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UAE: DUBAI INTERNATIONAL FINANCE CENTRE MULLS END-OF-SERVICE GRATUITY CHANGES

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[Proposals](#) from the [Dubai International Finance Centre](#) (DIFC) would replace the current end-of-service gratuity payment by a workplace savings scheme for employees by 1 Jan 2020. The proposals follow consultation with DIFC-based employers. The DIFC is special economic zone in the United Arab Emirates (UAE) that has an independent regulatory and legal system.

The current end-of-service gratuity arrangement is an unfunded, defined benefit scheme originally designed to attract talented employees to work in the UAE. That incentive is no longer needed and doesn't reflect best practice in comparable global locations, the DIFC says.

HIGHLIGHTS OF PROPOSED SCHEME

- The new scheme would be called the DIFC Employee Workplace Savings (DEWS) plan and would operate on a funded, defined contribution basis. Employers would pay mandatory contributions, and employees could choose to contribute. Minimum employer contribution rates to the DEWS would broadly match minimum accrual rates under the existing end-of-service gratuity scheme.
- The DEWS would use a master trust governed by an independent trustee domiciled in the DIFC and administered by third-party service providers. A DIFC Supervisory Board would oversee establishing the trust and appointing its trustee and operational service provider. The Dubai Financial Services Authority (DFSA) would regulate the trustee and administrator, and a new regulatory and compliance system would govern the establishment and operation of the DEWS plan.
- The DEWS would cover all DIFC-based companies and their employees, but employers would not have to join if they operate an end-of-service arrangement that is funded by a third-party fiduciary and provides benefits no less than the DEWS would.
- The terms of existing end-of-service gratuity arrangements — for example, employees' eligibility, the definition of the basic wage and the timing of payments — would remain in place to ease the

administration of the DEWS. Accrued benefits would still be linked to the basic wage, but employees' service would be frozen as of 1 Jan 2020.

- DEWS contributions would be invested (when reasonably possible) in passive, index-tracking funds, and employees could select from a range of preselected managed funds with varying risks. The DEWS would provide a default investment option for employees who don't make a selection. The DIFC will consult on the acceptability of investing a proportion of contributions in UAE-based assets.
- An annual management charge would apply to employees' investment accounts. The DIFC expects to model this fee on the management charges imposed by best-practice occupational saving schemes in other countries.
- Benefits would be paid when employees leave service or later, if they request to postpone receipt.

RELATED RESOURCES

- [DIFC Employers' Meeting: Proposals for Reforming the Minimum End-of-Service Gratuity](#) (DIFC, 25 Apr 2019)
- [DIFC Website](#)

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