

United Arab Emirates

# Overview of the new End of Service Investment Scheme

December 2023



## In brief

The United Arab Emirates (“UAE”) Cabinet has issued Cabinet Resolution No. (96) of 2023 and Ministerial Resolution No.668 of 2023 (the “Resolutions”) introducing an optional alternative voluntary end of service system for private sector employers and employees in the UAE, including those incorporated within free zones (the “Scheme”).

The UAE has adopted an optional alternate system to boost the end-of-service benefits of expatriate workers in the private sector and free zones in the country.

## In detail

On Monday 27 November 2023, the UAE Cabinet has passed the new resolution Cabinet Resolution No. (96) of 2023 and Ministerial Resolution No.668 of 2023 (the “Resolutions”) making it possible for employers to adopt a pension investment scheme similar to the DEWS scheme in DIFC, introduced in February 2020.

The Scheme aims to offer employees with diverse options to maximise returns on savings depending upon their risk appetite, while providing employers with a means to financially plan more effectively with respect to employment liabilities. Employees enrolled into the scheme will have the possibility of benefiting from higher returns and the associated protection from inflation. In addition, the option of the Scheme insulates employees in respect of the risks related to company insolvency or bankruptcy.

The Resolutions allow employers to choose one of the licensed investment funds for the purposes of implementing the Scheme, and to select the categories and professional levels of employees that they would like to include in the alternative system. It is important to note that the Scheme is voluntary for employers, but mandatory for employees who have been chosen by their employer to participate. The employer can choose various levels within the organization hierarchy to be eligible for the scheme and omit others.

“ *The goal is to safeguard the savings of employees, which represent their end-of-service benefits in the companies they work for, ensuring their rights and providing stability for their families.* ”



In other words, the employer retains the choice of continuing with the current end of service gratuity model OR implementing the new Scheme for all or selected employees. However if it elects the former, the employees who are selected for enrollment will have to participate without choice.

### ***The Scheme is made up of three investment options:***

1. Risk-free investment that maintains capital for unskilled workers;
2. Risk-based investment where the risk varies between low, medium and high, upon the employees' discretion;
3. The sharia-compliant investment

Companies taking part are asked to pay a monthly contribution under the scheme.

### ***Participation in the Scheme***

Employers who wish to participate in this alternative system must submit a request to MoHRE.

Employers must select and contract with one of the investment funds licensed by Securities and Commodities Authority (SCA) to provide these services. They must also determine which employee categories and levels should be included in the scheme.

Companies must discontinue the use of the current end of service benefits system for employees who are selected to participate in this scheme.

Once the employees are chosen, participation in the fund becomes mandatory, and employers must ensure that the employees' entitlements from the previous period are preserved.

### ***Employees' voluntary contributions***

Subscribed employees may contribute voluntarily a percentage of their salary or an additional amount, either in instalments or as lump sum.

The voluntary contribution will be deducted from their salaries, provided it does not exceed 25 per cent of the *total annual salary*.

### ***Basis of employers' contribution***

**5.83%** of their employees' **monthly basic salary** if the employee has **not completed five years** of service;

**8.33%** if the employee has served **more than five years**.

Subscriptions must be transferred into the investment fund within 15 days of the beginning of each calendar month and are based on the basic salary paid for the specific month.





## Key Considerations - End of Service (December 2023)

The new updates provide employees with options to save and invest their end-of-service benefits in various investment options with the goal being to safeguard the savings of employees, which represent their end-of-service benefits in the companies they work for, ensuring their rights and providing stability for their families.

As quoted by Sheikh Mohammed bin Rashid Al Maktoum, public sector workers will also be able to participate in the end-of-service system, for the purposes of savings and investments.

Companies taking part are asked to pay a monthly contribution under the scheme.

The updates on the gratuity regime in the UAE will provide added benefits to employees by helping them invest their ESG dues in a solid and financially backed platform. The effective date is yet to be confirmed to the public and the details related to the payment of scheme will be shared once available.

We will keep you posted in case of further updates.

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### ***Our PwC Payroll team is here to help:***

1. Assist to calculate end of service gratuity calculation for employees as per the previous system for you to record the accrued liability on your books and to monitor month-on-month changes. Records of this will ensure the company has sufficient capital in case any of the employees need their EOSB paid out (in case of termination/ resignation/ death etc.)
2. We will keep a record of contributions made by the firm towards the pension fund on a monthly basis. These reports can be compared to ones that are available on the investment platform in order to evaluate whether the investment strategy is worth retaining or if a different one is to be picked.
3. Voluntary contributions made by the employee can be added to the monthly report, contributions are to be made in the form of salary deductions which are communicated to PwC. These funds are then invested with the normal employer contributions towards the scheme.

## Let's talk

For a discussion on the new Executive Regulation and if it might affect your business, please contact:

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If you wish to discuss the above, please feel free to reach out to **Farida Faddoul** directly.

# Thank you