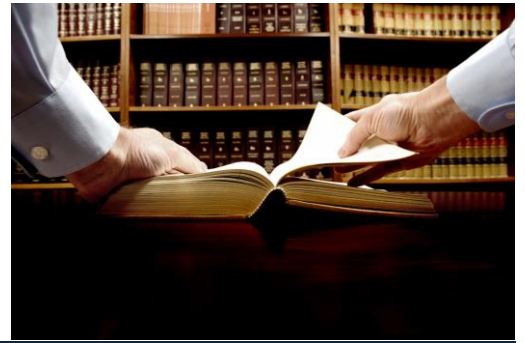


inBrief



UAE: New End of Service Benefits Scheme for Employees in the Private Sector

By Bashir Ahmed and Saurbh Kothari | 6 September 2023

The UAE Cabinet recently approved a scheme for the establishment of savings and investment funds for employees primarily in the private sector (including free zones). This scheme is an alternative to the current system of payment of end-of-service benefits (gratuity) to an employee at the end of his employment.

Participation in the scheme will be optional for employers. Under this scheme, the participating employer will be required to make a monthly contribution to the selected fund.

The funds will be supervised by the UAE Securities and Commodities Authority in coordination with the Ministry of Human Resources and Emiratization.

The scheme is likely to have three investment options: (i) risk-free investment option (which will maintain the capital), (ii) low, medium or high risk-based investment options; and (iii) sharia-complaint investment option.

An employee will be entitled to receive his savings (contributions made by the employer) and returns on investments (as per the investment option selected) at the end of his employment. If employment has been terminated, it is likely that an employee will have the option to continue with the fund (without additional contribution from the previous employer) by not withdrawing his savings and returns.

Participating employers will not be required to pay end-of-service gratuity to the employees at the end of their employment. However, other benefits such as return ticket/air fare, payment of unused annual leaves and other contractual benefits will still be required to be paid by the employers at the end of an employee's employment.

Additionally, employers are currently not required to make a provision in their accounting books for their end-of-service benefits liability. End-of-service benefits are only due and payable to an employee at the end of his employment. In case an employer is in financial difficulties, such an employer is often unable to make payment of the end of service benefits to its employees. However,

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under the new scheme, employers will be required to make monthly contribution. Even if an employer is facing financial difficulties, if the said employer has already made monthly contributions, at least certain part of the end-of-service benefits of its employees will be protected.

There is currently no similar scheme in the UAE except for the pension scheme that is only applicable to GCC national employees and the DIFC Employee Workplace Savings Scheme (DEWS).

Detailed legislation regarding the scheme and its implementation is expected in due course. ■

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