Is it time to rethink end of service benefits?

Many GCC employers simply do not put enough aside to cover their liabilities when staff leave. The experts mull the alternatives

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We must give employees a choice

The whole concept of the end-of-service gratuity (EOSG) needs to be looked at and alternatives considered. The EOSG is realised when people leave the company, but often it will depreciate if it is not put aside in an investment. Businesses should either invest it in a low-risk fund, or stop requiring it to be used at the end of the employee's service.

There should be some kind of choice for workers. Give them the gratuity and let them be in charge of whether they want to invest it or not. Imagine an expat reaching 60 – with three years to go until retirement, if they can get some of their gratuity before leaving the organisation they can buy land and build a house, and when they retire they will have an asset and a place to stay. But with a gratuity only paid after termination, they may take the money to their home country.

There is some debate around the fact that companies can keep EOSGs in their own accounts and use it as working capital – if the money is given to the employee and they put it in their bank account in their home country, the authorities will look at it and want tax paid on it. That's a consideration, of course, but without doubt the current system needs to be managed differently.

Abdulaziz Al Ali
Executive vice president of HR, Emirates Group

It's possible to offer something more

The arguments over whether a pension scheme, a trust fund or the traditional EOSG is the best option go much further than just the HR perspective, as they impact on company cashflow and other corporate financing considerations. At Emirates, we wanted a way to introduce a securely funded retirement arrangement for staff, with the intention of providing greater benefits than the statutory EOSG.

The provident scheme we offer provides a cash lump sum on leaving, as opposed to an annuity pension-type income. It enables members to invest and hold monies in a range of funds and currencies. The levels of contributions paid by the company to the scheme are higher than the equivalent annual EOSG accruals for each staff member. This mitigates any material risk of poor investment returns that would result in the EOSG underpin actually kicking in.

There are valid arguments against businesses offering pension schemes: employees may only work in the GCC for a limited time, and don't want to wait until they retire in another country to receive their pension, while funds invested in the stock market may depreciate in value. But both these points can be addressed with a well-designed vesting schedule and a well-balanced range of fund choices. For employees to get the full benefit of the company contributions, they must remain with us for seven years – this helps us retain high-quality talent and helps staff ride out investment market fluctuations. If they leave before they have fully vested, they still have their entitlement to the EOSG.

Sarmad Tiwana
Group head of HR, Gulftainer

The gratuity remains pragmatic and valuable

The EOSG is a valuable benefit that serves as a savings plan to the majority of the expat workforce, many of whom end up living and working here for about 20-30 years. And it's important to remember that saving is a very different concept for each person depending on where they come from. An unskilled worker or manual labourer – for whom every penny of his earnings is crucial to live on – places his faith in the future prosperity of the EOSG, and any shift away from it towards a trust requires an element of education to change people's perceptions and mindsets.

Companies should never use the EOSG as working capital, especially smaller firms or those in financial difficulties, because, at any given time, a long-serving employee may decide to leave at short notice and it may be difficult to arrange the payout. Implementing a proper regulation protocol and keeping the money in a trusted reserve, with staff able to see their money grow, is a much better approach. At the same time, there should be a simplified system to encourage people working at different job levels to participate. With an in-house corporate saving plan, you can also allow your employees to choose the duration of investments and the level of risk they are willing to undertake.

Given the diversity of the workforce and the unknown duration that people will stay in the country, the EOSG is a very pragmatic benefit. Ultimately, what matters is not how much you earn, but how much you save. And although retirement plans are not yet very popular, offering realistic saving schemes for long-term residents is something we will see more of.

Simon Fielder
Managing director, Ryland Gray

Pensions aren't going to be the answer

Gratuities are old-fashioned and difficult to fund. They've become an increasing burden on employers. Robert Maxwell [former Mirror Group proprietor] raided his employees' pension pots to fund his lifestyle and support his businesses, and until recently there has been no legislation to say that firms in the GCC have to segregate the liability or even take account of workers' gratuities on their balance sheet. Companies can get away with using their employees' assets as their working capital.

There are numerous dangers attached to the gratuity: in the UAE, if your employer goes bust, you can only get Dhs2,000 from the Labour Department, and staff have all their EOSG assets invested in their employer, which means there's no diversity or risk assessment. An alternative is that companies segregate the gratuity and put it into a trust. This is a more secure structure and, depending on the investments used, with associated diversity, will probably offer greater returns once the employee leaves service. There are many offshore regulated regimes that offer trustee services as well as funds.

Pension schemes will remain too complex until the authorities change the law but, in any case, a pension is very difficult to administer and police because of the transient population. There are a number of drivers for a government-led pension scheme, including economic necessity (the UAE in particular wants to move away from old-fashioned methods of employment law) and stock market performance. If a pension industry can be built, it could support local stock markets, but there is still the problem of the transient population – how do you do this when the payments you will be making might be to someone in Bangalore or Melbourne?