

Solution spotlight

Ring-fencing end of service benefits



One of the benefits provided to employees across the GCC is the terminal benefit prescribed by each country's labour law – commonly called the leaving indemnity. For long-serving employees, this can be a very significant saving. Built up from contributions from the employer, leaving indemnities are often co-mingled with the business's cash as part of its working capital (with a corresponding liability) and retained within the business.

From a company's point of view, leaving indemnities are a no-cost source of funds. When businesses do well, employees indirectly receive a return – salary increments that result in increased contributions.

The downside of co-mingling employees' funds with that of the business include:

- The strain on cash-flows – if not planned properly – when long-serving employees leave with high pay-outs
- Skewed ratios due to increased liabilities affecting lender covenants
- Exposure to business risks making employees nervous about their savings – especially during uncertain economic conditions

In many jurisdictions, employee benefit plans are de-recognised from a business's balance sheet, ring fenced and kept outside the business – typically in a trust. In the UAE, the DIFC has mandated – since 1 January 2020 – the setting aside of employee benefit funds in professionally managed defined contribution plans.

Setting up a trust for leaving indemnities offers a number of other advantages:

- Custody of funds is with an independent, regulated party with oversight over their use
- Funds can be invested to earn income – which can either be added to leaving indemnity amounts – or used to partially fund the indemnity itself
- Drawings by employees for emergency purposes are easier

Keypoint can set up trusts to hold end-of-service benefits and protect employees' interests, having already established employee savings schemes and long-term and deferred bonus plans, as well as a range of other trusts.

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