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Item No. 12 on the Agenda: Update on the social security package applicable to UNIDROIT staff

(prepared by the UNIDROIT Secretariat)

<i>Summary</i>	<i>Update regarding the social security package offered to UNIDROIT staff</i>
<i>Action to be taken</i>	<i>To take note of the update</i>
<i>Related documents</i>	UNIDROIT 2017 – A.G. (76) 7 rev. ; UNIDROIT 2017 – A.G. (76) 10 ; UNIDROIT 2020 – A.G. (79) 8 ; UNIDROIT 2022 – A.G. (81) 8 ; UNIDROIT 2023 – A.G. (82) 10 ; UNIDROIT 2024 – F.C. (97) 4

I. INTRODUCTION

1. Following the adoption of important social security reforms in 2017 ([A.G. \(76\) 7 rev.](#); [A.G. \(76\) 10](#)), the Secretariat has regularly updated the Finance Committee and the General Assembly on the social security package applicable to UNIDROIT staff.
2. The new pension scheme was activated in 2019 and has since been administered by the International Service for Remunerations and Pensions (ISRP). Initially, the Committee for the Administration of Funds (CAF)¹ had proposed to keep the incoming contributions to UNIDROIT's Pension Reserve Fund (PRF) in treasury until they reach a threshold amount of € 500,000. The assets would then be moved towards a portfolio invested in financial markets ([A.G. \(79\) 8](#)). In 2022, the minimum threshold for investment was increased to € 900,000 ([A.G. \(81\) 8](#)).
3. During its 81st session (December 2022), the General Assembly endorsed the recommendation of the Finance Committee to transfer a substantial amount of UNIDROIT's pension fund assets from a savings bank account to a longer term account to obtain a higher interest rate ([A.G. \(81\) 8](#)). Accordingly, a new bank account was opened and, since June 2023, UNIDROIT has benefited from higher interest rates with term deposits ([A.G. \(82\) 10](#)).
4. Regarding health insurance, the Secretariat obtained insurance with Cigna last year, given the general dissatisfaction of staff members with the previous insurance policy ([A.G. \(82\) 10](#)). The Cigna health insurance plan started on 1 October 2023, for a period of 12 months with tacit renewal.

¹ The CAF is composed of representatives of five Organisations that externalised the administration of their pension reserve fund assets to the ISRP (see Annexe I).

II. UPDATE

Pension Fund:

5. The indicative threshold for investment has been reached in the first quarter of 2024 ([F.C. \(97\) 4](#)). The pension funds' total assets increased to € 1,138,758 by end-August 2024. Details regarding the management of the Institute's PRF are available in the CAF's Second Bi-Annual Report (please see the Annexe).

6. Since the indicative threshold for investment has been reached, the ISRP in cooperation with the UNIDROIT Secretariat is preparing a proposal for the investment of the PRF's assets in the financial markets. To this end, several steps are envisaged: (i) drawing up a report on the expected development of the PRF (cashflow analysis)²; (ii) establishing a Strategic Asset Allocation (SAA) plan; (iii) selecting, and negotiating with, asset managers of identified mutual funds; and (iv) engaging a custodian and an external performance consultant. The possible investment of UNIDROIT's PRF assets in the financial markets will be discussed during the next meeting of the CAF in November 2024. If it is deemed appropriate to invest the PRF assets in the financial markets in accordance with that plan, its implementation may take up to six months.

7. The one-off costs for the preparation of the two reports that are being prepared by the ISRP are around € 20,000 in total (€ 12,500 for the cashflow analysis and € 10,000 for the SAA plan). To reduce the impact on the Institute, UNIDROIT may pay these costs in installments of € 4,500 over a period of five years. In addition, the Institute would continue to pay CAF fees and would incur structural costs for investing the pension fund assets in the financial markets (e.g., custodian bank and investment manager fees, and costs for a performance consultant).

Health Insurance:

8. As anticipated during the 97th session of the Finance Committee, the Institute's health insurance policies with Cigna have been renewed for another 12-month period, until 30 September 2025.

III. ACTION TO BE TAKEN

11. *The General Assembly is invited to take note of this update regarding the social security package applicable to UNIDROIT staff, including the update provided in the CAF's Second Bi-Annual Report (**Annexe**). Please note that the Annexe is confidential.*

² The cashflow analysis consists of (i) a projection of pension benefits to be paid to current and future staff, (ii) an elaboration of actuarial assumptions used in the projection of pension benefits, and (iii) a scenario analysis considering the impact of adjusting key assumptions on the cashflows and development of the PRF.

ANNEXE

**ISRP – CAF
UNIDROIT BI-ANNUAL REPORT**

FOR INTERNAL USE

CAF/WD(2024)37

Written Procedure - October 2024

**COMMITTEE FOR THE ADMINISTRATION OF FUNDS
UNIDROIT – SECOND BI-ANNUAL REPORT FOR 2024**

ACTION:

This document is presented to the CAF for approval.

COMMITTEE FOR THE ADMINISTRATION OF FUNDS UNIDROIT - SECOND BI-ANNUAL REPORT FOR 2024

Introduction

1. UNIDROIT externalised the administration of its Pension Reserve Fund (PRF) assets to the International Service for Remunerations and Pensions (ISRP) and joined the Committee for the Administration of Funds (CAF) on 1 September 2019.
2. UNIDROIT's PRF was established with zero assets at inception (30 September 2019) and few participants. UNIDROIT's staff, the beneficiaries of UNIDROIT's pension scheme, hold fixed-term renewable contracts. As a new fund, the CAF proposed that the General Assembly and Governing Council of UNIDROIT proceeded by investing the PRF's incoming contributions in treasury products until the Fund reaches a certain amount. After reaching a predetermined amount, the PRF may start to invest in financial markets through selected mutual funds. This two-stage approach allows the PRF to grow to a level, which will produce a return that offsets the cost to administer the Fund and allows enough liquidity to pay benefits as they fall due.
3. Given that the predetermined amount has now been surpassed, a cash flow analysis and study on an appropriate strategic asset allocation (SAA) is being undertaken. The intention is for the CAF to consider this at the next meeting in November 2024. If it is deemed that a SAA is suitable for UNIDROIT, then the intention would be for the SAA to be implemented, after agreement with UNIDROIT, during 2025.
4. Pursuant to Article 3.4 of the Statute of the PRF [SIRP/MOA/UNIDROIT(2019)6/ADD3], the Secretary General of UNIDROIT shall report annually to the General Assembly on the status of the Fund. This Second Bi-Annual Report for 2024 presents the situation of the PRF's performance at 31 August 2024 and summarizes the work carried out by the CAF since its inception.

1. PRF Assets at 31 August 2024

5. Since 30 September 2019, the ISRP has invested the PRF's staff and employer contributions in treasury products, depositing these funds in a savings account with Crédit Industriel et Commercial (CIC). CIC is a French bank that allows non-profit organisations to open a "*Compte sur Livret Association*" (CLA) savings account, which guarantees the deposited capital and pays a discretionary interest rate. CIC's current counterparty ratings by S&P, Fitch Ratings and Moody's are 'AA-', 'AA-' and 'Aa2', respectively.
6. Since March 2023, the ISRP has also used savings products, notably fixed-term bank deposits, with Crédit Agricole (CA). Crédit Agricole's current counterparty ratings by S&P, Fitch Ratings and Moody's are 'AA-', 'AA-' and 'Aa2', respectively.

Inflows:

7. At 31 August 2024, the value of the PRF's total assets were EUR 1 138 758 as shown in Table 1 below:

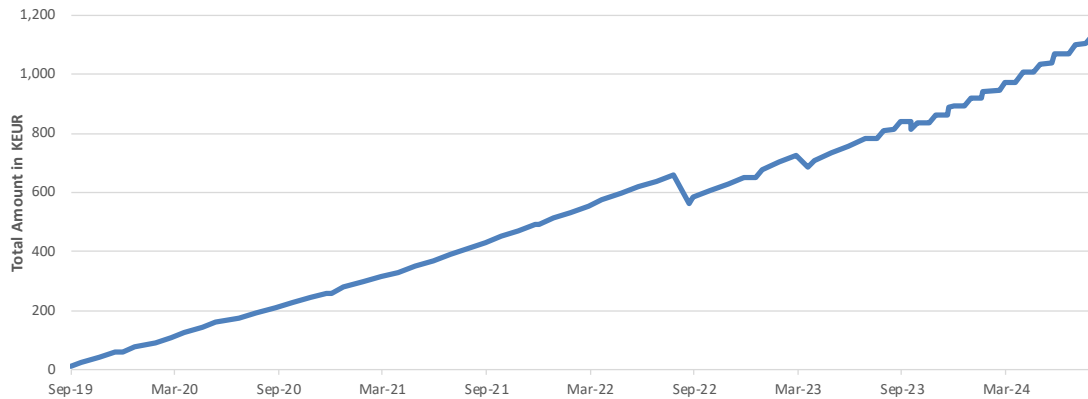
Table 1: PRF assets at 31 August 2024

Bank	Account Type	Amount (EUR) (including accrued interest)
Crédit Industriel et Commercial		
	Current account (not remunerated)	1
	Short-term savings account 2.00% at 31 August 2024 (<i>Compte sur Livret Association</i>)	29 063
	4 month fixed-term savings contract (3.80% annual interest rate – maturity 19 September 2024)	164 293
	2 month fixed-term savings contract (3.80% annual interest rate – maturity 19 September 2024)	193 646
	3 month fixed-term savings contract (3.80% annual interest rate – 17 November 2024)	375 918
	7 month fixed-term savings contract (3.80% annual interest rate – maturity 19 January 2025)	375 838
Crédit Agricole		
	Current account (not remunerated)	0
Total		1 138 758

Source: ISRP, CIC, CA

8. As at 31 August 2024, 12 officials were contributing monthly to the Fund. There have been no staff departures and, therefore, no leaving allowances paid during 2024 up to 31 August. In total, the pension contributions represent 37% of UNIDROIT's payroll, 16.7% of which are staff contributions, and 20.3% are contributions made by UNIDROIT. These contributions are transferred to the savings account monthly.

9. Graph 1 on the following page shows the evolution of the Fund's assets from inception of operations on 30 September 2019 up to 31 August 2024:

Graph 1: Evolution of UNIDROIT's PRF's assets

Source: ISRP, CIC, CA.

Outflows:

10. Leaving allowances – the lump sum given to officials leaving the Organisation with less than 10 years of service – are to be paid from the PRF's assets. The contracts signed between officials and the Organisation have finite periods but may be renewed. No leaving allowances have been paid during the period 1 January 2024 to 31 August 2024.

2. Investment Plan

11. UNIDROIT initially approved investing the incoming contributions in a *CLA* that yields a relatively low return, but which bears no financial market risk. This was done to preserve the nominal value of the contributions so that the Fund accumulates them to reach a certain size.

12. In a second stage, it was planned that when the Fund reaches a minimum threshold (estimated as EUR 900 000) and the cash flow projections allow it, the assets may be moved to a portfolio invested in financial markets, according to an SAA that meets UNIDROIT's objectives.

13. As the assets of the PRF are now greater than the threshold of EUR 900 000, a cash flow and SAA study is underway. The intention is for the CAF to consider the cash flows and SAA at the next meeting in November 2024. If it is deemed that it is appropriate for the PRF to be invested in financial markets, then the intention would be for the SAA to be implemented, after agreement with UNIDROIT, in 2025.

14. The implementation of any investment plan within the CAF should be performed in various stages:

- i. a projection of expected cash flows to assess the expected potential inflows/outflows under several scenarios, as well as the ongoing custodian and management costs, to determine the liquidity needs of the PRF to ensure an appropriate asset allocation linked to the cash flow profile of the Fund;
- ii. the assessment of expected returns for the available investment universe,

- considering the size of the PRF, liquidity requirements and any additional requirements imposed by UNIDROIT;
- iii. the establishment of an SAA that meets the above requirements and does not expose the PRF to undue risks;
 - iv. the selection of, and negotiation with, asset managers of identified mutual funds within the CAF environment who best meet the requirements of the SAA;
 - v. the engagement with a custodian to hold the PRF's assets and the engagement of an external performance consultant for the provision of regular performance reporting, as done for the other CAF Pension Reserve Funds.
15. Stages (i) and (ii) set out above are currently in progress.
16. If the implementation of this investment process is considered cost effective for UNIDROIT, once implemented, the SAA will be monitored through regular reports to the CAF.

3. Performance of the PRF

17. A savings account at CIC was opened in September 2019. The interest rate applied was regularly adjusted by CIC, ranging between 0.10% and 0.30% until 31 December 2022. During 2023, the applicable interest rate applied by CIC was 1% until 16 May 2023, when it was increased to 1.8% and was then further increased to 2.00% from 1 September 2023.

18. Since June 2023, following a review of banks' offerings and the opening of a new account at Crédit Agricole, the Secretariat has used longer-term deposit accounts to obtain more favourable interest rates and deposit opportunities. Currently, fixed term deposits are being used, enabling the Secretariat to significantly improve the interest rate obtained.

19. In the current interest rate environment with interest rates anticipated to fall in the near-term, longer fixed-term deposits have been used to capture the current higher interest rates currently offered.

20. The historical nominal interest rates that applied to the PRF's investment are presented in Table 2 below.

Table 2: Historical nominal interest rates applied to the PRF investment

In % (annualised)	2019	2020	2021	2022	2023	2024								YTD
	Oct-Dec					Jan.	Feb.	Mar.	April	May	June	July	Aug.	
Performance PRF investments	0.20	0.10	0.10	0.16	2.59	0.33	0.32	0.32	0.31	0.31	0.31	0.31	0.31	2.56
Benchmark: €STR	-0.54	-0.55	-0.57	0.00	3.31	0.34	0.32	0.34	0.33	0.34	0.31	0.32	0.32	2.63
Difference vs. benchmark	0.74	0.65	0.67	0.16	-0.72	-0.01	0.01	-0.02	-0.01	-0.02	0.00	0.00	0.00	-0.07
Short-term money market funds	-0.41	-0.46	-0.52	-1.58	3.23									
Difference vs. Short-term money market funds	0.61	0.56	0.62	1.74	-0.64									

Source: ISRP, CIC, CA and Morningstar for data on the *Short-Term Euro Money Market Funds'* average performance.

21. The current benchmark or performance reference for UNIDROIT's PRF is the €STR (euro short-term rate). It is the current¹ reference benchmark for short-term interbank interest rates widely used in the financial industry to assess the return of money-market instruments with very low risk and high liquidity. The €STR is calculated based on interest rates obtained directly by the European Central Bank.

22. The nominal performance of the PRF is also measured *including* the impact of the timing of the investments of net contributions on the evolution of the Fund's performance. This leads to the actual or effective return of the Fund, also referred to as the internal rate of return (IRR). Considering accrued interest up to 31 August 2024, the nominal IRR has been 1.79% since the start of investments in September 2019.

23. In real terms, the annualised return of the PRF since inception is -2.04%. This is negative primarily due to the high inflationary environment experienced during the period, particularly in 2022 (3.83% annualised inflation in the euro area for the period October 2019 – February 2024). Since the start of 2023, the Fund has been able to benefit from higher interest rates, leading to more favourable returns on deposits.

4. CAF activities

24. The CAF is composed of representatives of five Organisations: The International Institute for the Unification of Private Law (UNIDROIT); the European Union Satellite Centre (EU SatCen); the European Union Institute for Security Studies (EUISS); the Hague Conference on Private International Law (HCCH); and the Residual Administrative Tasks Unit of the former Western European Union (RATU). A Qualified Person serves as Chair of the Committee², and the ISRP is the Committee's Secretariat.

25. Since its creation in September 2009 up to the reporting date, the CAF has held 28 meetings, during which it made recommendations regarding:

- the strategic asset allocations of EU SatCen, EUISS, HCCH and RATU, and the investment plan of UNIDROIT;
- the investment procedures of each Fund;
- the selection of a custodian bank and asset managers;
- the Funds' treasury management plans;
- the reporting.

26. The CAF has also monitored the performance and the costs of the Funds; approved their annual financial statements; met with their asset managers; and was informed of and discussed the following topics:

- the risk management framework of the Funds;

¹ EONIA was discontinued on 3 January 2022 and replaced by the €STR.

² Mr Torres Trovik, a pension fund specialist with extensive experience in pension funds and International Organisations, is the current Qualified Person and was appointed Chair during the 13 May 2022 CAF meeting.

- socially responsible investments;
- the real estate sector;
- the euro-area sovereign debt crisis, the Covid-19 crisis and the Ukraine conflict;
- exchange-traded funds;
- late payment of contributions (the CAF noted the importance of the timely payment of Member State contributions for the operation of the Funds' activities);
- performance measurements;
- review of fixed-income portfolios - corporate bonds, global government bonds and emerging markets bonds;
- comprehensive reviews of EU SatCen, RATU, HCCH and EUISS's PRFs; these reviews (normally) examine the evolution of the respective Funds over the last five years and define the Funds' investment policy and strategy for the future. The reviews give the Organisations a clear picture of their pension debt and of the Fund, and the opportunity to ask questions and take decisions on several pension and asset management-related topics.
- a review of the investment procedures and implementation options of their approved SAA;
- a review of UNIDROIT's investment plan and threshold for investments in financial markets;
- portfolio protection measures;
- changing the performance calculation provider;
- a review of benchmarks;
- the procedure for monitoring the asset managers and terminating their contracts;
- stress tests;
- analyses of the Funds' liquidity;
- analysis of global direct real estate;
- investing the United Kingdom's extraordinary contributions in EU SatCen, RATU and EUISS's Funds;
- analysis of pension funds' investments in an inflationary environment;
- analysis of investments and negative cash flows;
- holistic view of pension risk management;
- changing the custodian to be used for the safekeeping of assets;
- the broad range of skills recommended for a pensions management board.

27. In light of the preceding information and in accordance with the provisions in the Statute of the PRF, the Secretary-General of UNIDROIT invites the General Assembly:

- to take note of the information presented in this document.