# End of Service Benefits in the Middle East

**2019 survey results**

Willis Towers Watson

# Executive summary

Willis Towers Watson has produced the Middle East End of Service Benefits (ESBs) Survey since 2010. Consequently, this is our 10th annual survey, and as in previous years, we have surveyed a broad cross section of organisations with operations based in the Middle East to look at the level of provision, the structure and delivery of employee ESBs. This year, responses were received from over 320 organisations across the region, an increase of 10% over 2018.

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 other 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 (U.A.E.), and the most prevalent industries represented are banking and finance, and technology, although over 18 industries are represented in total. The majority of the respondents are multinationals or global companies, 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; however, 42% indicated that they provide an enhancement to the minimum benefits for employees in the countries in which they operate. This is a slight increase compared with 2018. Local best practice continues to be the most common reason for enhancing the benefits, with retention of key talent and industry best practice the second and third reasons cited for enhancements, respectively.

The majority of organisations continue to offer ESB enhancements to all employees. A significant minority only offer an enhancement to specific categories of employees, the most prevalent groups being top management and local non-nationals. Interestingly, fewer companies 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 may further suggest that the provision of these benefits is becoming more commonplace locally.

As in prior years, those organisations providing enhanced ESBs through the defined benefit (DB) formulae itself most commonly do so using an employee's length of service as the principal factor in determining the enhancement. We have seen a further increase in the number of companies that offer enhancements as standard and as a result of intra-company transfers.

Offering a separate defined contribution (DC) pension or long-term savings plan remains the most popular way of enhancing ESBs, with 54% of companies that do enhance benefits using this method. Increased DB accrual rate continues to be the second most popular method for enhancement.

Nearly two-thirds of organisations (63%) continue to account for ESBs in local books using local accounting rules, with 21% using international accounting standards (IAS). A minority use US GAAP, and surprisingly, 4% do not account for the liability at all. There is a requirement in Saudi Arabia for listed companies to report under International Financial Reporting Standards (IFRS) from 1 January 2017, and all other companies to report under IFRS from 1 January 2018. When considering respondents with operations in Saudi Arabia since 2017, the proportion of companies reporting under IFRS has increased from 19% in 2017 to 35% in 2018 and 2019, which shows that the majority of companies may still not be compliant with the requirements.

Most organisations accrue for their ESBs within the business and pay directly from company accounts, with any surplus assets arising going back into the business in 52% of cases (e.g., where minimum employee service requirements or entitlements are not met), although 39% of organisations now use any surplus to provide extra benefits for their employees. This has changed since 2018 when 57% of companies returned any surplus to the business and only 35% provided additional benefits to employees. Insurance company products and bank deposits/cash continue to be the most popular financing methods for ESBs.

In addition, the Dubai International Financial Center (DIFC), the special economic zone in Dubai, recently enacted a new Employment Law, which modifies a number of employee rights and responsibilities. There is an additional intention to transform the mandatory ESB from the existing unfunded DB design, to a funded DC centrally managed arrangement, known as the DIFC Employee Workplace Savings (DEWS) plan. In this survey, we monitor how companies intend to respond to this forthcoming DIFC change, and in future ESB surveys we will monitor other equivalent or similar changes that may be implemented across the Middle East region.

Interestingly, this year one-third of survey respondents in the DIFC were not aware of these changes, and furthermore, 53% have employees in the DIFC but have not yet decided how they intend to meet the requirements, despite the fact that the changes are expected to be implemented on 1 January 2020.

The options are either to enter the default DEWS arrangement by making mandatory employer contributions or to obtain exemption by registering a qualifying existing or new pension or savings plan.

# Overview of participants

## Industry sectors

The Willis Towers Watson Middle East End of Service Benefits Survey 2019 includes 323 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 technology. Other industries with strong representation in the survey include pharmaceuticals as well as oil and gas. A full breakdown of the industries represented in the survey is shown in *Figure 1.*

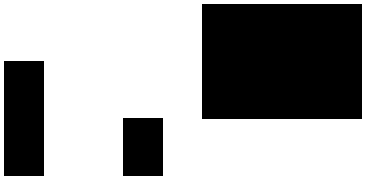


Figure 1. **Industry overview**

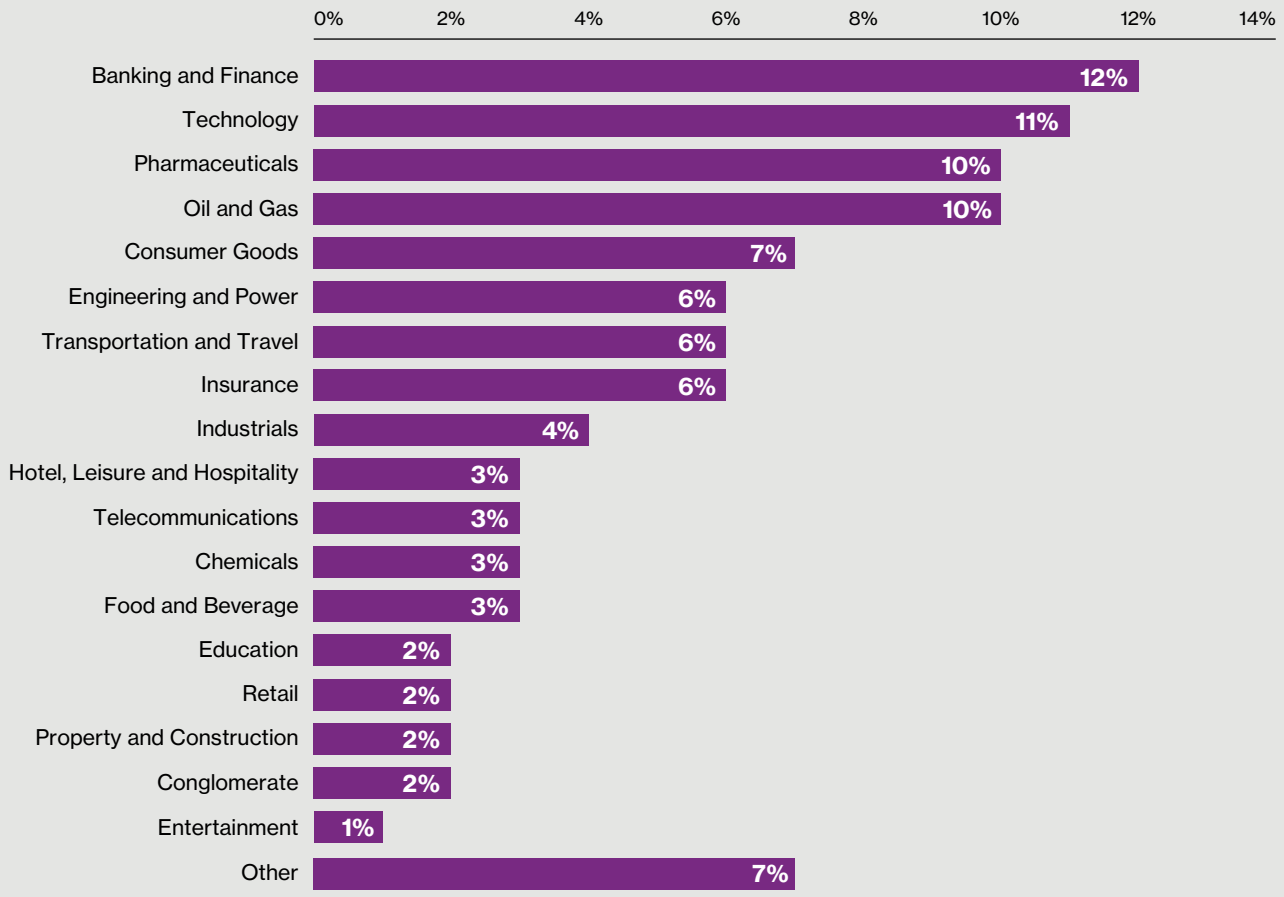
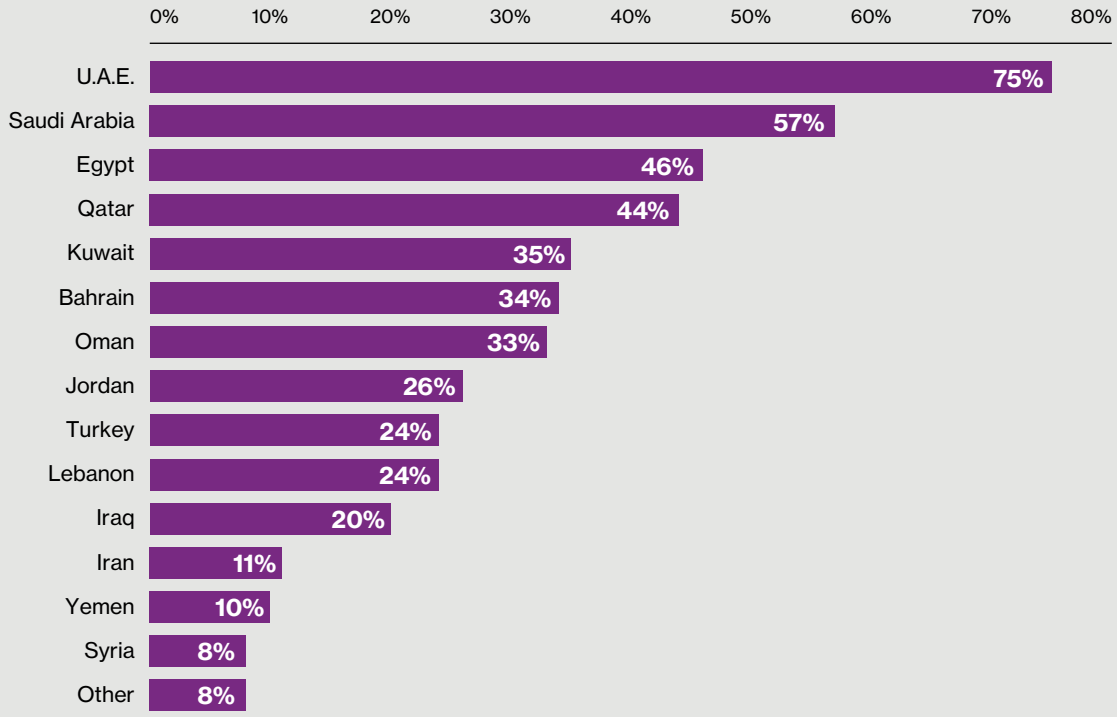
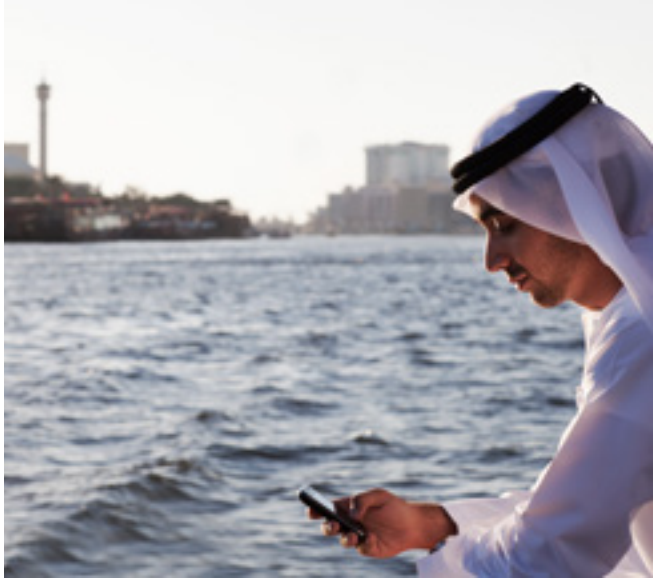


Figure 2. **Location of participating organisations**



## Location of organisations

The vast majority of participants (241 organisations) have operations in the U.A.E., with Saudi Arabia, Egypt and Qatar the next most prevalent countries. A breakdown of the countries is shown in *Figure 2*.

Of the respondent organisations, the vast majority (69%) are multinationals or global companies, with operations in multiple regions around the world. Twelve percent of respondents are regional companies with operations mainly in the Middle East, and 19% are local companies with operations mainly in one country. The distribution is very similar to the distribution of respondents in the 2018 results.

## Size of organisations

Participating organisations range in size from fewer than 200 employees to over 5,000. The highest concentration sit within the fewer-than-200 range, with 31% of respondents. Thirteen percent of participating organisations have over 5,000 employees. The split of company sizes is broadly comparable to the 2018 results.

Seventy-seven percent of organisations expect their head count to grow over the next five years.

The breakdown of the size of participating organisations is shown in *Figure 3* below.

## Length of service

Respondents were asked to estimate, on 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 the 2018 expectations, where most participants (40%) expected their employees to stay with the company in the Middle East for five to 10 years on average. This year, the figure is 41%. The proportion of employees staying for 10 years is the same as in 2018 (15%), and the proportion of employees staying for 20 years or longer is also broadly unchanged.

There is, though, a shift compared with 10 years ago, where typically expatriates only stayed between three and five years.

Figure 3. **Organisation size**

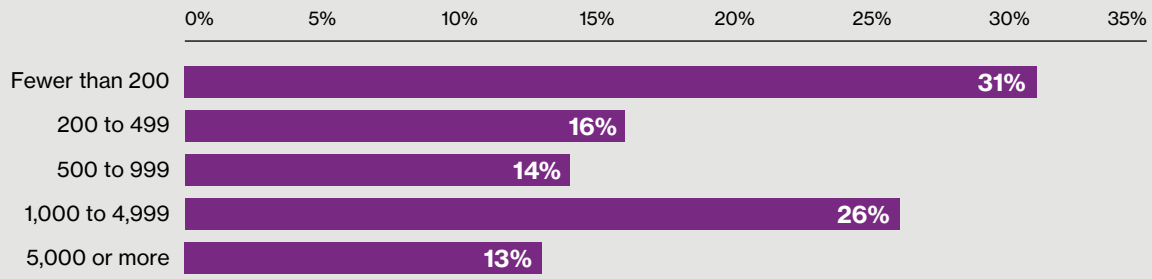



Figure 4. **Length of service**

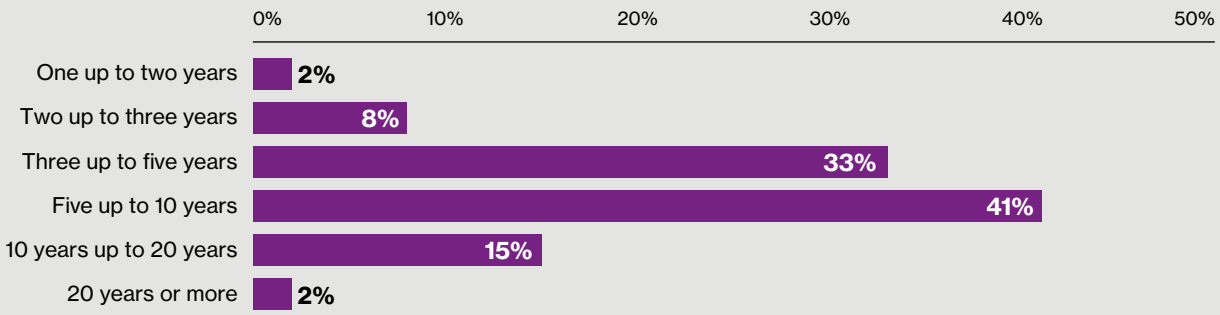
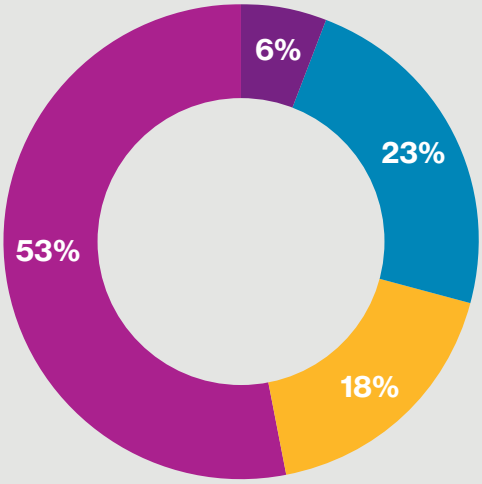


Figure 5. **Plan for meeting the new DIFC legislative requirement**[1]




## Changes to Dubai International Financial Center (DIFC) legislative requirements

The new employment law enacted by the DIFC modifies a number of employee rights and responsibilities, with the additional intention to transform the mandatory ESB from the existing unfunded DB design to a funded, centrally managed DC arrangement, known as the DIFC Employee Workplace Savings (DEWS) plan. Interestingly, one-third of survey respondents in the DIFC were not aware of these changes (despite them affecting all DIFC employers), and furthermore, 53% have employees in the DIFC but have not yet decided how they intend to meet the requirement, with the options being either to enter the default DEWS arrangement by making mandatory employer contributions or to obtain exemption by registering a qualifying existing or new pension or savings plan. Based on our survey results, 23% plan to join the default DEWS arrangement, 18% intend to set up a new alternative arrangement, and 6% plan to utilise an already existing arrangement. Although it was not captured in the survey, we understand employers can choose to join the default arrangement before 1 January 2020 to ensure compliance, buying themselves time to implement their own arrangement later on.

*Figure 5* shows how companies with employees in the DIFC intend to meet the legislative requirement.

## Prevalence of ESBs

Of the 323 organisations participating in the survey, the vast majority (77%) confirmed that they provide ESBs in their Middle Eastern locations. For those organisations not providing 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.

Fifty percent of respondents who have "international assignees" drew a distinction between locals and international assignees as far as providing and/or being eligible to receive ESBs. There has been a consistent decrease in the proportion of respondents distinguishing between local and international employees since 2017 (54%) and 2018 (51%). Over half of companies with international assignees also provide ESBs to these employees.

Of the 55% providing international assignees with an ESB, over a third (36%) provide the ESB in addition to home country benefits, while the majority (64%) apply an offset.

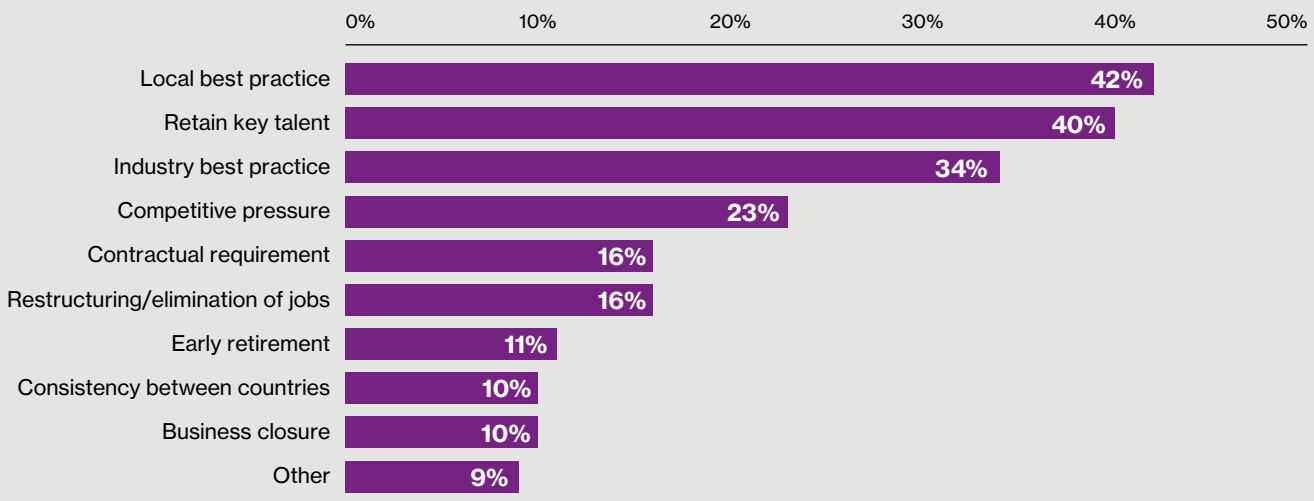
[1]Based on 17 respondents that have employees in the DIFC.

# Prevalence of enhanced ESBs

## Provision of enhanced benefits

42%[2] of participants indicated that enhanced ESBs (that is, those in excess of the mandatory minimum) were available to some employees. This is a slight increase from 2018. As *Figure 6* shows, the most common reason given for providing an enhancement is local best practice (42%), followed by retention of key talent (40%) and industry best practice (34%). This is relatively consistent with the reasons provided in the 2018 results.

Figure 6. **Reasons for providing enhanced ESBs**[3]




[2]Based on 296 respondents that answered this question.
[3]Responses are based on the 88 completed surveys that indicated enhanced benefits and reasons for providing them. Most respondents provided multiple reasons for providing enhanced benefits.

## Eligibility for enhanced benefits

As *Figure 7* shows, 63% of those organisations that provide enhanced ESBs do so for all their employees. 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. Most commonly, enhanced ESBs are provided in U.A.E., Egypt, Saudi Arabia and Qatar, which is consistent with 2018 but a change from five years ago when Oman, Kuwait and Bahrain featured instead of Egypt and Saudi Arabia.

Eighty-one percent of respondents provide enhanced ESBs if an employee is made redundant, while around 77% also provided enhance ESBs on employee retirement and death, as shown in *Figure 8*.

Approximately 70% do so for resignations and 58% for terminations. The proportion of companies offering enhanced ESBs for terminations has dropped from over 90% since 2014.

Figure 7. **Employees receiving enhanced ESBs**

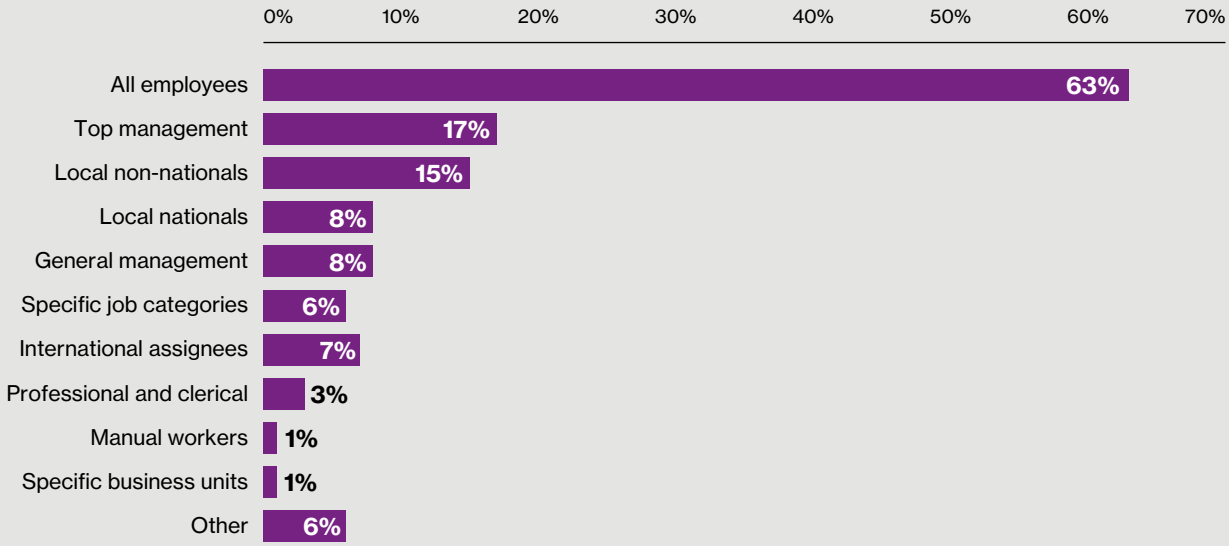
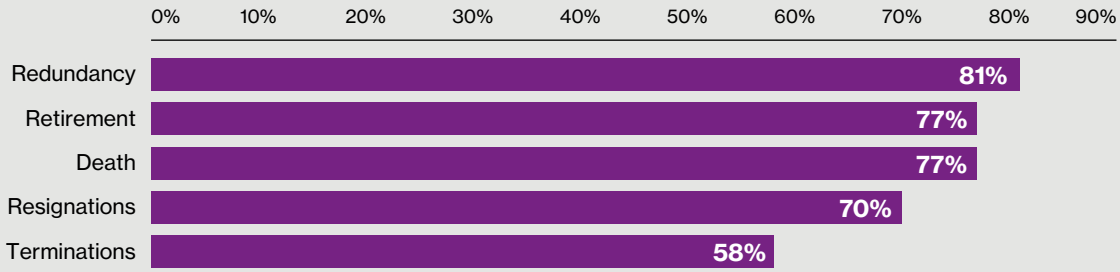
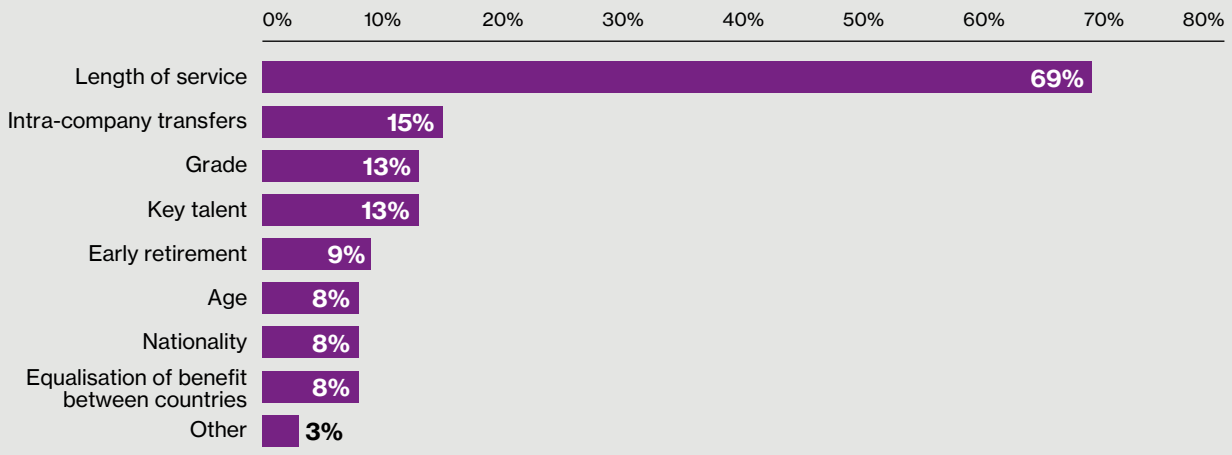



Figure 8. **Circumstances for offering enhanced ESBs**



# Structure of enhanced ESBs

Figure 9. **Factors for developing ESB enhancements**[4]




## Factors taken into account in providing enhanced ESBs

Of the organisations that do provide enhanced ESBs, 69% indicated that length of service is important, whilst other factors include intra-company transfers, job grade and key talent. In 2018, early retirement was a key factor (13%), whereas this year the number of respondents indicating that it is important has decreased to 9%. *Figure 9* shows a breakdown of these considerations.

[4]Responses based on the 88 completed surveys which indicated enhanced benefits and factors for developing enhancements. Some respondents indicated multiple factors for developing enhanced benefit.

## Formula used to calculate enhanced ESBs

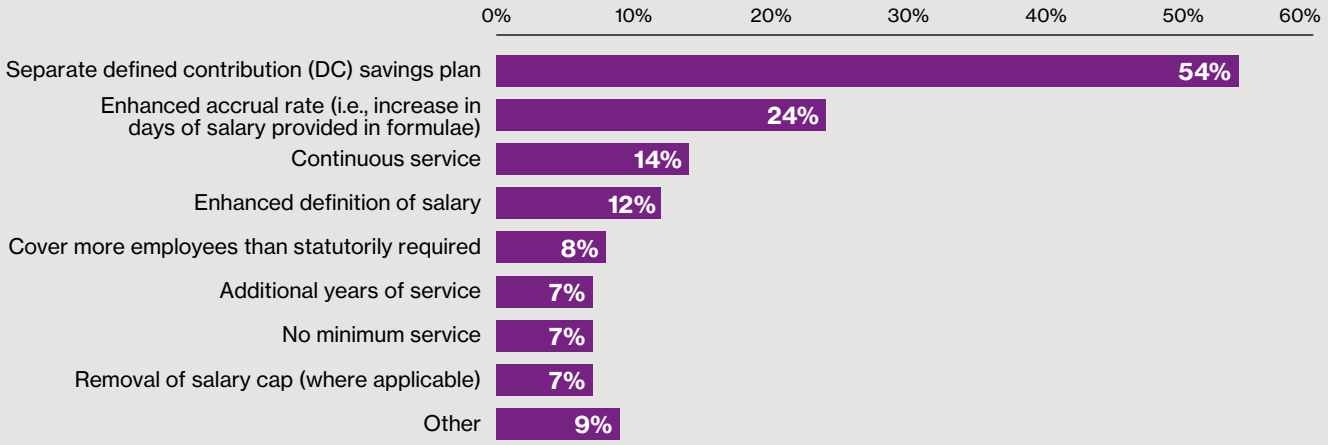
In the past the most prevalent enhancement to the benefit was the application of continuous service to the mandatory ESB formula. This means that if an employee moves between countries but within a company or group, his or her total service is used in the calculation rather than several ESBs being paid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

In the past five years, however, the most common method of effectively enhancing the ESB has been providing a supplemental DC plan. Out of the 123 companies that enhance the ESB in some way, 54% responded that they offer a supplemental DC plan to employees.

Increasing the accrual rate is the second most common enhancement (24%), which has dropped slightly since 2018. The proportion of companies using continuous service (14%) has also decreased. This is a continuing trend in the past five years, where in 2014 continuous service was the second most common method and enhancing the accrual rate was third.

A breakdown of responses is shown below in *Figure 10*.

Figure 10. **Formula enhancements**[5]




[5]123 companies that provide enhanced benefits indicated how they do so. Some gave more than one reason.

## Accounting for ESBs

Around 63% of respondents indicated that they account for ESBs in local books using local accounting, while 21% use IAS19 (international standard IFRS) and 7% use FAS (U.S. GAAP) to account for these benefits. Only 4% do not account for ESBs anywhere. This is broadly similar to 2018, although there has been a slight increase in the proportion of companies using local accounting and a slight decrease in those reporting under IAS19. *Figure 11* shows a breakdown of the results.

When considering the respondents with operations in Saudi Arabia alone, 19% reported under IFRS in 2017, increasing to 35% in both 2018 and 2019. From this, it appears that the majority of companies may not be in line with the requirement to report under IFRS, which is mandatory for all Saudi Arabian companies since early 2018.

Figure 11. **Accounting for ESBs**

## Paying ESBs

*Figure 12* shows details on the size of liabilities reported by respondents. There is a slight movement toward a higher level of liabilities compared with 2018. The majority continue to have liabilities under US$5 million, with 29% reporting liabilities of US$1 million or less.

Figure 12. **How large is your current ESB liability?**

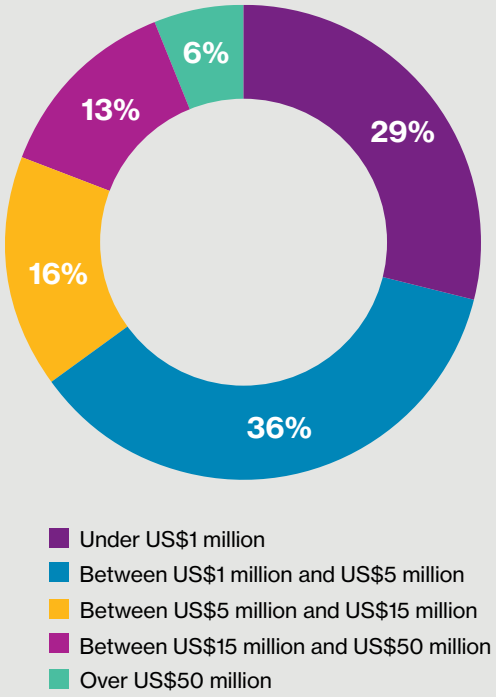
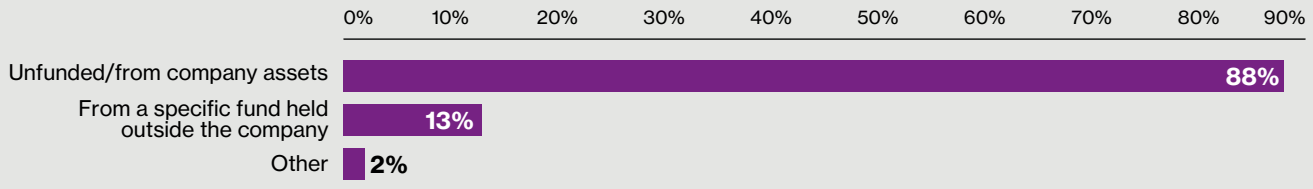


Figure 13. **Methods of paying benefit liabilities**




Similarly to previous years, a majority (88%) of organisations[6] indicated that they do not fund ESBs but settle employees' benefits as they become due from company assets. A breakdown is shown in *Figure 13.*

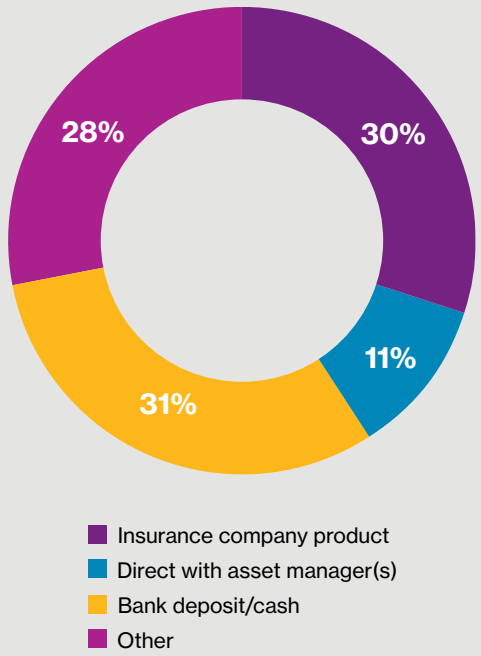
As shown in *Figure 14*, where organisations fund for liabilities,[7] 30% utilise insurance company products. A further 31% of participating companies invest in bank deposit/cash. The proportion of companies using an "other" approach has decreased by 2%. The remaining participants (11%) invest funds directly with the asset manager.

Where organisations funded for ESB liabilities, 65% indicated that they keep such funds under a separate trust while 58% keep the funds in a contract vehicle, which indicates that some companies use both approaches. These proportions are unchanged from 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] (52%). Thirty-nine percent of respondents indicated they use the surplus to provide benefits to employees. This has changed since 2018 when 57% returned funds to the business and 35% paid benefits to employees.

The respondents were also asked whether they pay out ESBs only on termination or at more frequent intervals. Curiously, 4% of organisations indicated that they provide employees with the ESB benefit at more frequent intervals, while the vast majority (96%) only provide the benefit on termination, which is consistent with the 2018 results.

Figure 14. **Where the external fund is invested**



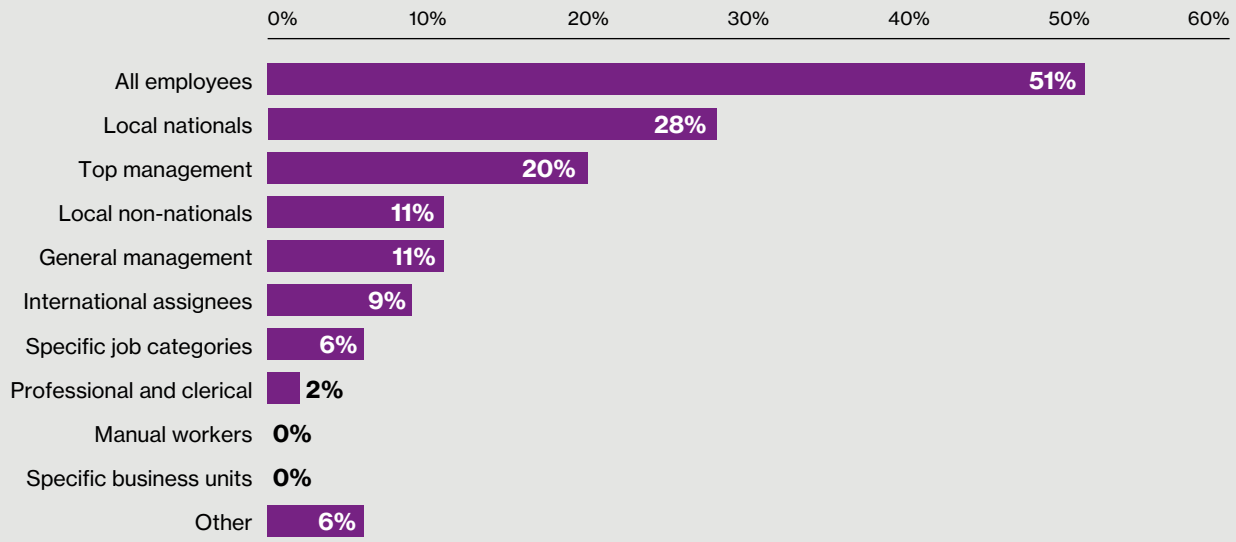

[6]Based on 290 respondents that answered this question.
[7]Based on 36 survey responses to this question.
[8]Based on 23 survey responses to this question.

# Retirement and savings plans

## Prevalence of retirement/savings plans

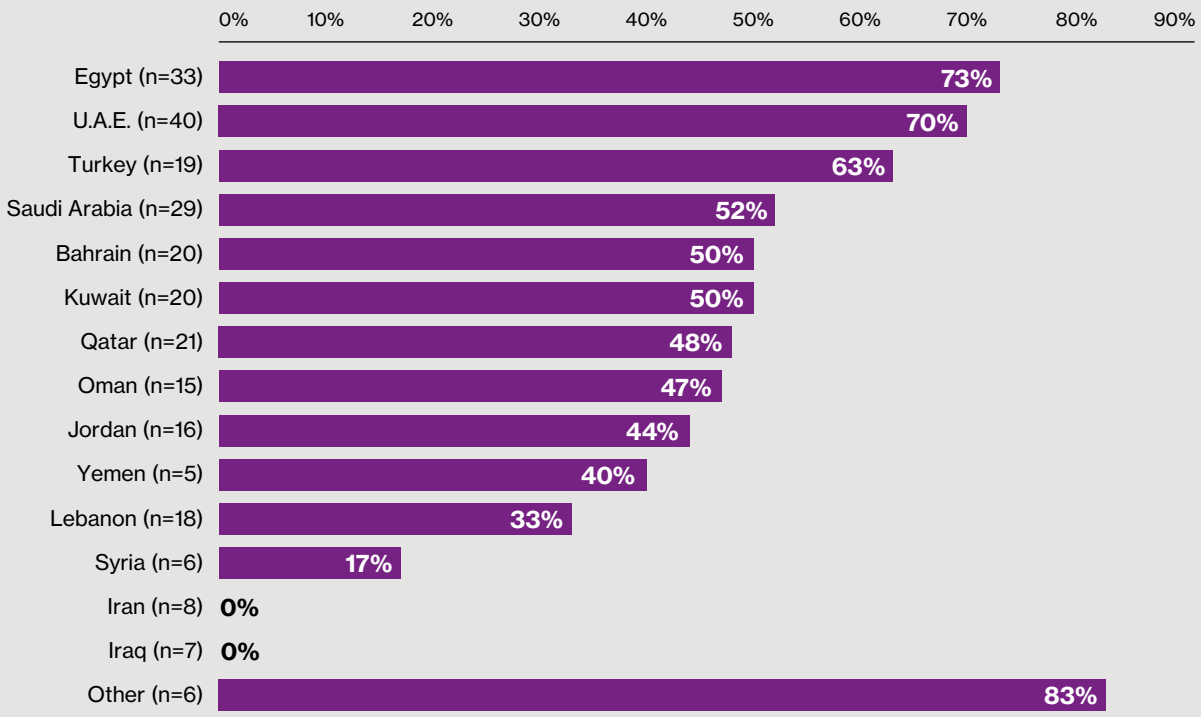
Nearly a quarter (22%) of respondents[9] indicated that they offer a retirement or long-term savings plan to their employees, which is almost unchanged from 2018. Of the companies offering a supplemental plan, 51% offer membership to all employees, which has increased from 46% in 2018. The remaining offer membership of such plans to specific categories of employees, including local nationals, top management, local non-nationals and general management. Some job categories are also specified. *Figure 15* shows a breakdown of the results.

Figure 15. **Retirement/long-term savings plan eligibility**




[9]Based on 263 survey responses to this question.

Figure 16. **Locations where long-term savings or retirement plans are offered if a company indicated it offers one**




As in prior years, long-term savings or retirement plans are most frequently offered in Egypt and the U.A.E. Same as in 2018, the country with the next most prevalence is Turkey.[10] Saudi Arabia is the next most common country, which has changed from Bahrain in 2018. *Figure 16* shows which locations a DC plan is offered in, if companies indicated that they do provide savings or retirement plans in the region. Somewhat surprisingly, we are also seeing a DC or savings plan provided in Syria.

Thirty-four percent of respondents reported 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. This is similar to 2018.[11]

[10]Based on the companies that indicated they offered a retirement or long-term savings plan.
[11]Based on 47 responses.

# 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
- Multicountry 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 wellbeing
- Employee mobility strategy and implementation

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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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