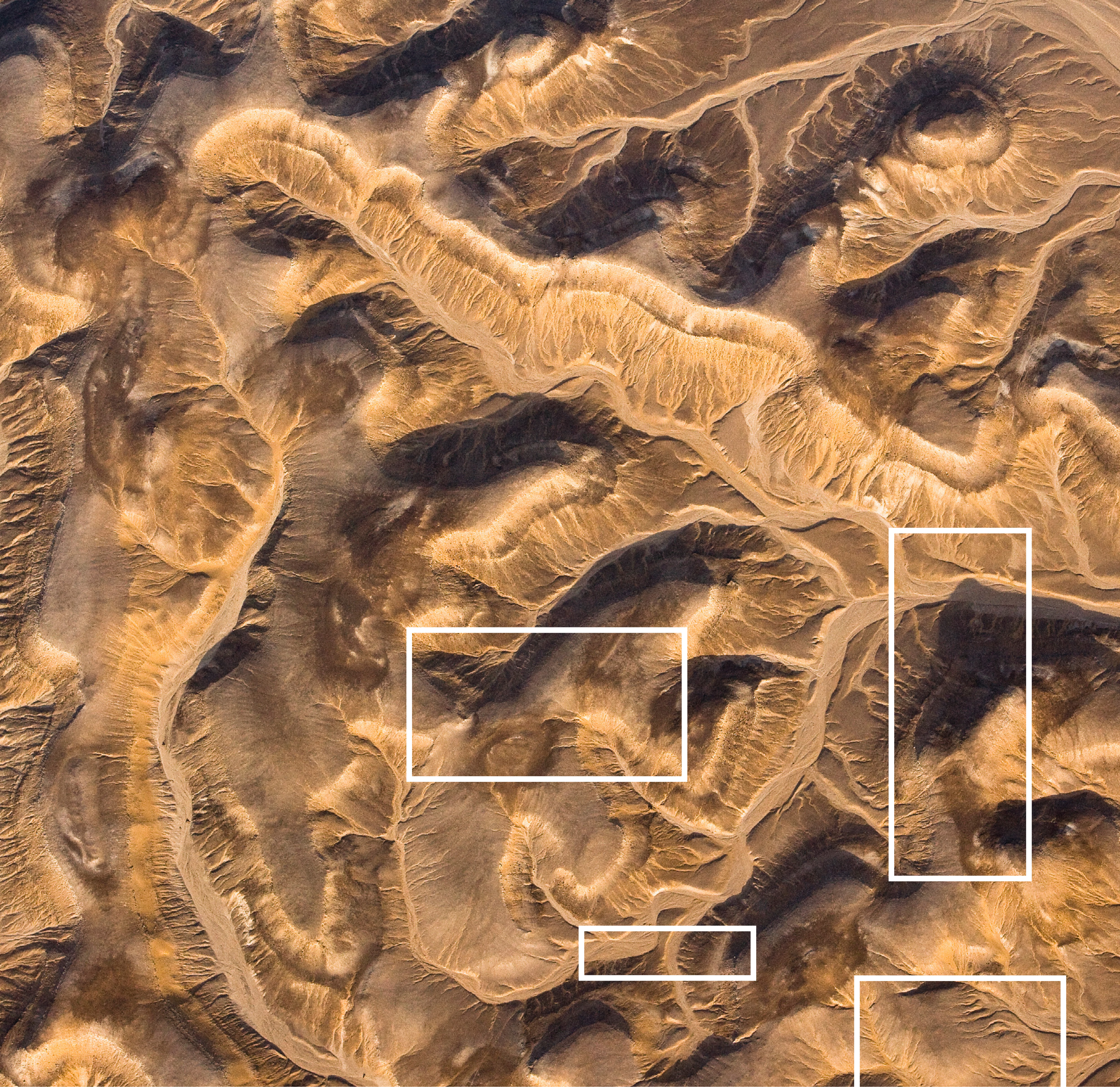


# End of Service Benefits in the Middle East

2020 survey results

Equiom

Willis Towers Watson

# Introduction

Welcome to the Willis Towers Watson Middle East End of Service Benefits Survey 2020. We have produced this unique survey every year since 2010, but this is the first year the survey has been produced in partnership with Equiom Group (Equiom).

We are delighted that Equiom has chosen to support this report. Readers can turn to page 13 to read an article, Changing the Shape of GCC Retirement Benefits to Improve Total Rewards, from Equiom's Chris Cain.

Equiom

Equiom is an international professional services provider offering a range of market leading professional, fiduciary, governance and asset ownership structuring solutions for businesses and private clients worldwide. For over 40 years Equiom has offered a range of end-to-end professional services to its clients.

Equiom has provided trustee services on international and Middle East workplace savings/retirement schemes, as well as end of service funding plans for over 20 years. This experience ensures the business is able to provide a service to employers looking to create new beneficial arrangements on behalf of their employees.

Equiom acts as the Master Trustee for the Workplace Savings arrangements of several well-known organisations ranging from SMEs to multinational organisations. Most notably the Emirates Airlines Provident Fund and more recently the DIFC Employee Workplace Savings (DEWS) plan. DEWS launched on 1 February 2020 in the Dubai International Finance Centre (DIFC) and has already grown to over USD150 million of assets covering 19,000 participating employees (as of March 2021).

With a global team of more than 550 staff, with 40 based in the UAE, and offices in 20 locations globally, Equiom delivers multi-jurisdictional solutions for its clients.

To find out more about Equiom Group, its services or locations please visit equiomgroup.com.

Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth.

With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals.

Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

# Executive Summary

**Willis Towers Watson has surveyed a broad cross-section of organisations with operations based in the Middle East to look at the level of provision, structure and delivery of employee end of service benefits (ESBs) since 2010. This year responses were received from 338 organisations across the region, an increase of 6% over last year. Given the current COVID-19 pandemic crisis, we have asked a few additional questions regarding COVID 19, the results of which you will see in the survey.**

The objective of the survey is to determine how organisations in the region:

- fund their statutory and enhanced ESB liabilities
- structure their enhanced ESBs (i.e. who are they offered to and under what conditions)
- use savings vehicles such as long-term savings or retirement plans to provide benefits over and above statutory ESB requirements

## Overall results

We received responses from various organisations with operations in one or more of the six Gulf Cooperation Council (GCC) countries and elsewhere across the wider Middle East region. Most participating organisations have business operations in the United Arab Emirates (UAE) and the most prevalent industries represented are Banking and Finance, and Oil and Gas. The majority of the respondents are multinationals or global organisations, with operations in multiple regions around the world.

The majority of respondents confirm that they provide ESBs, which is no surprise given they are mandatory in many countries in the region. Additionally, two in five indicate that they provide an enhancement to the minimum benefits for employees in the countries in which they operate. Contractual requirement is the most common reason for enhancing the benefits, with consistency between countries and retention of key talent in second and third place.

The majority of organisations that enhance their ESB offer these enhancements to all employees. A significant minority offer them to specific categories of employees only: top management and local non-nationals. Interestingly, fewer organisations appear to be distinguishing between local employees and international assignees when offering enhanced benefits, a practice that we notice has been steadily declining since 2016. This suggests that the provision of these benefits is becoming more commonplace locally.

Organisations that provide enhanced ESBs through the defined benefit (DB) formulae most commonly use an employee's length of service as the principal factor in determining the enhancement.

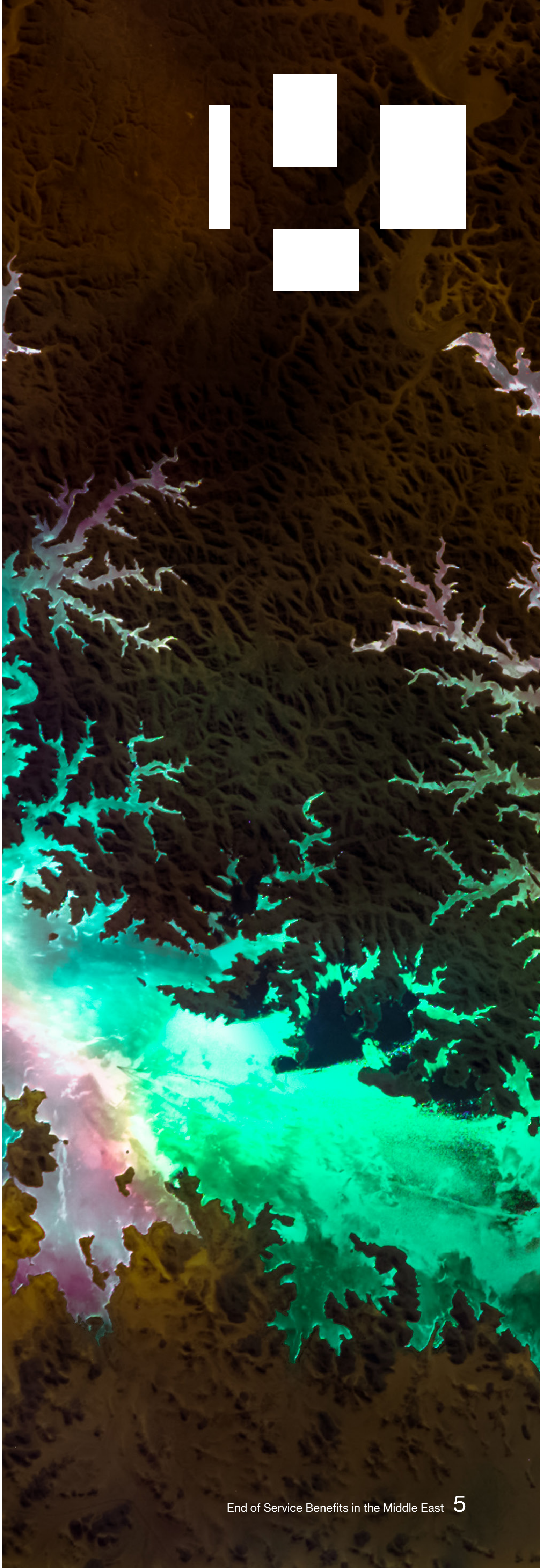
Offering a separate defined contribution (DC) pension or long-term savings plan remains the most popular way of enhancing ESBs. Enhanced DB accrual rates are the second most popular method.

About three-in-five organisations continue to account for ESBs in local books using local accounting rules, with 19% using international accounting standards (IAS). A minority (7%) use US GAAP, and 5% do not account for the liability at all.

Most organisations accrue for their ESBs within the business and pay directly from company accounts; any surplus assets arising go back into the business in 54% of cases (e.g. where minimum employee service requirements or entitlements are not met), and 34% of organisations now use any surplus to provide extra benefits for their employees. Bank deposits/cash and insurance company products continue to be the most popular financing methods for ESBs.

The Dubai International Financial Center (DIFC), the special economic zone in Dubai, has enacted a new Employment Law. One intention of the new law is to transform the mandatory ESB from the former unfunded defined benefit (DB) design, to a funded defined contribution (DC) arrangement that is centrally managed. This is known as the DIFC Employee Workplace Savings (DEWS) plan. The vast majority of organisations with a presence in DIFC chose to default into the DEWS plan, with only a handful of organisations going down the qualifying alternate scheme (QAS) route so far.

> **"The vast majority of organisations with a presence in DIFC chose to default into the DEWS plan, with only a handful of organisations going down the qualifying alternate scheme (QAS) route so far.**

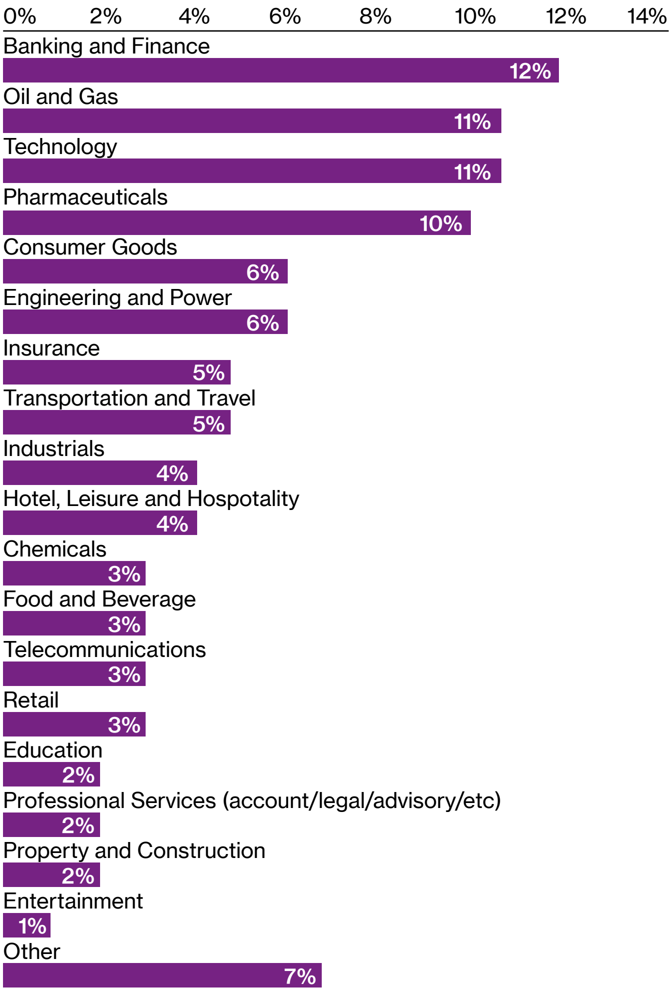


# Overview of participants

## Industry sectors

The Willis Towers Watson Middle East End of Service Benefits Survey 2020 includes 338 participants from multinational and domestic organisations with operations in the Middle East. Participants responded on behalf of organisations from a variety of industries, most prominently from Banking and Finance, and Oil and Gas. Other industries with strong representation in the survey include Technology and Pharmaceuticals.

Figure 1. **Industry overview**

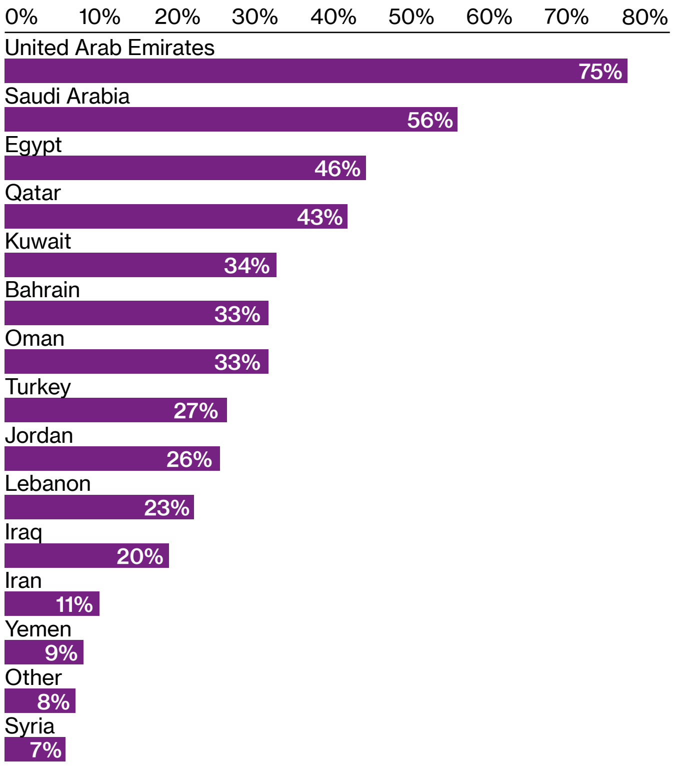



## Location of organisations

The vast majority of participants have operations in the United Arab Emirates (252 organisations), with Saudi Arabia, Egypt and Qatar the next most prevalent countries.

The majority of respondents (70%) are multinationals or global organisations, with operations in multiple regions around the world. Eleven percent of respondents are regional organisations with operations mainly in the Middle East and 19% are local organisations with operations mainly in one country. The distribution is very similar to 2019.

Figure 2. **Location of organisations**



## Size of organisations

Participant organisations range in size from fewer than 200 employees to over 5,000. The highest concentration sits within the fewer than 200 range, with 30% of respondents. Fourteen percent of participant organisations have over 5,000 employees. This is also broadly comparable to last year's results. Three in four (76%) organisations expect their headcount to grow over the next 5 years.

## Length of service

Respondents were asked to estimate, on an average, how long they expect people to stay with their company based in the Middle East. Figure 4 shows a breakdown of the results, which is by and large consistent with 2019: On average, two in five (43%) expect their employees to stay between 5 to 10 years, whereas 13% expect employees to stay between 10 to 20 years and 3% expect them to stay for 20 years or longer. This has shifted from 2010 where the majority  (41%) expected their employees to stay for 3-5 years and 39% expected their employees to stay for 5-10 years.

## Changes to DIFC legislative requirements

The new employment law enacted by the Dubai International Financial Center (DIFC) modifies a number of employee rights and responsibilities, with the additional intention to transform the mandatory ESB from the former unfunded defined benefit (DB) design to a funded defined contribution (DC) arrangement that is centrally managed. This is known as the DIFC Employee Workplace Savings (DEWS) plan. As you would expect, the majority of organisations with a presence in DIFC have either chosen the default DEWS plan or set up a new alternate arrangement as a qualifying alternate scheme (QAS).

Figure 3. **Organisation size**

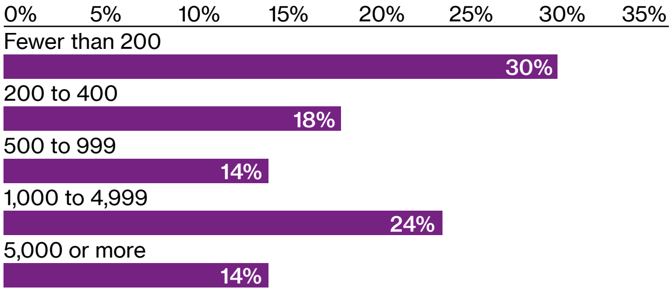
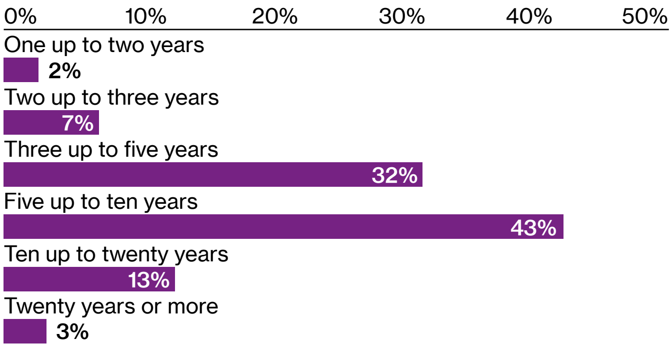



Figure 4. **Length of service**




## Prevalence of ESBs

Of the 338 organisations participating in the survey, the vast majority (79%) confirm that they provide ESBs in their Middle Eastern locations. For those organisations that do not provide ESBs, the most common reason cited is that it is not mandated by law in the country of operation, which is particularly noteworthy as in the GCC and elsewhere there is mandatory labour law legislation in respect of ESBs. Another common reason is that other retirement benefits are provided in lieu of an ESB.

Half of respondents who have "international assignees" draw a distinction between locals and international assignees as far as providing and/or being eligible to receive ESBs. There has been a decrease in the proportion of respondents distinguishing between local and international employees since 2016 (59%) to 50% in 2020. Over half of organisations with "international assignees" also provide ESBs to these employees. Of the 55% that provide international assignees with an ESB, over a third (35%) provide the ESB in addition to home country benefits, while the majority (65%) apply an offset.

Out of the organisations that provide ESBs, none of them made any changes to them as a result of COVID-19 during 2020[1].

[1] Based on 46 survey responses that indicated providing ESBs, and reported not making any changes to them as a result of COVID-19 during 2020.

# Prevalence of enhanced ESBs

## Provision of enhanced benefits

Two in five (39%)[2] participants indicated that enhanced ESBs (that is, those in excess of the mandatory minimum) are available to some employees (Fig. 5). The proportion of organisations surveyed that offer enhanced ESBs has fallen from a height of 49% in 2016. The most common reason given for providing an enhancement is contractual requirement (41%), followed by consistency between countries (39%), and retention of key talent (33%).

## Eligibility for enhanced benefits

Three in five (62%) of the organisations that provide enhanced ESBs do so for all their employees (Fig. 6). The remainder provide ESBs for specific job categories only. Of those that provide enhanced benefits for specific job categories, the most common categories noted are top management and local non-nationals. The most commonly enhanced ESB are provided in UAE, Egypt and Saudi Arabia and Bahrain, a change from 2015 when Oman, Qatar and Kuwait featured over Egypt and Saudi Arabia.

Four in five (80%) respondents provide enhanced ESBs if an employee is made redundant, while around 77% also provide enhanced ESBs on employee retirement and death (Fig. 7). Around (69%) do so for resignations and 54% for terminations. The proportion of organisations that offer enhanced ESBs for terminations has dropped significantly from over 90% in 2014.

Figure 5. **Reasons for providing enhanced ESBs**[3]

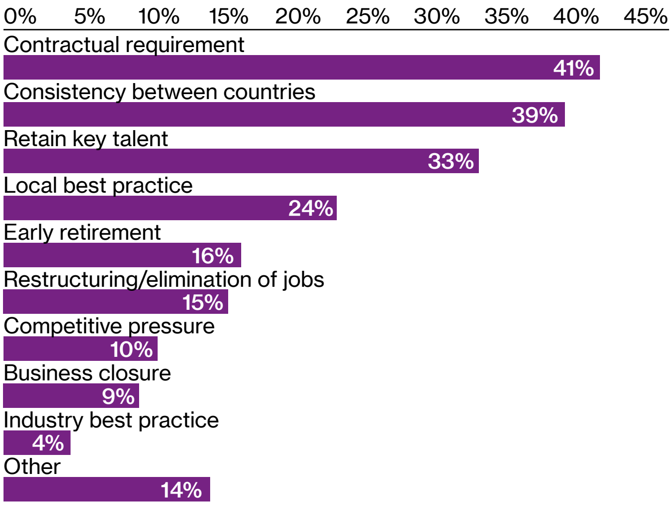



Figure 6. **Employees receiving enhanced ESBs**

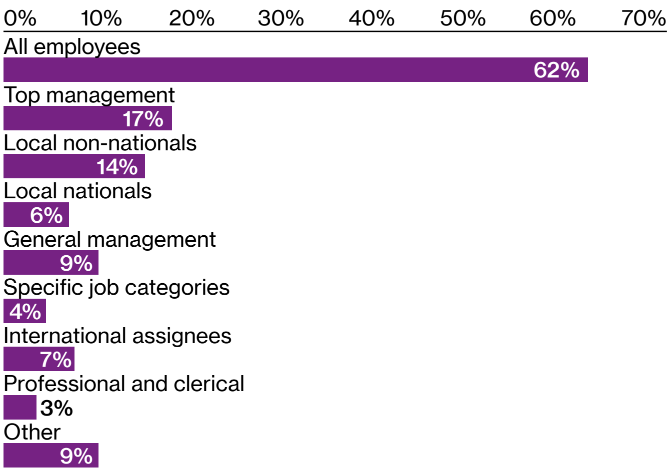
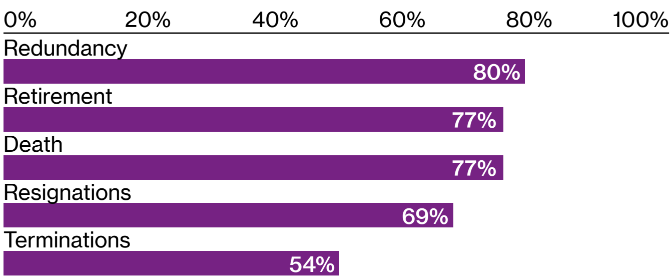



Figure 7. **Circumstances for offering enhanced ESBs**




[2] Based on 311 respondents

[3] Based on 94 survey responses which indicated enhanced benefits and reasons for providing them. Most respondents provided multiple reasons for providing enhanced benefits.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# Structure of enhanced ESBs

## Factors taken into account in providing enhanced ESBs

Of the organisations that provide enhanced ESBs, 72% indicate that length of service is important, whilst other factors include key talent, job grade and intra-company transfers (Fig. 8). Last year, early retirement as a factor was 9%, whereas this year the number of respondents indicating that it is important has increased to 12%.

## Formulae used to calculate enhanced ESBs

In the most prevalent enhancement to the benefit was the application of continuous service to the mandatory ESB formula. This means that if an employee moves between countries but within an organisation or group, their total service is used in the calculation rather than several ESBs being paid out as they change from one country/unit to another. It can also mean waiving the one-year waiting period that is for example a feature of UAE labour law.

The most common method of (effectively) enhancing the ESB is providing a supplemental DC plan (Fig. 9). Out of the 120 organisations that enhance the ESB in some way, 46% responded that they offer a supplemental DC plan to employees.

Enhancing the accrual rate is the second most common enhancement (25%), followed by continuous service (15%).

Figure 8. **Factors for developing ESB enhancements**[4]

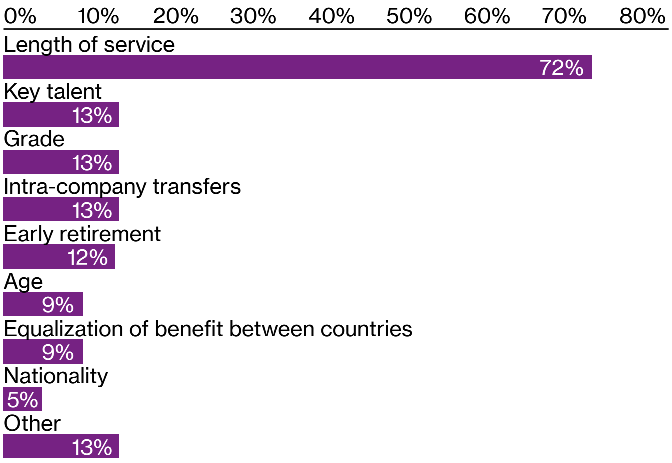
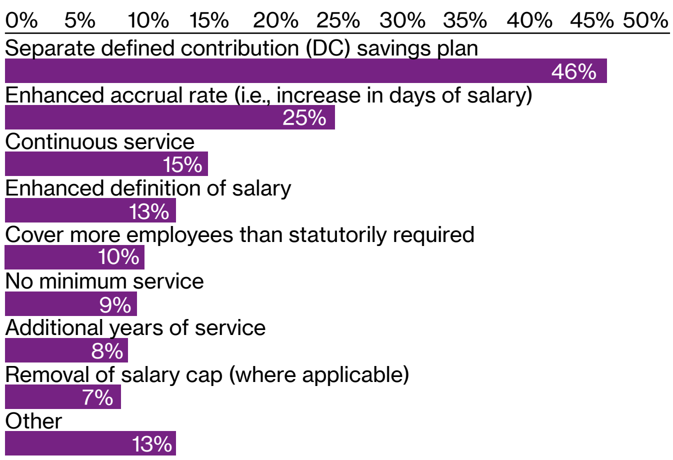



Figure 9. **Formula enhancements**[5]




[4] Based on 94 survey responses which indicated enhanced benefits and factors for developing enhancements. Some respondents indicated multiple factors for developing enhanced benefits

[5] 120 organisations that provide enhanced benefits indicated how they do so. Some gave more than one reason.

## Accounting for ESBs

Around three in five (61%) respondents indicate that they account for ESBs in local books using local accounting, while 19% use IAS19 (international standard IFRS) and 7% FAS (US GAAP) to account for these benefits (Fig. 10) Only 5% do not account for the ESBs anywhere. This is broadly similar to last year, although there has been a slight decrease in the proportion of organisations using local accounting and those reporting under IAS19.

## Paying ESBs

Fig 11 shows details on the size of liabilities reported by respondents. There is a slight movement towards a higher level of liabilities compared to 2019. The majority continue to have liabilities under US$ 5 million, with 28% reporting liabilities of US$ 1 million or under.

Similar to previous years, a majority (78%) of organisations[6] indicate that they do not fund ESBs but settle employees' benefits as they become due from company assets (Fig. 12).

Where organisations fund for liabilities[7], 28% utilize insurance company products. A further 31% of participant organisations invest in bank deposit/cash and 28% of organisations use "other" approach, the same when compared to 2019. The remaining participants (13%) invest funds directly with an asset manager.

Where organisations fund their ESB liabilities, 65% indicate that they keep such funds under a separate trust and 58% keep the funds in a contract vehicle, which indicates that some organisations use both approaches. The proportions are unchanged since 2018.

Any surplus funds arising, e.g., if ESB payment liabilities are less than the assets accumulated against them, are most commonly returned to the business[8] (54%). One in three (34%) respondents indicate that they use the surplus to provide benefits to employees in comparison to 39% last year.

The respondents were also asked whether they pay out ESBs only on termination, or at more frequent intervals. Curiously, 5% of organisations indicate that they provide employees with the ESB benefit at more frequent intervals, while the vast majority (95%) of organisations only provide the benefit on termination, consistent with last year's results.

Figure 10. **Accounting for ESBs**

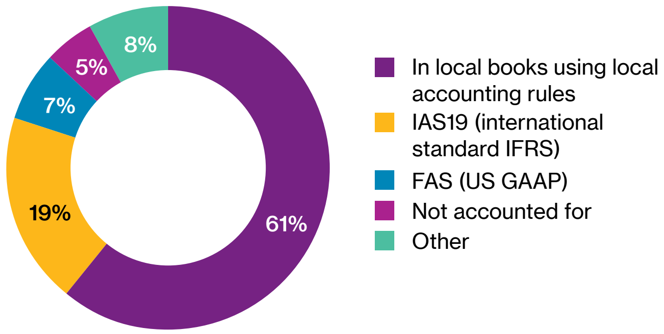



Figure 11. **How large is your current ESB liability**

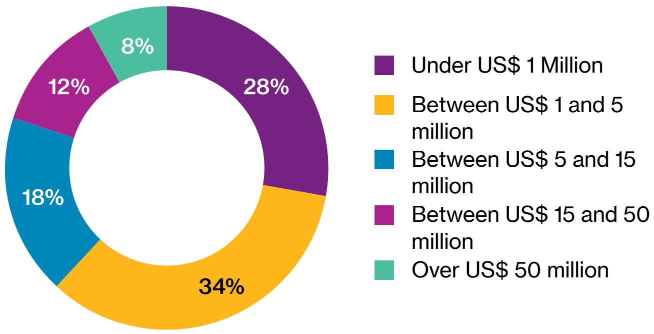



Figure 12. **Methods of paying benefit liabilities**

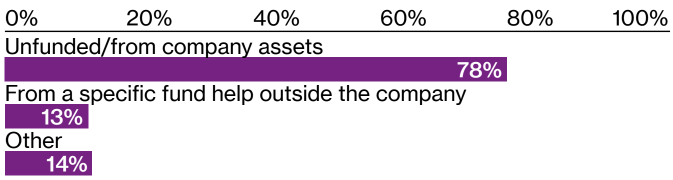
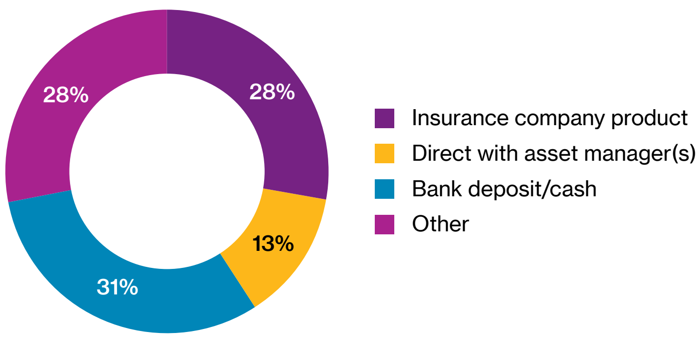



Figure 13. **Where is the external fund invested**




[6] Based on 308 respondents who answered this question.
[7] Based on 39 survey responses to this question.
[8] Based on 26 survey responses to this question.

# Retirement and savings plans

## Prevalence of retirement/savings plans

Nearly a quarter (24%) of respondents[9] indicate that they offer a retirement or long-term savings plan to their employees. Of the organisations offering a supplemental plan, 50% offer membership to all employees. The remaining offer membership of such plans to specific categories of employee, including local nationals, top management, international assignees and local non-nationals. Some job categories are also specified (Fig. 14).

Similar to the 2019 survey, long-term savings or retirement plans were most frequently offered in Egypt and the UAE. Same as last year, the country with the next most prevalence is Turkey[10]. Saudi Arabia is the next most common country along with Kuwait which has increased from 50% to 56% for 2020 from 2019. Fig. 15 shows which locations a DC plan is offered in, if organisations indicated that they do provide savings or retirement plans in the region.

Two in five (40%)[10] of respondents report that where law permits, employees are given the option to choose between participating in a long-term savings or retirement plan and receiving an ESB, an increase in comparison to last year (34%).

Figure 14. **Retirement/long term savings plan eligibility**

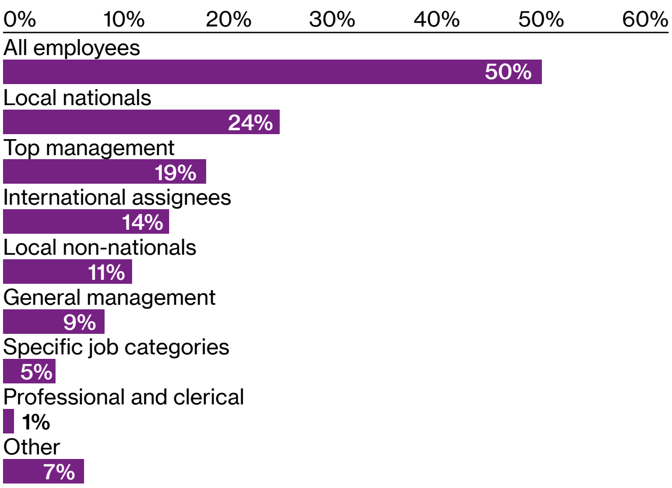
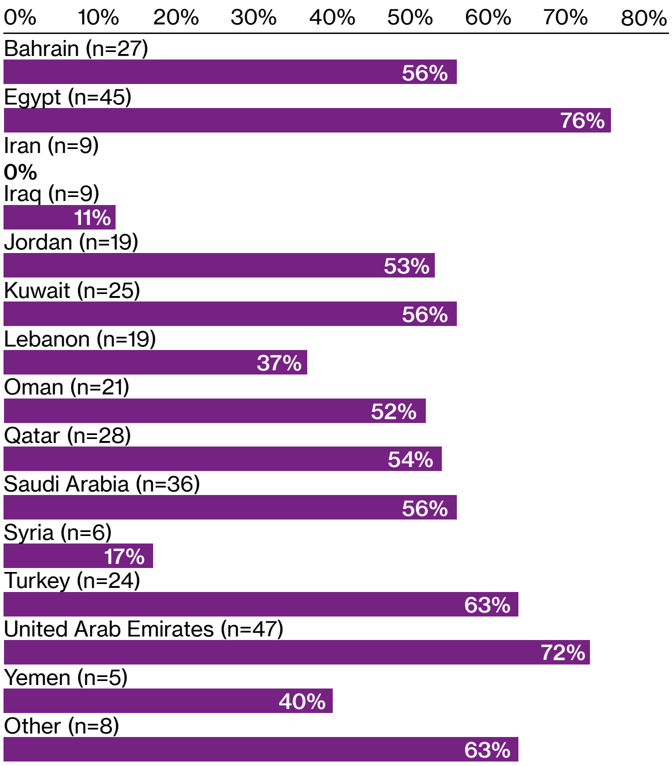



Figure 15. **Locations where long-term savings or retirement plans were offered if an organisation indicated they offered one**




[9] Based on 316 survey responses to this question.

[10] Based on the organisations that indicated they offered a retirement or long term savings plan.

# Changing the Shape of GCC Retirement Benefits to Improve Total Rewards

Equiom

By Chris Cain, Client Services Director (Middle East) – Equiom

In many advanced economies, employers are required to facilitate workplace retirement/savings plans for their employees to help them save for their future retirement needs. This can benefit the employee by facilitating access to a low-cost, efficient way to save, and improving their financial wellbeing. This in turn helps the employer to attract and retain staff.

Unfortunately, across the GCC, company-sponsored workplace retirement/savings plans aren't common. Instead, many consider the statutory ESB to be a satisfactory retirement benefit. However, this creates an opportunity for forward-thinking companies[11].

To encourage a savings culture and help employees plan and fund their future retirement needs, companies should consider providing workplace retirement/savings plans. This plan should go beyond employers making a simple promise to pay their employees their compulsory gratuity, to having it be a true employee benefit. Companies should also consider incorporating the existing gratuity obligation and do so within a more structured savings arrangement that acts as a retirement fund and an effective employee retention tool. Proactive companies that listen to this demand will find they become 'employers of choice', significantly improving recruitment and retention results.

**To encourage a savings culture and help employees plan and fund their future retirement needs, companies should consider providing workplace retirement/ savings plans.**

A recent Insight Discovery survey (April 2021) found that 57% of respondents were not familiar with how their end of service benefit was calculated and what amount they would receive when leaving their employer. The introduction of a workplace retirement/savings plan can help solve this issue through educating members with plan handbooks, guides and online access to valuations. The most successful arrangements often involve annual communication schedules including webinars and online learning tools for employees to ensure they are engaged and understand how the benefit works.

## Designing the workplace retirement/savings plan as a retention tool and improving financial wellbeing

The challenge for employers is to structure a corporate savings plan that acts as a tool to recruit and retain the best talent, and ensure it is well communicated and understood by the employees. The following areas should be considered in the design:

- Eligibility rules relating to service, grade and/or seniority
- Employer contribution rates based on years of service, and/or grade/seniority
- Matching employee contributions (encouraging workplace savings) based on years of service
- Investment options – Shariah and non-Shariah funds should be available at institutional rates with differing asset classes to cater for low, medium and high risk investors
- Vesting rules – employer contributions accumulate, but entitlement on leaving is service-related. Employees would know the rules from the outset
- Making benefits visible online e.g. through an app/website so employees can see assets building up in their name with real-time values. The more that builds, the stronger the wish to remain, as the financial implications of leaving can be easily calculated
- Appointing a locally based trustee to provide oversight and protection of members' interests

In the same Insight Discovery survey mentioned above, respondents indicated that the most important elements in a workplace retirement/savings plan are (a) the ability to make voluntary contributions and (b) flexibility on how they can take the money out once they have left employment.

[11] This is not the case within the DIFC, which introduced its progressive DIFC Employee Workplace Savings (DEWS) plan in February 2020

All of the points mentioned above have been in use for many years in developed markets because they have been proven to work. Utilising vesting scales, employer matched contributions, low charging structures along with creditor protection makes your end of service benefit and overall total rewards financially significant. This has a knock on effect of attracting and retaining employees. A well thought out plan will put your employees in a position where they will have to think very carefully about leaving because of what they are potentially giving up.

## Using the retirement/savings plan to help fund your ongoing liability

As well as the employee retention and attraction benefits, a workplace retirement/savings plan can be an excellent way to fund growing liabilities as they can be established to offer incredible cost-effective access to a range of institutionally priced investments that have the potential to achieve better long-term returns than a simple deposit account.

Administration is straightforward and funds can be held in a pooled account, giving the flexibility to fund gratuity liabilities as and when required.

Not enough thought has gone into the value of gratuities from an employee perspective. Depending on the number of years of service, it could be the third-biggest financial reward behind salary and housing allowance. Instead, the gratuity concept is commonly not funded or highlighted as a benefit. Turning an unfunded liability into a recognisable employee benefit has advantages for all. Employees will have a valued opportunity to save for retirement, and employers can both cover their gratuity liabilities and compete more successfully to attract and retain the best talent.

# About Global Services and Solutions

With 45,000 associates, Willis Towers Watson navigates the challenge of doing business across borders every day. Our Global Services and Solutions (GSS) is the largest team in the industry focused specifically on managing multinational challenges. Together, the GSS and our local teams work seamlessly with organisations' headquarters to manage people and financial issues consistently and efficiently across global operations.

Our services include:

- Design and implementation of new pension arrangements
- Assistance with global mergers and acquisitions
- Global actuarial services
- Multi-country solutions, including multinational pooling of insurance, captives for employee benefits, and cross-border and international retirement plans
- Assistance with expansion into new territories
- Global oversight and governance expertise
- Global benefit strategy and review
- Benefit inventories/audits
- Global pension/benefit risk assessment, monitoring and mitigation
- Global total rewards consulting
- Consulting on global health care and well-being
- Employee mobility strategy and implementation

Willis Towers Watson

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## About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

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