Zurich Workplace Solutions

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End-of-service benefits require flexibility

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Zurich Workplace Solutions' **Mr Sajeev Nair** explains why defined contributions may shape the future of end-of-service benefits for the region's expatriate professionals.

The GCC has a track record of attracting expatriate professional talent, and with more than 35m overseas staff currently living and working here, this trend will likely continue for the foreseeable future.

What will change, however, is the way in which their end-of-service benefits (EoSB) are funded, managed and paid.

Savings and retirement security for expats

In other markets around the world, there are three methods of saving for the future: state-run security systems or entitlements; employer-sponsored savings; and personal savings. Previously, in the GCC, personal savings were the primary pillar of financial security for expats; however, our research shows that 72% of expatriates are not confident that they are saving enough for the future.

Whereas Gulf nationals have access to state-sponsored pension plans, the liability of EoSB to regional private employers is a continuing issue and is dependent on the employer's liquidity. If an expat employee leaves, the company usually pays their EoSB from their working capital.

Given that the region is heavily reliant on expat workers, then the risks and financial liabilities are obvious. For example, if the employer exceeds their liquidity through payment of EoSB, creditors will have access to those funds before employees, meaning that the current model can lead to underfunding and no guarantees of end-of-service gratuity payments. It is an inconvenient and uncomfortable truth, and although an estimated 83% of companies don't fund their EoS liabilities, 85% think it would be a good idea if they did.

Moving to a defined contribution model

A defined benefit construct from an employer's perspective aims to hit a moving target, defined by a formula at employee termination – service x salary. The required monetary amount to meet the defined benefit obligation is therefore not known until the date of leaving. Combined with a dependency on the health of the employer's balance sheet, this provides less assurance to employees on receiving their EoS gratuity entitlement.

A defined contribution plan allows employers to fulfil their obligation on an ongoing basis and the outcome for the employee is the sum of the contributions paid over the period +/- minus the investment returns.

More and more countries are looking at adopting the defined contribution model, due to its ability to afford greater certainty, management payment schedules and employee protection and flexibility, making employer-driven savings a reality in the UAE.

The Dubai International Financial Centre's (DIFC) pioneering DIFC Employee Workplace Savings (DEWS) Plan is such a model and was created by the desire for a structured, transparent and stable platform.

Inspiring confidence in end-of-service gratuity

According to recent findings from a survey performed by Insight Discovery, 71% of DIFC employees are confident that their gratuity payment will be paid to them after leaving their jobs, compared to only 39% in the wider UAE.

Offering unique flexibility, DEWS holds the total gratuity within a master trust arrangement which is independent and professionally managed. Contributions are paid into low-cost, curated investments aimed at providing employees with sufficient choice and diversification, and the opportunity for growth. It also allows employees to take control of their long-term savings through making their own voluntary contributions to the fund. The plan was created to align with global retirement standards, with unique customisation to meet the needs of the region.

In the first 18 months, 19,000+ active members of the DIFC workforce from almost 1,300 of DIFC's firms enrolled in the DEWS plan, and membership continues to grow.

Future of work in the region

To continue growing their economies, governments will need to act to keep attracting human capital. Despite narratives predicting that robots and AI will take over most jobs, the future of work is very dependent on human capital. A recent Korn Ferry survey predicts that by 2030, 85m jobs will go unfulfilled, estimating that the talent shortage will amount to $8.5tn in unrealised annual revenues. Attracting and retaining talent will be the single biggest success factor for both employers and governments.

Companies and governments in the GCC will be obliged to compete both domestically and internationally for a finite supply of talent. Having a robust EoSB regime is one of the building blocks in effectively competing against talent-magnet locations internationally.

Work has changed so much over the last 12-18 months in a post-COVID-19 environment, with many staff preferring a hybrid home-office model, unlocking new levels of productivity and adaptability.

The UAE government introduced the one-year remote working visa earlier this year, in response to the rise of digital nomads – a tech-savvy and agile group of young professionals for whom mobility is an attractive proposition.

Such a prescient move has paid off. Nomad List – a company that tracks the growth of remote workers – showed that Dubai is now among the top 10 cities in the world in terms of attracting these professionals. During 2021, Dubai's remote worker numbers went up by 67% in 2021, and by 53% during 2016 to 2020, a number that will increase exponentially as we continue to emerge from the pandemic. Plans such as DEWS are attractive to digital natives along with remote working practices, and governments will need to accommodate these workers.

When work becomes 'what we do' and not 'a place', and employers can offer a flexible, world-class, contributions-based EoSB plan, this will be a real game-changer for companies as the competition to attract the best human capital grows fiercer.

Young professionals look to work for forward-thinking and ethical companies. It's not merely about salary for many, but the balanced package that employers can provide.

However, there does need to be an increase in awareness among expat employees of the benefits of pension planning, which is not currently a priority for many. A recent study shows that 50% of expatriate professionals in the UAE are not currently making any provision for their retirement, and 45% said their plan was to ‘work as long as possible’.

To attract this new generation of spenders, and convince them to be savers, digital-first workplace solutions such as DEWS may provide a success factor. In the short term, governments and employers will need to address the ‘here and now’ priorities around assurance of receiving end-of-service benefits and a transparent set-up in line with global best practices.

From a more strategic UAE economic development perspective, the country’s commitment to its vision as a ‘digital nation’ means that the level of efficiency, transparency and digitalisation afforded by plans such as DEWS will be critical. With a public commitment from the country’s leadership to a paperless and ‘smart’ future for the UAE, defined contribution schemes like DEWS that not only utilise technologies to simplify and enhance, but also innovate and attract talent, will be essential in the country’s continued growth trajectory and help shape the next 50 years.

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