

¹⁸ *Id.* para. 48.

¹⁹ UNIDROIT 2018 – C.D. (97) 19, Item No. 15(b).

17(1) of the UNIDROIT Statute.²⁰ Accordingly, the Secretary-General intends to study further the Regulations and consult with staff to identify possible gaps or other inadequacies in the Regulations and would welcome any input from member States by the end of 2018. The Secretary-General further intends, subject to that study and consultation process and consistent with Article 17(1), to make a proposal in this regard to the Governing Council at its 98th session (Rome, 8-10 May 2019).

21. The Finance Committee is invited to take note of the updates regarding the implementation of the compensation and social security package offered to UNIDROIT staff and to consider whether it wishes to recommend the further development of job descriptions.

²⁰ See para. 17 *supra* (containing, in the quotation, a brief description of the process under Article 17(1) of the UNIDROIT Statute).