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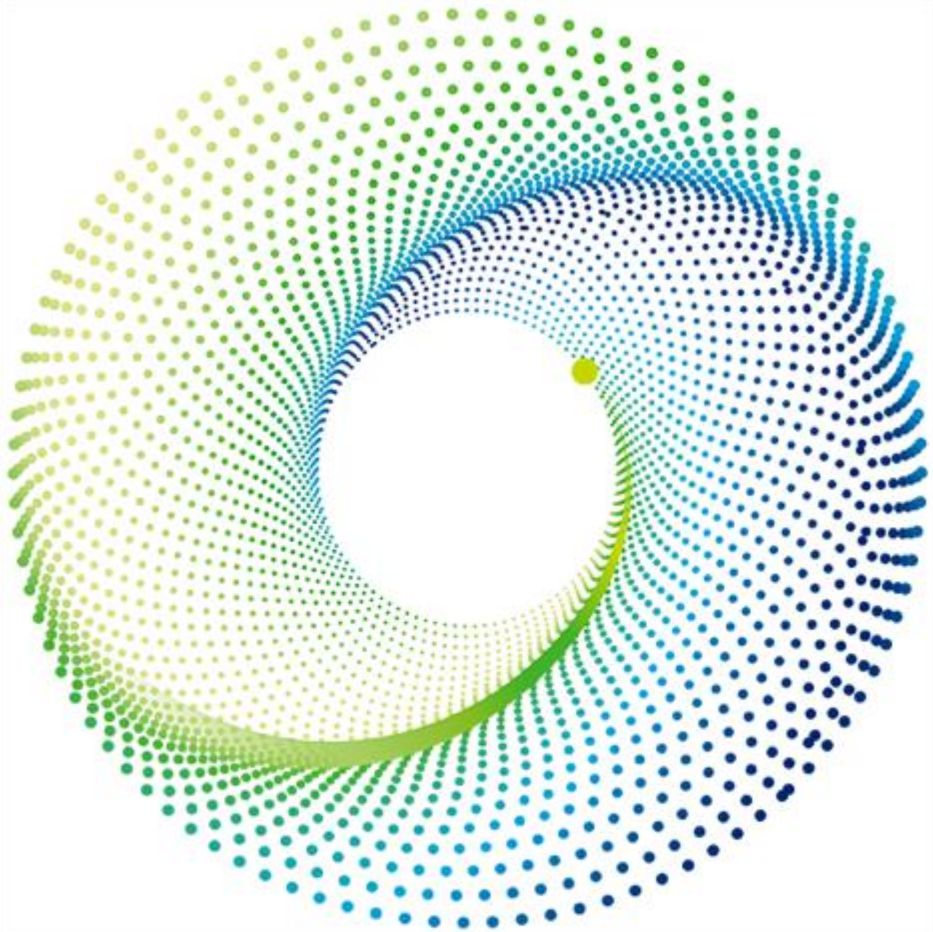

End of Service Benefits in the GCC

17 September 2024

MAKING AN IMPACT THAT MATTERS since 1845

Introducing Our Team

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Our End of Service Benefits (EOSB) team draws on a breadth of skills and experiences from across both Deloitte disciplines and geographies

Agenda

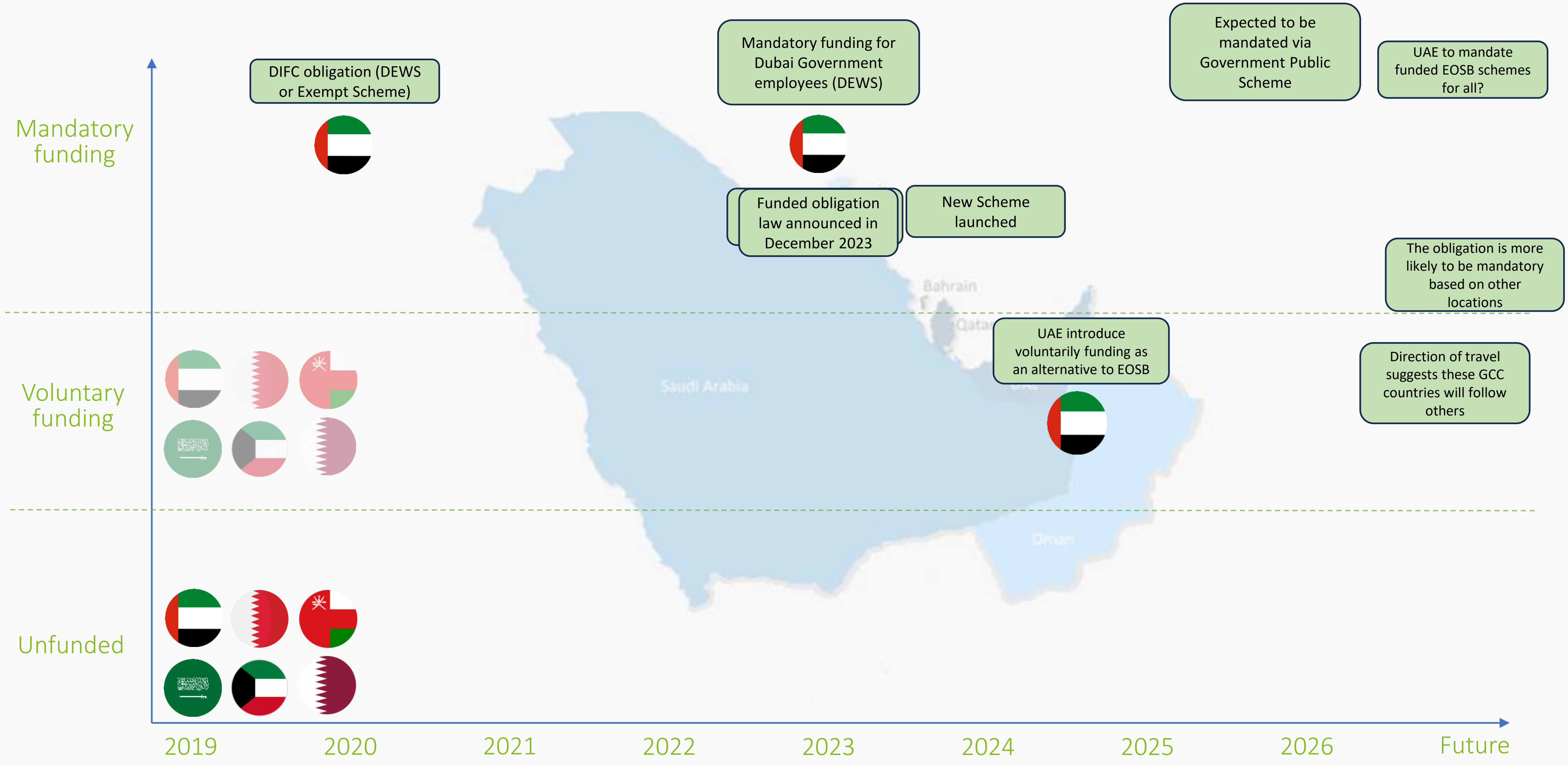
- GCC Workforce Trends
- GCC EOSB Trends
- Employer EOSB Obligations in the GCC
- EOSB in the UAE
- Applying Rules to Different Employee Populations
- Looking Ahead – Challenges and Opportunities
- Focus on governance and risk management
- Case Studies & Approach
- Takeaways & Questions

GCC Workforce Trends

Workforce Trends

1. **Nationalisation across GCC**
2. **Immigration changes enabling extended periods of residence**
3. **Increased inbound mobility from non GCC countries**
4. **Increased intra-GCC mobility and split roles**

GCC EOSB Trends



GCC EOSB Trends

History and current position for non-GCC nationals working in the GCC

In late 2023, Bahrain announced that a funded workplace savings regime would replace the then existing unfunded EOSB regime. By March 2024, this announcement had been translated into mandatory funding into a central EOSB fund. Further details continue to emerge around the new regime.

No specific developments at this stage, but it is expected that developments noted elsewhere are likely to cause these GCC countries to consider appropriate responses.

The UAE has seen continual change since 2020. Key developments include:
- 2020: DIFC Employee Workplace Savings
- 2022: Extension of DEWS scheme to Dubai Government and Free Zone Authority employees.

2023: Announcement of voluntary funding in mainland

2024: Further Employment Law changes in DIFC (Emiratis)

2024: Introduction of voluntary alternative EOSB investment schemes

A 2023 Royal Decree (52/2023) extended the Social Protection Law cover to expatriate workers, meaning a funded regime (at 9% of basic wage) will replace the existing unfunded regime. Suggestions of corporate tax benefits will support the attractiveness of any such regime.

Employer EOSB Obligations in the GCC

Country	Expats		Employer EOSB for local nationals
	EOSB obligation	Funded scheme	Employer EOSB obligation (in addition to social security contributions)
UAE	✓ (prior EOSB accruals remain as liability in DIFC)	✓ (mandatory in DIFC and Dubai government, voluntary elsewhere)	✗ except DIFC/Dubai government (top-up into DEWS)
KSA	✓	✗	✓
Oman	✓ (until transition)	✓ transitioning to funded savings scheme (date TBC)	✗
Bahrain	✗ prior EOSB accruals remain as a liability	✓ as of March 2024	✗
Qatar	✓	✗	✗
Kuwait	✓	✗	✓

- EOSB is payable in accordance with domestic laws and regulations (e.g. Labour Laws)
- Expats are assumed to be non-GCC nationals
- The above does **not** include any employer obligation relating to social security contributions, or any payments GCC nationals may receive from the government
- Employers may decide to pay an EOSB payment to GCC nationals, or enroll them into savings schemes, however that would be on a voluntary basis

EOSB in the UAE

How the EOSB regime has changed in the UAE in recent years

2020

Launch of the DIFC Employee Workplace Savings regime

Replacing the onshore regime with a funded obligation. DEWS was established to provide a qualifying solution, but employers also had the option to establish their own qualifying scheme.

2021

Amendments are made to the 'qualifying alternative schemes' (QAS) in the DIFC

A revised regime is enacted, meaning any new QAS schemes need to be established in the DIFC. Exempt Schemes are possible provided they are multi country solutions. Some employers continue to operate as Exempt Schemes (converting from QAS status).

2022

Extension of the DEWS scheme to Dubai government employees

Expats in government of Dubai employments are now enrolled into DEWS as a replacement to the Labour Law EOSB requirements. Some Free Zone authority employees are affected too.

2024

Voluntary funded regime across UAE

Two alternative EOSB schemes are approved in the UAE. Employers can opt into voluntary funding but must accrue for existing EOSB payments relating to the point of opting in.

2024

Further changes to the DIFC regime

Changes continue to apply to the DIFC regime (Emirati top up contributions) and the DEWS scheme itself (extension of fund options, including National Bonds).

Mandatory funding?

With all the changes occurring in other GCC locations (e.g. Oman and Bahrain), does the direction of travel indicate an obligation to fund the EOSB will become mandatory? Or will the UAE continue to evolve its existing regime of encouraging funding?

EOSB in the UAE - Introduction of Alternative Voluntary EOSB Schemes

What do we know?

- MoHRE approved two voluntary alternative scheme providers (savings schemes).
- Both providers have different products to offer, however both are approved by the SCA and are Sharia compliant.

Employers

- Voluntary to sign-up; mandatory once enrolled
- Min. sign up period: 1 year
- Requires a min. monthly salary AED 4,000
- Must accrue for any EOSB payable to employees at the point of enrolment

Employees

- Flexibility in how funds invested
- Optional top up contributions (up to 25% of total salary)
- Only accessible at the end of employment
- GCC nationals – optional (and in addition to GPSSA)

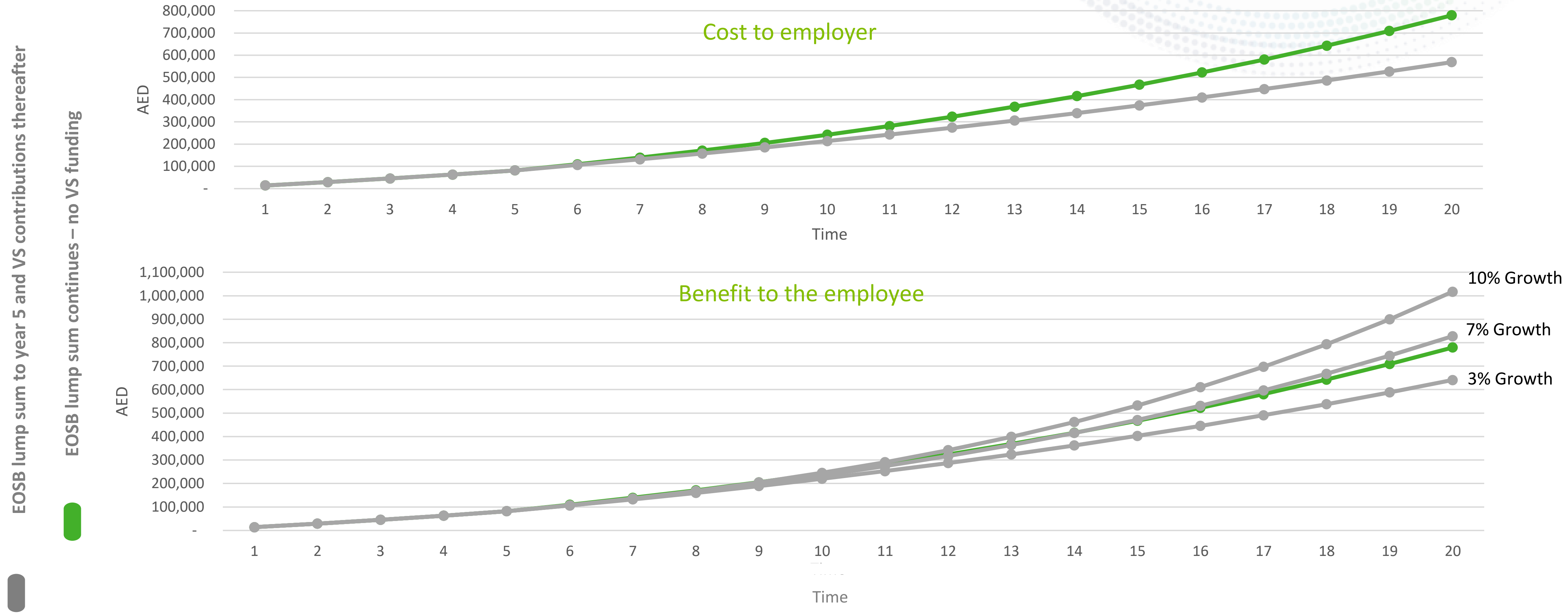
Contributions

Employer contributions:

- 5.83% of basic salary < 5 years of service
- 8.33% of basic salary > 5 years of service

EOSB in the UAE - Introduction of Alternative Voluntary EOSB Schemes

Comparing existing regime vs. voluntary funding



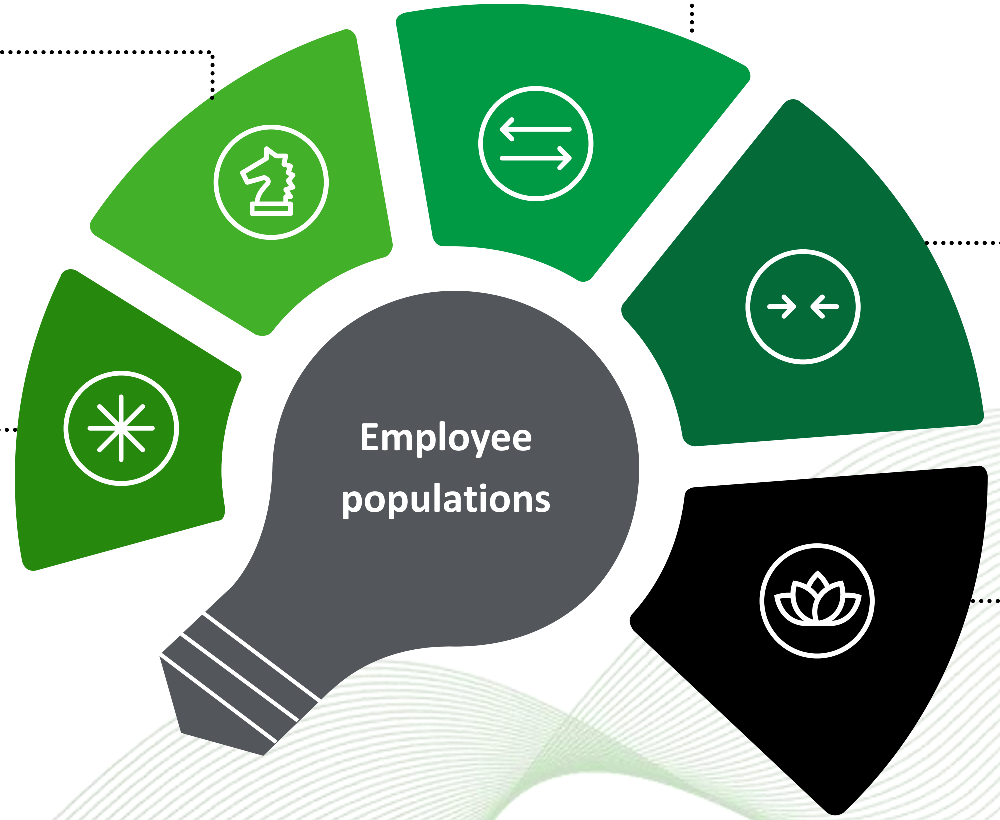
- The starting salary is AED 20,000 per month with a 4% total salary increase each year.
- The individual is enrolled into the new scheme at the end of the fifth year of employment.
- The EOSB is fixed on the **final basic salary at enrolment - i.e., the year five salary**.
- The graph demonstrates 3 different levels of return on investment - 3%, 7% and 10%. In this example, the employee bears a 1% fund administration cost.

Applying the EOSB Rules Across Different Employee Populations

The existing rules create complexity and challenges with different employee populations

Mergers and Acquisitions

GCC nationals



Seconded employees (from outside the GCC) - specific consideration for e.g. US taxpayers in DIFC in UAE

Non-employee status e.g. equity partners, contractors, casual workers, exempt employees etc.

Regional roles/transfers (i.e. from other GCC countries)

Looking Ahead

Challenges and opportunities of an evolving EOSB regime

Challenges

- Continuously changing landscape - compliance focus
- Differing approaches within a country (e.g. UAE)
- Differing approaches for different GCC countries
- Timing of changes can be subject to unforeseen challenges
- Historic liabilities are growing
- Regulations and laws lack practical guidance
- Some laws are in Arabic only

Opportunities

- Removes the defined benefit style obligation – reduces costs
- Funded obligation developments provides certainty
- Funded obligation aligns with market practice elsewhere
- Leverage EOSB element and offer incentive arrangements
- GCC region becomes more attractive for talent acquisition
- Promotes employee retention
- Funded regime presents flexibility for employers
- Promotes reinvestment back into the local capital markets

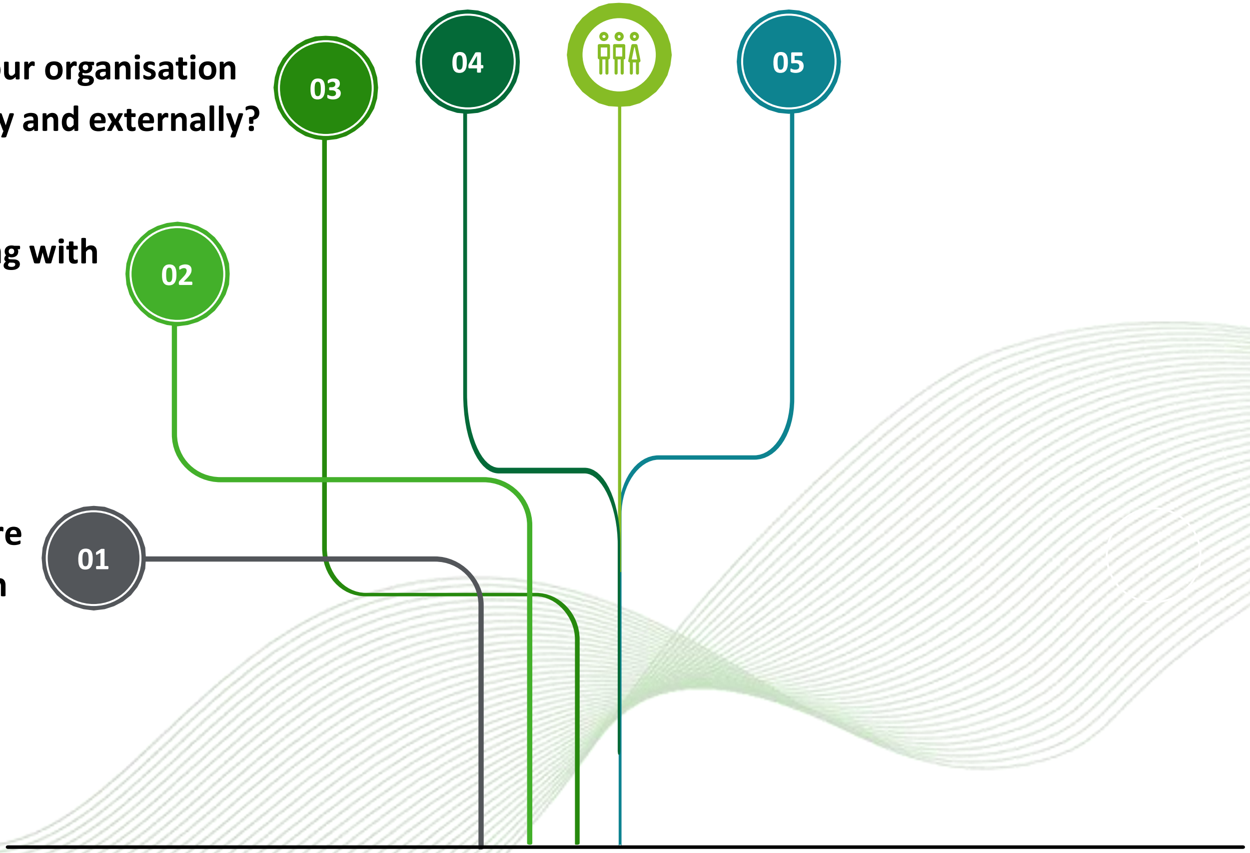
Focus on Governance and Risk Management

The increasingly complex EOSB regimes across the region highlights the need for strong governance and risk management

What accounting position are you applying for the existing gratuity?

What accounting position should you apply for these changing regimes?

Who has responsibility within your organisation and are they supported internally and externally?



How are you managing complying with local requirements for the GCC population?

How do you ensure you are aware of the changing rules within each region and each GCC country?

International Accounting Standard 19

IAS 19 prescribes the accounting treatment and disclosures for employee benefits.
The Cost should be recognised in the period in which the benefit is earned by the employee

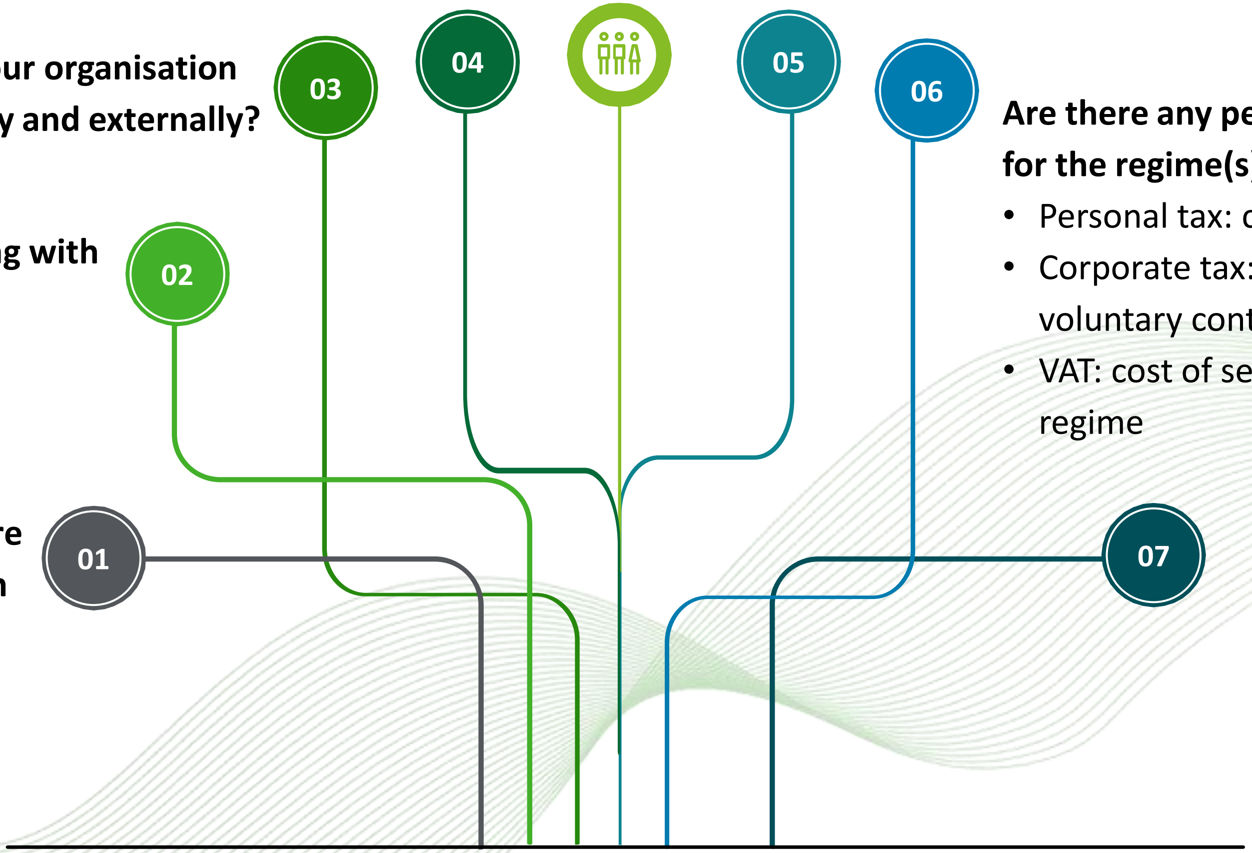
Employee benefits can be broken down into short-term benefits , post-employment benefits, other long-term benefits and termination benefits.

To measure the Defined Benefit Liabilities under IAS19, an actuarial valuation is required based on a set of financial and demographic assumptions.

The adoption of IAS 19, the management of any entity can also gain further insight to the uncertainties related to the Defined Benefit Liabilities and future cashflows.

Focus on Governance and Risk management

The increasingly complex EOSB regimes across the region highlights the need for strong governance and risk management



01 **How do you ensure you are aware of the changing rules within each region and each GCC country?**

02 **How are you managing complying with local requirements for the GCC population?**

03 **Who has responsibility within your organisation and are they supported internally and externally?**

04 **What accounting position are you applying for the existing gratuity?**

05 **What accounting position should you apply for these changing regimes?**

06 **Are there any personal, corporate or VAT implications for the regime(s) applicable to your organisation?**

- Personal tax: contributions, growth and distributions
- Corporate tax: deductibility of funded obligations or voluntary contributions
- VAT: cost of services incurred in provision of funded regime

07 **What internal audit reporting is required around your compliance?**

Case Studies

Consider how two different employer profiles will respond to the changing landscape

Case Study 1: UAE based employer operating across DIFC and mainland regions

- DIFC expat employees: contributions to DEWS or an alternative scheme
- Mainland expat employees: EOSB based on current Labour Laws – no funding required
- Emiratis – GPSSA (and possible DEWS top up for DIFC based Emiratis)

- Above approach presents several challenges:
  - Is this approach equitable to all employees – “side-by-side” colleagues?
  - Does it create increased administration / compliance requirements for the employer?
  - Are alternative options available?

Case Study 2: Employer operating across multiple GCC countries

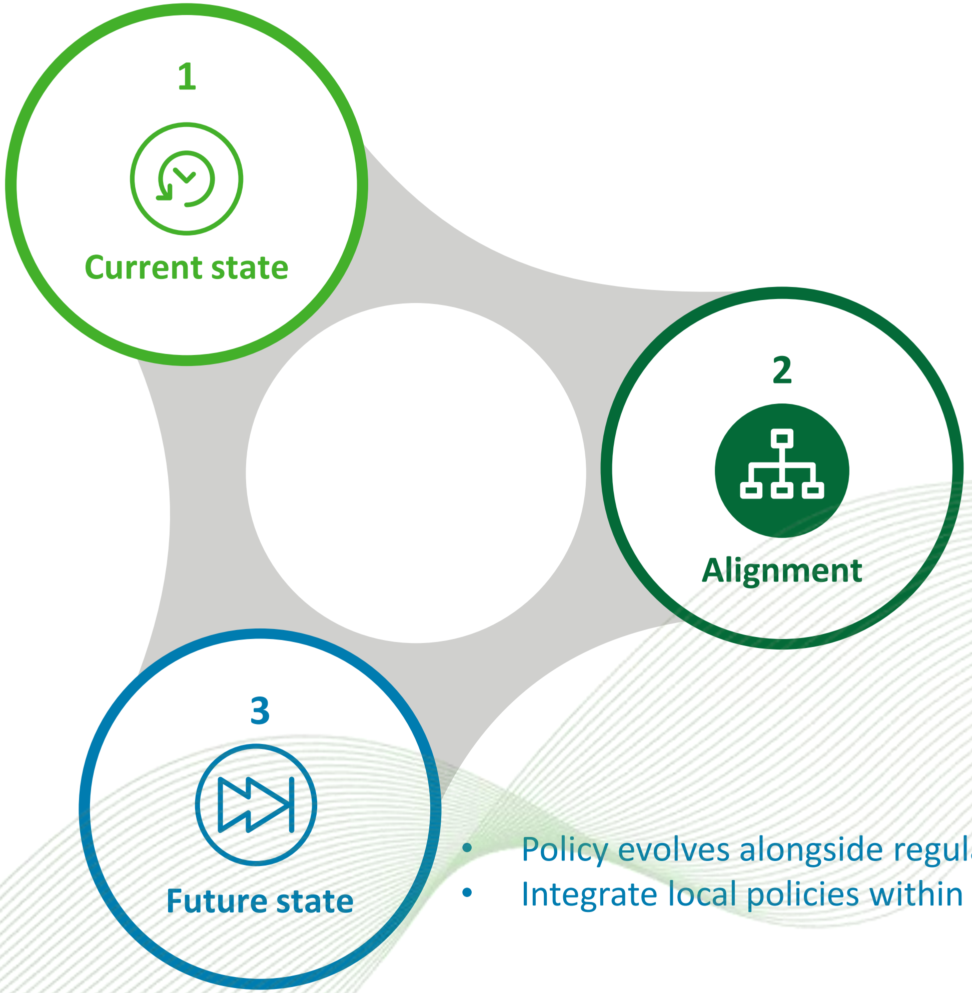
- Country-by-country requirements to deliver EOSB for expats (based on changing regimes)
- Country-by-country requirements to contribute to local social security regimes (note Social Insurance Protection Laws)

- Can this be simplified and why do this?
  - Harmonise benefit provision
  - Create simplicity
  - Operational efficiency and costs
  - Talent attraction
  - Promote intra-region mobility
- Some options:
  - Maintain existing approach
  - Single ‘pan-GCC’ savings scheme?

Approach

Suggested approach for GCC employers

- Assess current state
- Identify compliance gaps
- Identify policy gaps



- Develop policy vision/framework
- Policy benchmarking (with local market, and intra-firm globally)
- Implement consistent policy

- Policy evolves alongside regulatory developments
- Integrate local policies within global framework

Takeaways

What employers should be thinking about today

How can pan-GCC or global arrangements support your objectives?

What do you want to achieve with EOSB in the region?

- Harmonise approach to EOSB
- Drive employee engagement: attraction and retention
- Cost reduction
- Amortise historic funding costs
- Something else…

Compliance v strategy: is this a challenge or an opportunity?

How should you account for the current and future EOSB approach?

How does the EOSB regime impact your employment contracts?

How will tax changes in the region affect your approach to EOSB?

What are your competitors doing or planning to do?

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