

Retirement Structure

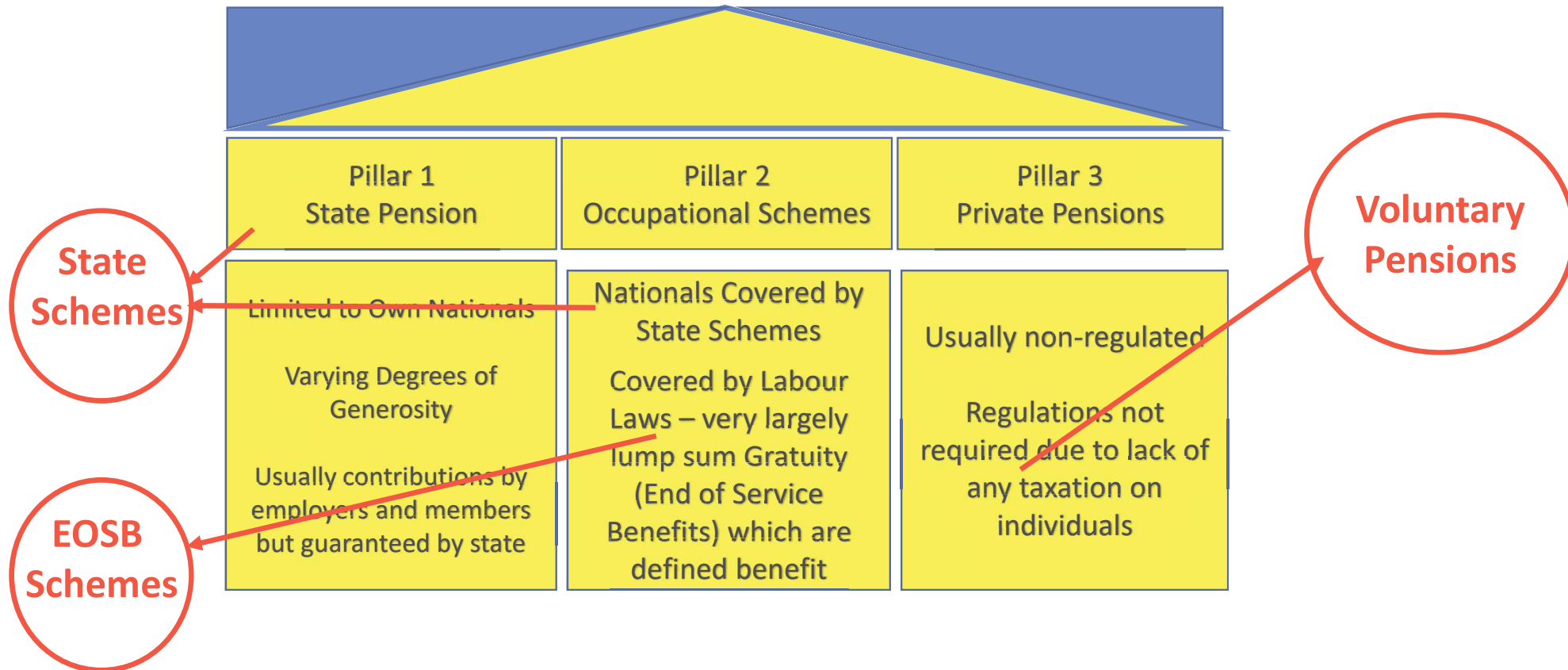
Rahim Feroz Ali

SHMACONSULTING

Presentation Flow

- Retirement Benefit Framework
- State Pension Schemes in the GCC
- End of Service Benefits in the GCC
- Wayforward

3 Pillars of retirement income



Special Circumstances in GCC Countries

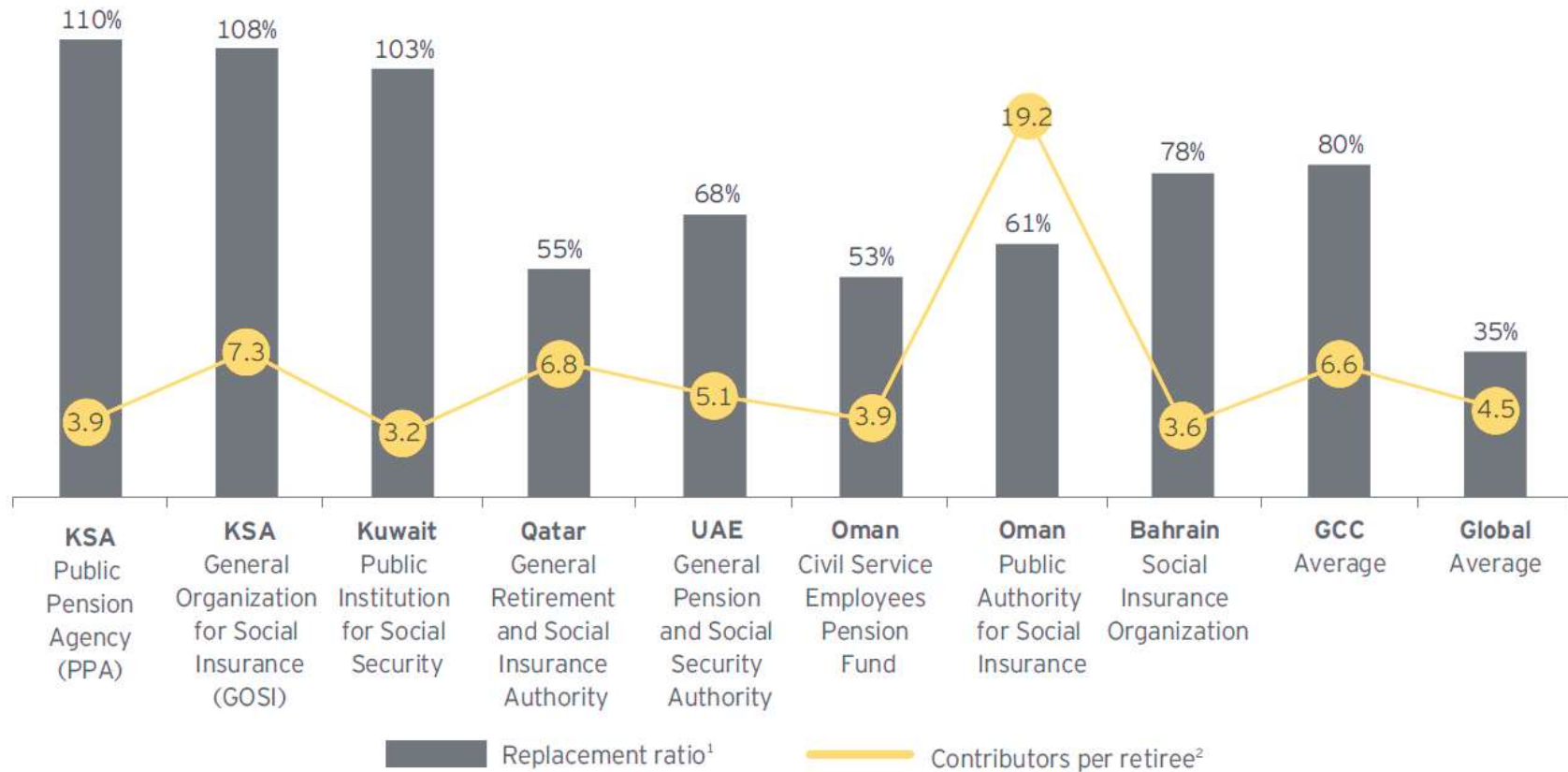
GCC countries differ from other countries in terms of a large proportion of their populations being expatriates.

Proportion of expatriates by country:

KSA	39%
UAE	87%
Kuwait	69%
Oman	39%
Qatar	88%
Bahrain	53%

<https://gulfmigration.grc.net/media/graphs/Figure1percentageofnationals%20non-nationals2020v2.pdf>

GCC Pension Indicators



Source: International Social Security Association (ISSA); data as of latest available – 2012.

1 – Monthly average pension income received as a percentage of monthly insured salary.

2 – Computed as the ratio of number of pension contributors to the number of pensioners.

Pension Scheme

	KSA	UAE	UAE - abu dhabi	Oman	Qatar	Kuwait	Bahrain
Salary	Basic + Housing	Basic + allowances	Basic + allowances	salary	wage	wage	Wage
Employer Contributions	9%	15%	15%	10.50%	10%	10%	9%
Employee Contributions	9%	5%	5%	7%	5%	5%	6%
Government Contributions	Operating Deficit	2.50%	6%	5.50%	deficit	10%	0
Benefits	2.5% for each year	60% + 2% after 15 years	48% + 3.2% after 15 years	3%	5%	65%+2% after 15	2%
Max benefits	100%	100%	80%	80%	100%	95%	80%+10%
Monthly pension as percentage of gross salaries	55.80%	57.14%	57.14%	75.00%	100.00%	85.00%	50.00%

Pension Benefits – key takeaways

- Low Retirement Ages
 - 50 to 60 years for males compared to 65+ in Europe
 - Is increasing retirement age is a perfect solution?
- Very high rate of accrual of benefits
 - 2% to 2.5% compared to 0.89% in UK and 1% in Germany
- Pensions capped at a very high level
 - 100% in some cases
- Pensions payable from younger ages without any actuarial reduction in most countries
- Longevity risk
- Challenges – funding, increase in benefits, demographic issues, contributions versus payments
- Generous survivorship pensions
 - Children included to fairly high ages – unmarried daughters; sons to 21 or 26 if still going through education. Even grandchildren if their father is not alive.

Gratuity Scheme

Country	KSA	UAE	Bahrain	Qatar	Kuwait	Oman	Egypt
First Slab	upto 5 years	upto 5 years	upto 3 years		upto 5 years	upto 3 years	upto 5
Benefits - First Slab	15	21	15	21	15	15	15
Second Slab	5 plus	5 plus	3 plus		5 plus	3 plus	5 plus
Benefits - Second Slab	30	30	30		30	30	30
Maximum Benefit		24			18		
Salary	Basic+HR+Utility+fixed	Basic	wage	basic	wage	basic	wage
Benefit as percentage of annual salary	12.50%	9.33%	13.06%	6.94%	12.50%	9.33%	12.50%

EOSB Scheme – Key takeaways

The retirement benefit structure is very similar, step benefits with lower benefits for initial years of service and higher benefits for later years of service.

We can compare the cost of EOSB and Pension for similar tenure of employees.

Except KSA, pension is for nationals and gratuity is for locals. In KSA, nationals are eligible for both.

Funding of existing EOSB

Is universal retirement scheme being more suitable than maintaining scheme at company level?

Is funding of retirement scheme beneficial in a long run?

Benefits of offering Defined Contribution versus Defined Benefit scheme?