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UAE: Savings plan effective 1 February for DIFC employees

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28 Jan 2020

From 1 Feb 2020, employers based at the Dubai International Financial Centre (DIFC) will be required to make mandatory contributions to a funded and professionally-managed defined contribution (DC) savings plan on behalf of employees. Under the newly enacted DIFC Employment Law Amendment Law No. 4 of 2020, this replaces the end-of-service gratuity payment regime that has been in place since the inception of the DIFC in 2004. As part of these changes, DIFC-based employers have until 31 March 2020 to enroll in a "Qualifying Scheme," which includes the default new scheme — the DIFC Employee Workplace Savings Plan (DEWS). A consultation on the proposed changes occurred in late 2019, and details of the final DEWS scheme were released on 21 Jan 2020. "The launch of DEWS is part of our efforts to put in place a supportive environment for talent by creating greater financial security for employees of DIFC-based companies," said the DIFC President.

Highlights

The DIFC is a 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 (DB) scheme originally designed to attract talented employees to work in the UAE. That scheme doesn't reflect best practices in comparable global locations and is no longer needed, according to the DIFC.

Here are key features of the DEWS plan:

- The DEWS plan will be a master trust structure domiciled in the DIFC and regulated by the DFSA. A master trust is a multiemployer occupational scheme in which each employer has its own division within the arrangement.

- Contributions under the DEWS plan will broadly match levels under the current end-of-service gratuity structure. Employers will contribute at least 5.83% per month for all employees with fewer than five years of service and 8.33% for employees with longer service. Employees will be able to make voluntary contributions of any amount. Certain types of employees, such as short-term workers, are exempt.

- Employers seeking to opt out of DEWS will have to implement a Qualifying Scheme and apply to the DIFC Authority (DIFCA) to obtain a Certificate of Compliance.

- DEWS contributions will be invested in passive, index-tracking funds, and the plan will offer Shariah-compliant funds as well. Employees can choose from a range of preselected managed funds with varying risks. The DEWS plan will provide a default investment option for employees who don't make a selection.

- All DIFC employees will remain entitled to receive, upon termination of employment, any gratuity benefits accrued before the start of DEWS. Beginning February 2020, additional gratuity benefit accruals will cease, but employers will have to calculate employees' gratuity entitlement based on their final salary on the termination date. Employers will have the option to pay these accrued benefits into DEWS or another Qualifying Scheme.

Changes to existing HR information systems

According to the DIFC, employers will need to make the necessary changes to their existing human resource information systems in order to:

- Make the mandatory contributions for eligible employees

- Deduct employee voluntary contributions from the employee's pay

- Upload the monthly contribution files

- Transfer the relevant amount to the bank account of the DEWS master trustee for investments

Employers and employees will be able to log into the DEWS system to track contributions, investments, portfolio valuations and request withdrawals.

Related resources

Non-Mercer resources

- Press release (DIFC, 14 Jan 2020)

- Press release (DIFC, 21 Jan 2020)

- Information on DEWS (DIFC)

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- UAE: Consultation on DIFC workplace savings scheme proposal opens (31 Oct 2019)

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