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Item No. 10 on the Agenda: Update on the pension scheme for UNIDROIT staff

(prepared by the UNIDROIT Secretariat)

<i>Summary</i>	<i>Update regarding the implementation of the new pension scheme offered to UNIDROIT staff</i>
<i>Action to be taken</i>	<i>To take note of the update regarding the pension scheme</i>
<i>Related documents</i>	UNIDROIT 2017 – F.C. (83) 9 ; UNIDROIT 2017 – A.G. (76) 7 rev. ; UNIDROIT 2017 – A.G. (76) 10 ; UNIDROIT 2018 – F.C. (84) 4 ; UNIDROIT 2018 – F.C. (85) 7 ; UNIDROIT 2018 – A.G. (77) 8 ; UNIDROIT 2019 F.C. (87) 7 ; UNIDROIT 2019 – A.G. (78) 10 ; UNIDROIT 2020 – F.C. (90) 7 ; UNIDROIT 2022 – F.C. (93) 4

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, including the pension scheme proposed by the International Service for Remunerations and Pensions (ISRP) ([F.C. \(83\) 9, Item No. 9](#)). 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 implementation of the new pension system, which would be reviewed by the Finance Committee ([A.G. \(76\) 7 rev.](#); [A.G. \(76\) 10](#)).
2. The Finance Committee and the General Assembly were updated on the social security reforms in 2018 ([F.C. \(84\) 4](#); [F.C. \(85\) 7](#); [A.G. \(77\) 8](#)). In 2019, the Finance Committee and the General Assembly were informed that the Secretariat had signed a Memorandum of Agreement with the ISRP effective as of 1 September 2019, thereby completing the process of implementation of the new pension scheme ([F.C. \(87\) 7](#); [A.G. \(78\) 10](#)).
3. Since the activation of the new pension scheme in 2019, the Secretariat has continued to provide the Finance Committee with regular updates. In 2020, the proposal of the Committee for the Administration of Funds (CAF) regarding the investment of the Institute's pension fund was approved. This approach entailed that the fund would be invested in two stages: Initially, the incoming contributions to the Fund would be kept in treasury (i.e., preservation of capital), and in a second stage, when the Fund reached a threshold amount of € 500,000, the assets would be moved towards a portfolio invested in financial markets ([F.C. \(90\) 7](#)).

4. During its 93rd meeting in May 2022, the Finance Committee was informed of important changes in the estimation of the administrative costs for UNIDROIT's Pension Reserve Fund (PRF)¹, largely due to an expected significant increase in fees for the custodian bank². As a direct result of the increase in administration costs, the ISRP revised the minimum threshold for the PRF to be invested in the markets from € 500,000 to € 900,000. The Finance Committee was informed that, in consultation with the ISRP, several possible solutions were being considered to contain this dramatic increase in custodian fees: (i) switching to another custodian bank with lower fees; (ii) having the ISRP perform the custodian function in-house; (iii) joining the assets of several pension funds of different organisations ([F.C. \(93\) 4](#)).

II. UPDATE

- *Pension Fund*: The ISRP underlined that UNIDROIT is not directly affected by the increase in custodian fees since it has not yet reached the threshold for investment. The minimum fees of the current custodian bank (SGSS) would increase gradually in three steps: (i) € 7,500 from 1 July 2022; (ii) € 15,000 from 1 January 2023; and (iii) € 25,000 from 1 January 2024. The ISRP is looking into possible solutions (including changing custodian bank) and will discuss this during the next meeting of the CAF in November 2022 since it affects all organisations in different ways. Furthermore, the Secretariat has contacted the International Development Law Organization (IDLO) to discuss the possibility of joining pension funds. However, the IDLO informed the Secretariat that it found an alternative solution that did not involve the ISRP.
- *Report of the CAF*: Further details regarding the management of the pension fund are available in the Report of the ISRP – CAF (Annexe). The Secretariat wishes to highlight the following points:
 - The PRF's total assets increased to € 660,858 by end-August 2022.
 - A first leaving allowance was paid to a departing official end-September 2022 (around € 100,000).
 - A slightly higher interest rate was negotiated for the savings account at *Crédit Industriel et Commercial* (CIC); the rate increased from 0.10% to 0.30% as from 15 September 2022. Considering the current high inflation, the Secretariat in cooperation with the ISRP is considering further ways for obtaining a higher interest rate. Specifically, the Secretariat is looking into the option of opening an account with another bank (*Société Générale*) and placing a substantial part of the funds in a longer-term deposit account.³
- *Health Insurance*: The Insurance Policy obtained with AXA, in effect as of September 2019, has been renewed for a further year.

¹ The estimation provided by the ISRP in 2019 was € 25,251; the revised estimation in 2022 totalled € 40,036.

² The fees of the custodian bank (SGSS) were expected to increase from € 800 per year to € 25,000 per year.

³ *Société Générale* offered a 0.75% interest rate on a savings account and 1% on a 1 month term account. At the time of writing, the Secretariat is waiting to hear whether UNIDROIT's funds would meet the eligibility requirements for longer-term deposit options, and the applicable interest rate in such case.

II. ACTION TO BE TAKEN

5. *The Secretariat requests that the General Assembly take note of this update regarding the implementation of the social security scheme applicable to UNIDROIT staff. The General Assembly is also requested to take note of the update provided in the Report of the ISRP – CAF (Committee for the Administration of Funds) (**Annexe**). Specifically, the General Assembly is requested to endorse the recommendation of the Finance Committee, which at its 94th session, approved the transfer of a substantial part of the pension funds from the current savings bank account to a longer term account (likely at another bank) with a view to obtaining a higher interest rate.*

ANNEXE

**ISRP – CAF (COMMITTEE FOR THE ADMINISTRATION OF FUNDS)
UNIDROIT – ANNUAL REPORT 2022 TO THE GENERAL ASSEMBLY**

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