From "Gratuity" to "Opportunity"

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Why we believe the Gulf States are ready for defined contribution

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Shifting demographics and evolving regulations mean that the Gulf countries are on the verge of a new era for retirement benefits to align with international best practices. In this article, we look at the current landscape and share our recommendations for the development of employer-based plans in the region.

The current retirement benefits landscape in the GCC

The Gulf region is undergoing a seismic shift both in demographics and in how employees can save for retirement through the workplace.

In the United Arab Emirates, the primary private-sector retirement option has been the "gratuity" system, whereby an employee receives an end-of-service benefit (ESB) upon leaving their job. Based on an employee's length of service and salary, the ESB provides a basic lump-sum payout with no accrued interest. However, the amount can be unpredictable and the employee has no investment options, nor can they can make any voluntary employee contributions. Pension schemes for Emiratis are run by the Abu Dhabi Pension fund (ADPF), the Sharjah Social Security Fund (SSSF), and the General Pensions and Social Security Authority (GPSSA).

In February 2020, the Dubai International Financial Center (DIFC) introduced its DIFC Employee Workplace Savings (DEWS) program, establishing a defined contribution funding model to people working within the financial center which allows employees to select a plan that is in line with their risk tolerance and retirement goals. The ESB is still awarded, but has evolved to include voluntary contributions, visibility into savings balances, investment choices, and more. However, UAE and GCC nationals are exempted from the program but can participate voluntarily.

According to a 2023 PwC report, the UAE economy has until recently relied heavily on expatriate workers, who represent 89% of the population and 92% of the total workforce. In the private sector, only 4% of workers are Emirati national, with the majority of Emiratis working in the public sector. The report predicts for economic expansion to happen, there must be a shift in perception about the appeal of the private sector to Emirati nationals. In our view, a key part of this will be helping workers create a secure future with their retirement in a way that is competitive with the public sector and can drive growth, talent retention, and increased investment.[1]

In October of 2023, an optional pension scheme was announced, that would replace the end-of-service payment for workers in the private sector and free zones. Under this new scheme, workers whose employers opt in contribute into the plan each month (at a current rate of 5.8% for employees with less than 5 years of service and 8.3% for workers with more than 5 years of service), then receive the accumulated savings and investment returns at the end of service. The new system, which went into effect in November 2023, is overseen by the Securities and Commodities Authority in partnership with the Ministry of Human Resources and Emiratisation.

Like the UAE, the Kingdom of Saudi Arabia has a large population of young people: two-thirds of Saudis are under 30, and the population is growing. Participation in the labor force is growing as well, with significantly more women in the workforce over recent years. In the current retirement system, an earnings-based pension, with mandatory contributions from both employer and employee, is available from age 58, one of the world's lowest retirement age thresholds.[2] The pension system for Saudi nationals is run by the General Organization for Social Insurance (GOSI); retirement plans for expatriates and the private sector are covered by workplace plans.

Reforms are taking place elsewhere in the Gulf Countries as well. Oman has established a national provident fund, intended to replace the current end-of-service payment system for non-Omani workers by collecting employer contributions and administering benefits, including retirement benefits. Bahrain has also established a national provident fund to underpin the end of service payment system for non-Bahraini workers. And in Kuwait, dialogues are now taking place about the limitations of the ESB system.

Globally, there has been a shift away from "defined benefit" retirement systems and towards a "defined contribution" (DC) workplace savings model. With DC plans, both the employer and employee contribute a regular percentage of the employee's salary to an individual account specifically earmarked for the employee, with the final benefit amount depending on contributions made and investment returns achieved. We believe the Gulf countries would benefit from the adoption of a DC retirement system and that a reformed pension system in the region would drive long-term investment in local economies, lead to better retention of national workers, and help ensure a more secure retirement for millions.

Important considerations for Defined Contribution retirement plans in the Gulf

With that in mind, we present a roadmap for the development of robust DC retirement plans in the Gulf Council Countries.

- **Multiple-Employer Schemes:** We encourage the development of a centralized retirement plan administration system in each country to oversee retirement plans (such as investment menu design and employee administration), while employers facilitate participation but are otherwise removed.

  — **Potential Impact:** Greater scale and negotiating power which benefits investors through lower costs and more diversified investments.

- **Contributions:** Construct plans around employee and tax-advantaged employer contributions. Consider opportunities for government contributions to support lower-income individuals and/or smaller employers.

- **Automation:** Leverage automatic enrollment (in which employees are automatically enrolled in the relevant retirement plan) and automatic escalation (whereby employees' contributions are automatically increased over a number of years). Consider operational constructs that ensure savings can follow individuals as they change jobs.

  — **Potential Impact:** Academic research has evidenced that both of these features increase participation on an equitable basis and amplify retirement readiness.

- **Investments:** Deliver simplified investment menus alongside a default investment option for those who do not make an investment choice. Defaults should be robust and provide age-appropriate allocations which can be professionally managed to minimize the need for employer and employee engagement. Global experience suggests that the majority of employees will be invested via the default, providing economies of scale and benefits such as low costs and access to diversified asset classes Policy makers should consider liquidity and valuation needs as a broader fund regime is constructed.

  — **Potential Impact:** Research supports the use of automatic features in driving high adoption of a default investment strategy.

- **Retirement Income:** Consider solutions to support how employees can effectively use their accumulated retirement savings into retirement, providing continued investment growth We'll cover more about retirement income in an upcoming paper.

Lastly, we would underscore that DC retirement plans should be considered one component that sits alongside the State-Sponsored Pension System and Private Savings to support retirement outcomes. For a closer look at how the region is navigating this complex but critical journey, read Trends and Challenges: The GCC's Shift to DC Plans.

Endnotes

1 Emiratisation Survey 2023 — PwC Middle East.

2 Mercer CFA Institute Global Pension Index 2023.

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* This figure is presented as of June 30, 2025 and includes ETF AUM of $1,689.83 billion USD of which approximately $116.05 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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