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DEWS PLAN

A catalyst for change to existing EOSG regimes in the GCC

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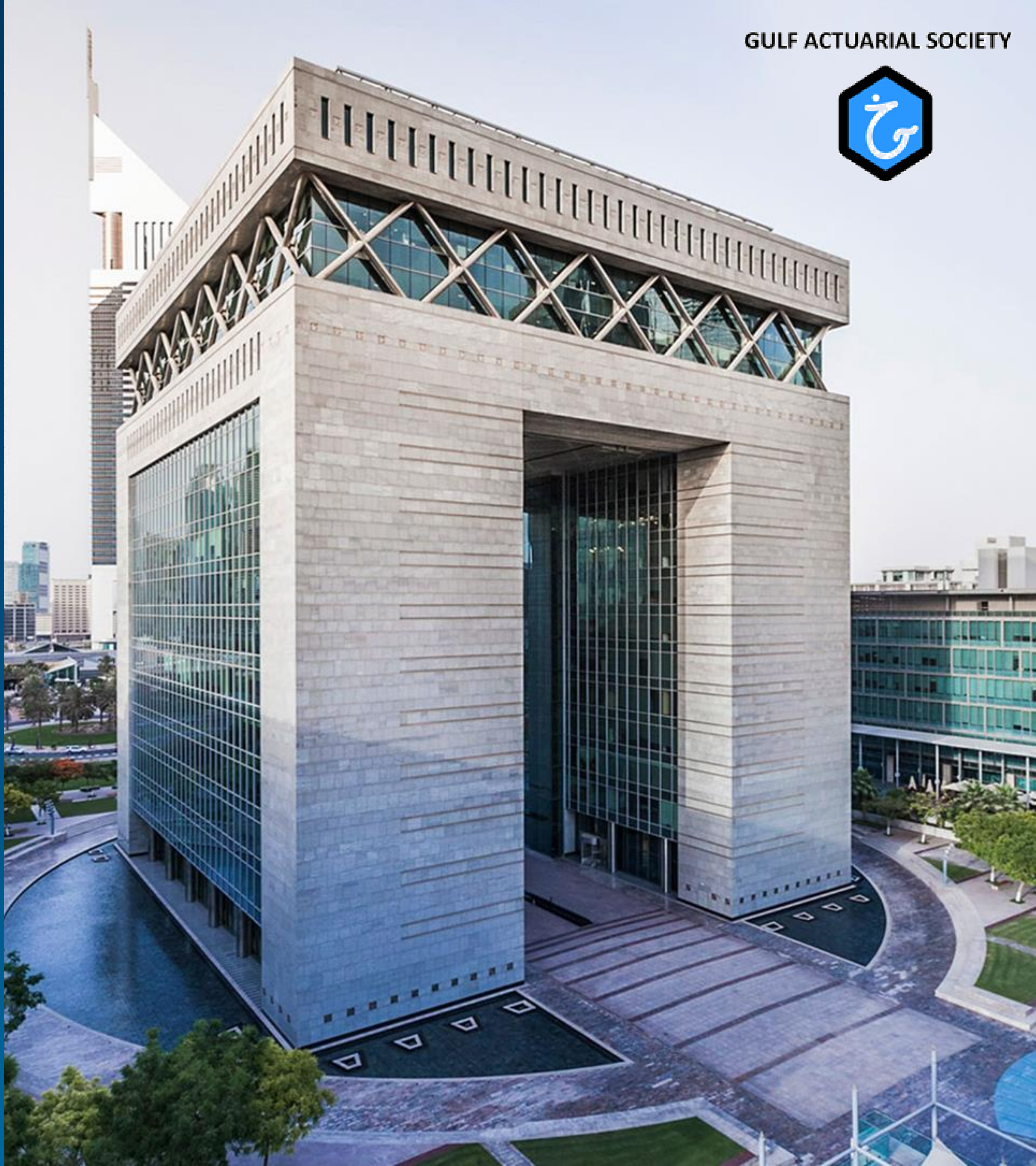


GULF ACTUARIAL SOCIETY

DIFC – revisit of End of Service Gratuity

Pre -1 February 2020

- EOSG – **defined benefit** payable on termination of employment
  - calculated on years of service and final basic salary
    - 21 days for service <5 years
    - 30 days for service 5 + years
  - maximum benefit of 2 years basic salary

DIFC Employee Workplace Savings (DEWS) Plan

Launched 1 February 2020

DEWS

- Replaced with a **defined contribution** savings scheme
  - mandatory, monthly employer contributions based on basic salary

< 5 years service	5 + years service
5.83% of basic salary (equivalent to 21 days of service)	**8.33%** of basic salary (equivalent to 30 days of service)

  - no maximum cap to final benefit

Why the change?

Changing demographics

- Average service tenure getting longer (average 9 years) – allows and promotes longer-term planning (retirement/other reasons)
- UAE not a hardship posting – employers offering lower salary uplifts, rather using retirement/savings benefits as strong negotiation point on hiring

Global Best Practice

- Align with global shift from DB to DC providing benefit security and investment flexibility to employees
- Avoids imposing open-ended liability on employers
- Mitigates risk of employer not meeting defined benefit (EOSG) obligation (COVID-19)
- Foster a savings culture to improve financial wellbeing

Why the change?

EOSG – not sufficient retirement provision

End of Service Gratuity
- upon exit from employment

2x

Annual **BASIC** salary at termination
after 25 years of service
(max. benefit)

Real Future Need

12x

Annual **TOTAL** salary at retirement
to maintain standard of living
during retirement

Impact on EOSG accrued

EOSG accrued until 31 Jan 2020

Future date

31 Jan 2020 | 1 Feb 2020

Timeline

EOSG Accrual | Defined contributions

For employees:

- With less than 1 years service, EOSG will be calculated pro-rata
- If you are within your notice period, no DEWS contributions from 1 Feb 2020. EOSG will be paid out

Employer decision whether to **transfer accumulated benefits** linked to past service. However

- Liability remains with employer, if employee doesn't provide written consent to transfer to DEWS
- No further liability for employer if employee provides written consent to transfer accrued EOSG to DEWS

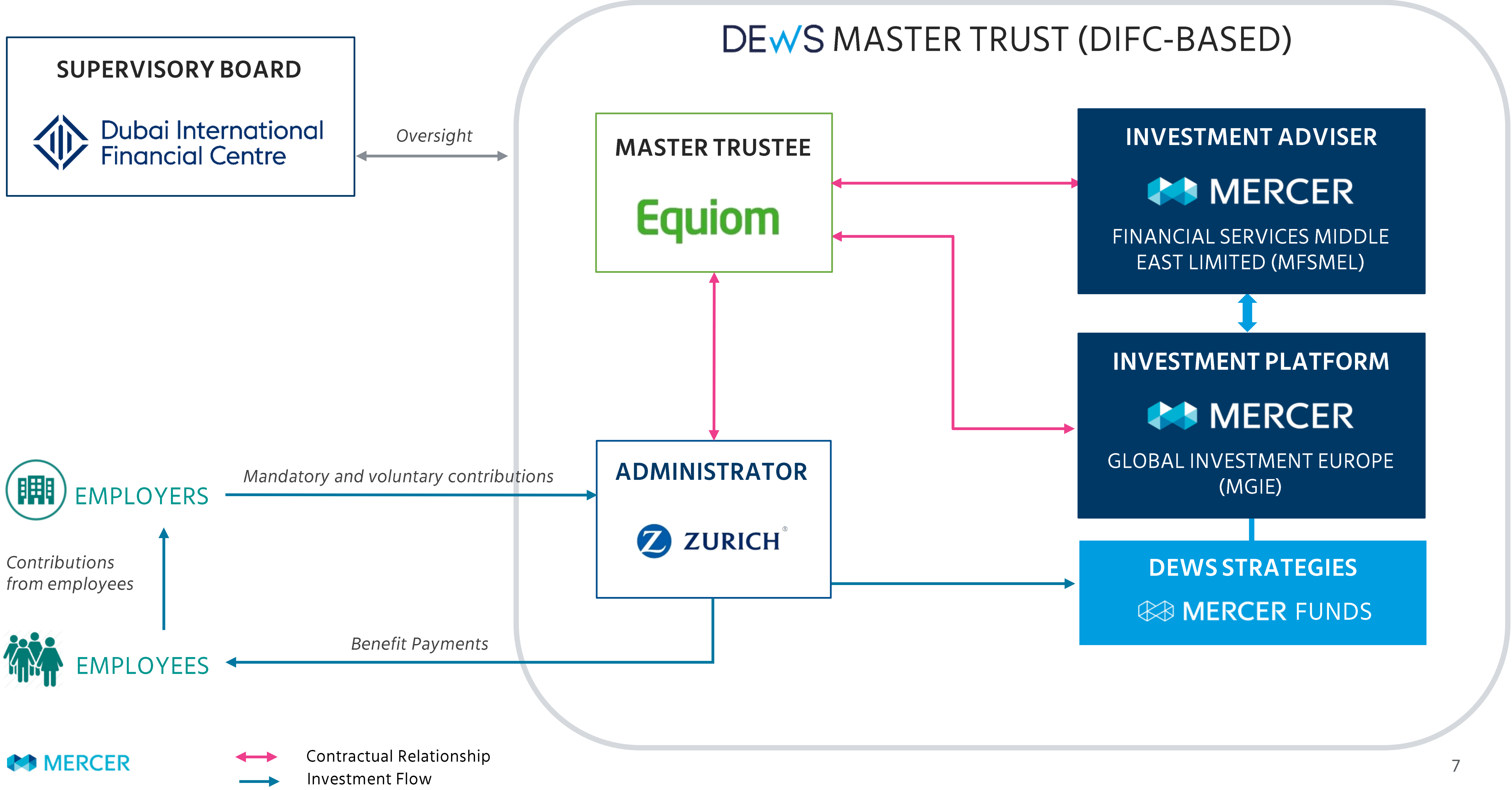
Employee exits employment, they receive:

+

EOSG
service to 31 Jan 2020 and final salary as at exit date
(if no written consent to transfer to DEWS)

Fund value
Contributions plus growth

DEWS Plan – Operating Model



Comparing DEWS and global schemes

- Planning and investing for the future
- Master Trust governance model with independent oversight
- Choice of investment funds – 5 risk profiled, multi-asset funds (additional options to be added in due course)
- Default option – effective asset allocation to drive growth
- Diversification across asset classes, developed and emerging markets
- Risk and return drives investment outcomes
- Additional voluntary employee contributions allowed, facilitated by employer payroll

- Not a pension plan – full value can be accessed on exit from employment (access not restricted to retirement)
- Shorter investment horizon than typical pension plans – average tenure 9+yrs
- Currently no target date/lifecycle funds (no de-risking pathways)
- Default may be more conservative than typical pension plan – shorter investment horizon, flexibility of access to monies

A spark to reform in the UAE and GCC?

Common demand drivers

Longer life expectancy

- Individuals are living longer (15 - 20 years in retirement)
- Risk outliving savings

Regulatory changes in the UAE

- 10 year visas and foreign ownership law change
- Longer tenure (7+ years)
- Need for financial long-term planning

Limited affordable options

- Retail solutions – very expensive, unfavourable T&Cs
- Low quality member services – often leads to sub optimal decision making

Global Best Practice

- Align with global shift from defined benefit to defined contribution
- Mitigate risk of employer not meeting defined benefit (EOS) obligation (exacerbated with COVID-19)
- Better cash outflow management for employers

Considerations for adoption in the UAE and GCC?

Legislation and regulatory framework

Education & awareness – shift towards savings

DEWS

Proof of concept – experience

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Questions?

welcome to brighter