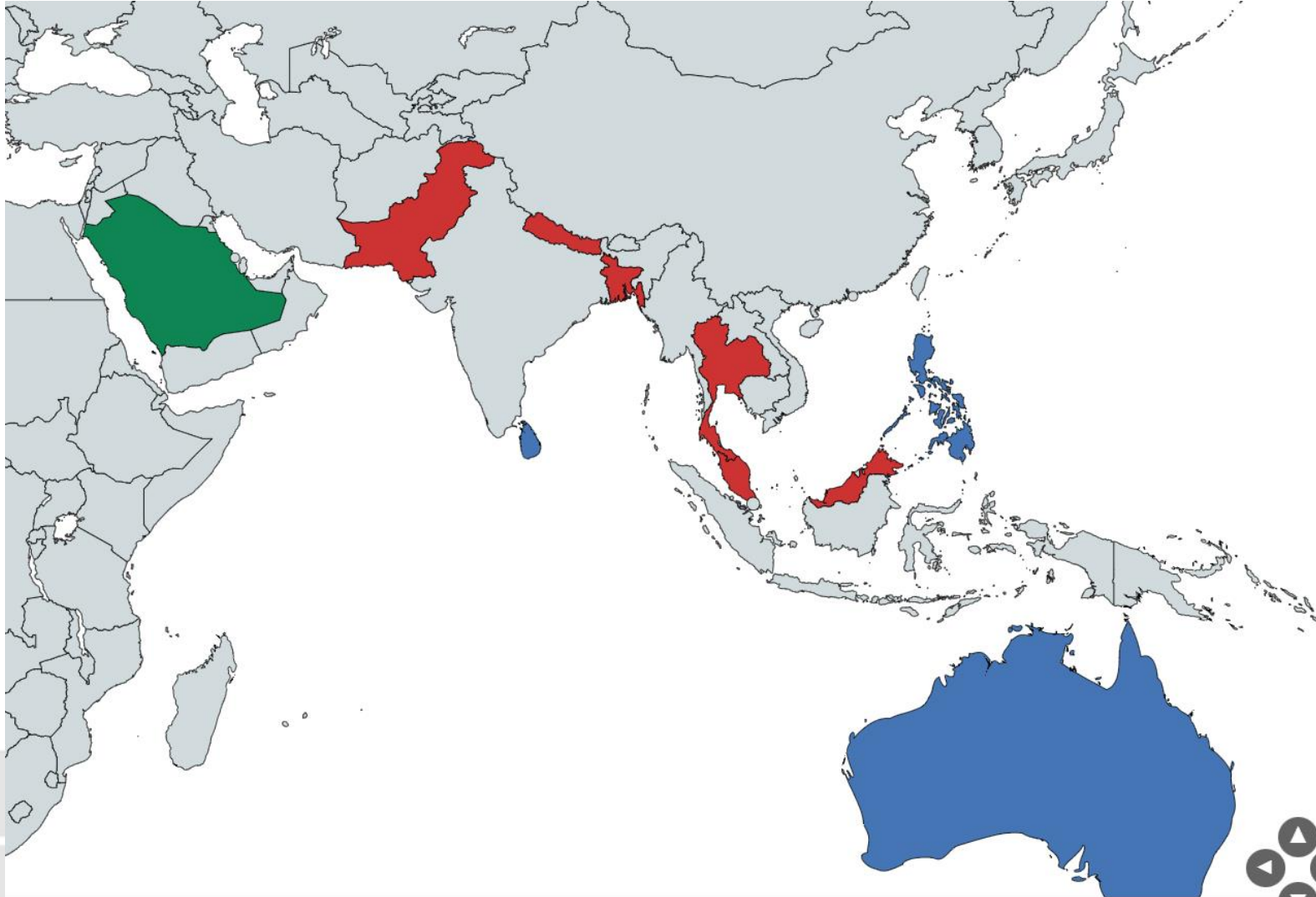


11th TechTalk on Employee Benefits Webinar Date: 1st August 2024

Beyond India – Asia Pacific Employee benefits valuations



What are we covering today



11th TechTalk on Employee Benefits Webinar

Section - 1 - Kingdom of Saudi Arabia - End of Service Pay

Nirav Mehta
K. A. Pandit Consultants and Actuaries



Agenda:

- Types of benefits in KSA:
 - **Social Insurance, Medical Insurance**
 - **Annual Leave**
 - **End of Service Pay (EOSP)**
- Role of Stakeholders
- KSA Labour Law for End of Service Pay
- Sample calculation and Reimbursement Rights
- Applicability of Accounting Standard and reference
- Understanding of the KSA Benefit
- Some industry insights
- Future possibilities

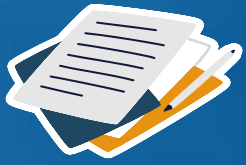


Role of Stakeholders:

In the context of End of Service Pay, both employers and employees have different obligations upon Separation / Termination / Retirement:



- **Employer role:**
 - Providing Information
 - Calculation and Payment
 - Compliance with Deadlines
- **Employees role:**
 - Understanding Entitlements
 - Providing Necessary Documentations
 - Compliance with Procedures
 - Timely Notification



Saudi Labour Law Section 4, Article 84*:



- **Full Benefit on normal retirement / death in service / termination:**
 - Half month's salary for each year of service upto 5 years.
 - Full month's salary for each of the following years from 6th year onwards.

The formula to calculate daily salary under this benefit is $1/30$ * monthly total salary.

- **Reduced Benefit on resignation:**
 - No benefit if resigned within 2 years of service.
 - $1/3$ benefit if resigned between 2 - 5 years of service.
 - $2/3$ benefit if resigned between 5 - 10 years of service.
 - Full benefit after 10 years of service

*Law introduced in 1426 (2005)

<https://laboreducation.mlssd.gov.sa/sites/default/files/2022-01/Labor.pdf>

Example:



Salary SAR 10,000

Case1: Service 8 years and terminated:

Accrued: $50\% \times 5 \times 10000 + 100\% \times 3 \times 10000 = 55000$

Payable: 55000 full as terminated

Case2: Service 3 years and resigned:

Accrued: $50\% \times 3 \times 10000 = 15000$

Payable: $15000 \times 1/3 = 5000$ as resigned between 2-5 years of service



Benefit Calculator: <https://www.hrsd.gov.sa/en/ministry-services/services/end-service-benefit-calculator>

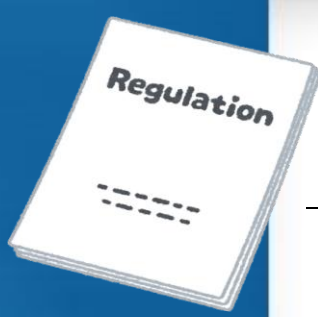
Reimbursement rights / Advance:



- Many companies offers loan / advance against End of Service Pay to their members and the same gets reduced at time of payment on exit, as such there is no law prohibiting this in KSA so the advance may be shown as Reimbursement Rights, to have proper net End of Service Pay accounting. Advance generally do not earn any interest and at time of actual payout on exit total advance will reduce.

E.g., An employee have EOSP accrual of SAR 100,000 and he/she can take advance against same accrual, say SAR 50,000, then company have to provide in books as net liability (Gross liability minus the advance taken).





Applicability of Accounting Standard:

Institute of Actuaries of India

- Saudi Organization for Certified Public Accountants (SOCPA). SOCPA created in 1992 by Royal Decree
- Full IFRS (IAS 19) (includes all disclosures) applicable from Jan-2017
- IFRS for SME - Section 28 (few exemptions in disclosures) for unlisted entities from Jan-2018 (early adoption Jan-2017)

Accounting Standard suggests similar details for the valuation process including:

- Method of valuation: PUCM
- Discount Rate: HQ corporate bonds in SAR, if not one can use G-Sec of SAR (Sukuk) or Proxy bond in USD plus country risk premium
- Country Specific Mortality Table (if available) (Professional judgement to be applied on applicability and materiality)
- Attrition Rate: Voluntary resignation and Terminations (Professional judgement required, say 50:50 or 80:20 or 75:25)
- Domestic Government Bonds: <https://www.spglobal.com/spdji/en/indices/fixed-income/dow-jones-sukuk-7-10-year-index/#overview>
- KSA Sample Mortality (WHO): <https://apps.who.int/gho/data/view.searo.61440?lang=en>

Reference to Accounting Standard:



- IAS 19 reference of Para 70

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- (a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until**
- (b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.**

- Service cost comprises:
 - current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

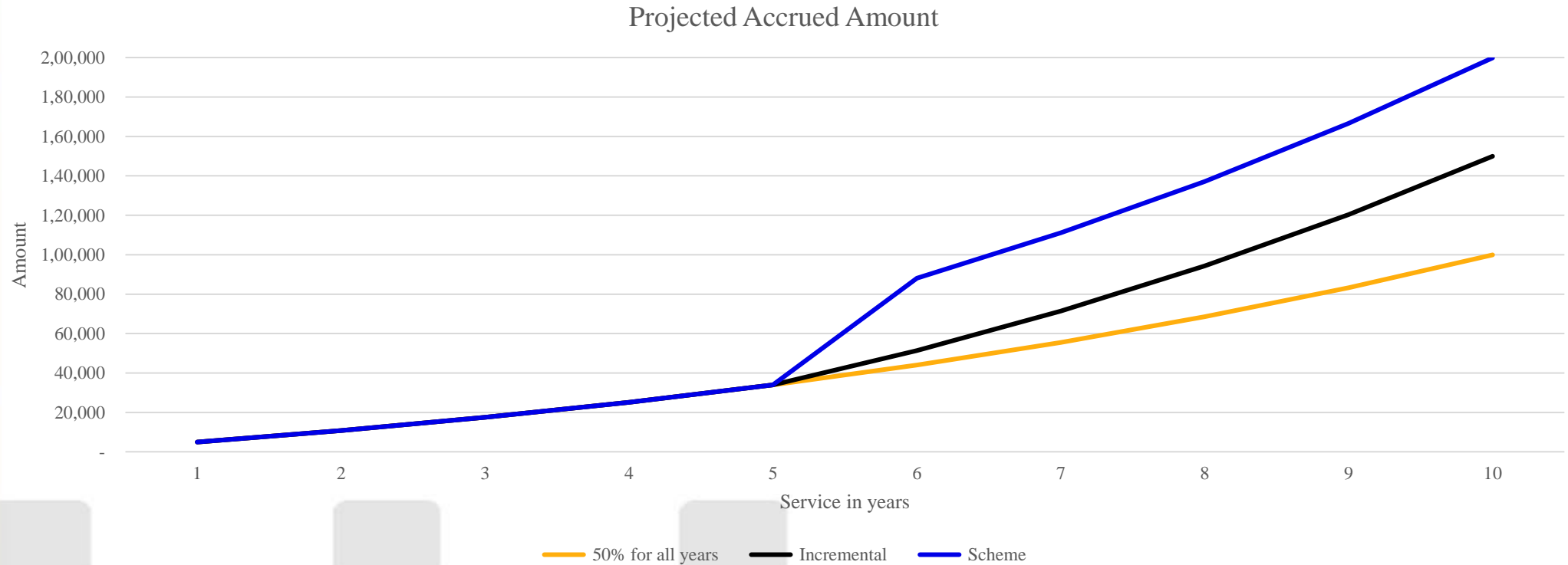


**Actuary will have to be careful in interpreting the plan provision and applying different para of the standard for the purpose of its deliverables.*

Example:



Benefit: 50% for all years of service	Incremental Scheme: Upto 5 years service 50%, thereafter 100% from 6th year service onwards	Other Scheme: Upto 5 years service, 50%, otherwise, 100% for entire service once crossed 5 years service
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Since KSA benefit by its nature is an incremental benefit or non-linear and future service does not give rise to the benefit for earlier years accrual, like other schemes where full past service is also affected by additional benefits i.e. linear, so accordingly pro-rated values to be considered on a straight-line basis.

Poll Question:

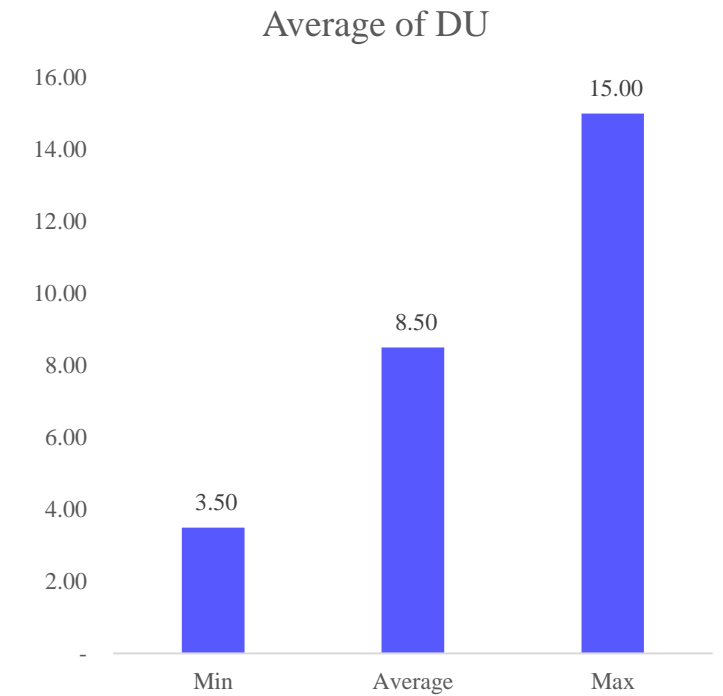
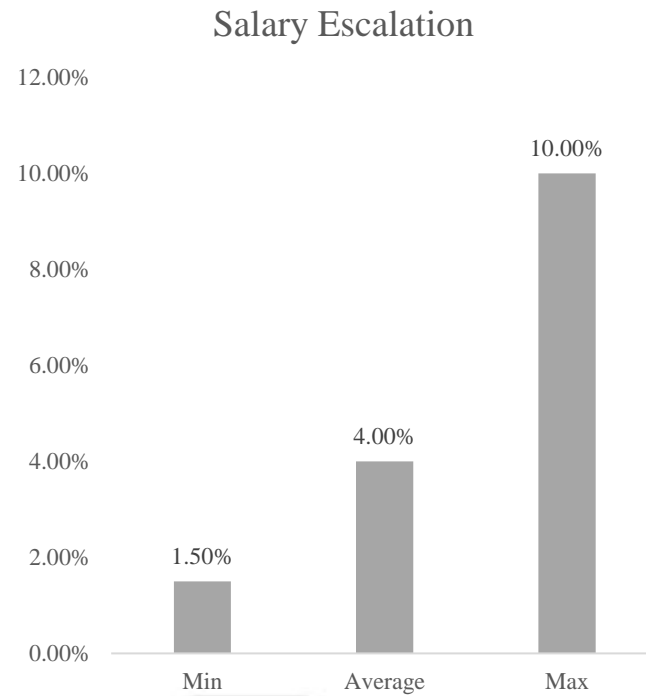
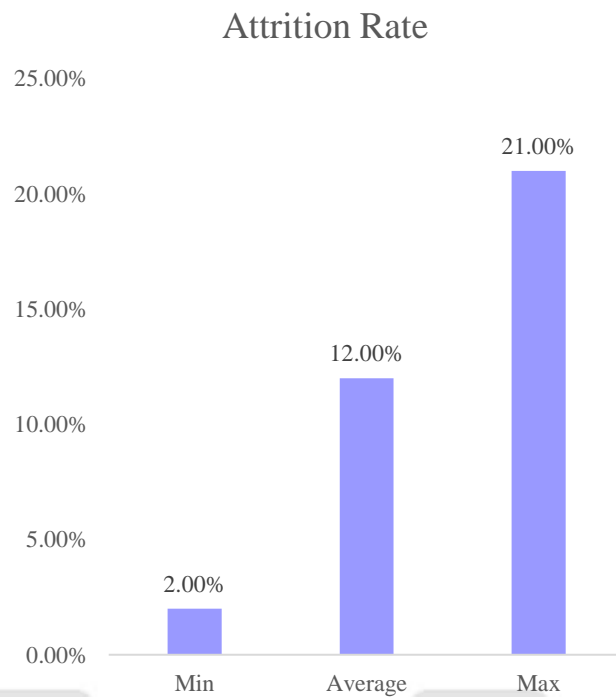
- Considering KSA benefit nature, How you value this benefit as:
 - An Incremental Benefit Only (non-linear)
 - Pro-Rate on Straight Line Basis (linear)



Some industry Trends



- Sample of 100+ companies across 15+ industries with total of 55000+ employees.



Future Possibilities:



- Lots of updates going under ME regions, like UAE and Bahrain introducing funding End of Service Pay by way of contributions to specified fund.
- Similarly following footsteps, KSA or any other countries might come out with similar setting of funding and contributions in future.

Q & A



Thank you

11th TechTalk on Employee Benefits Webinar

Section - 2 – Australia, Philippines, Sri Lanka

Hrishikesh Jadhav
Universal Actuaries and Benefit Consultant



Australia

- Leave Encashment
- Long Service Leave

Australia – Employee Benefits



Key Regulations

National Employment Standards as specified in the Fair works Act, 2009,
State or Territory Long Service Leave Legislation

Key Benefits in which valuation is required

Annual Leave, Personal Leave, Long Service Leave

Other Key Benefits

Compassionate Leave, Paid Family and Domestic Violence Leave, Parental Leave,
Community Service Leave

Australia – Leave Encashment



Entitlement	AL - 20 days per year (13.33 hours monthly) PL - 10 days per year (6.67 hours monthly)
Usage of PL (Sick or Carer's Leave)	Personal leave can be used, if the employee or a member of their immediate family or household is ill or injured. It can also be availed as sick leave. Any leave apart from Carer's or Sick leave applied under Personal leave will not be approved
Encashment	AL - Encashment on separation PL - No Encashment
Maximum Carry Forward	No Limit
Leave Encashment Formula	Leave Balances * Monthly Fixed CTC / 21.67

Australia – Long Service Leave (LSL)



History

In Australia, the benefit was first granted to Victorian and South Australian public servants in the 1860s. The nature of the leave allowed public servants, after 10 years' service, to sail "home" to England or elsewhere, safe in the knowledge that they would be able to resume their positions upon their return to Australia.

Entitlement

As per the Long Service Leave Act, the entitlement depends on the length of the employee's continuous employment, which may include service with a previous employer where there has been a change of business ownership.

Benefit Payable on Separation

The Long Service Leave will be paid if leaves are not availed at the time of relieving from the company.

Australia – LSL – Entitlement

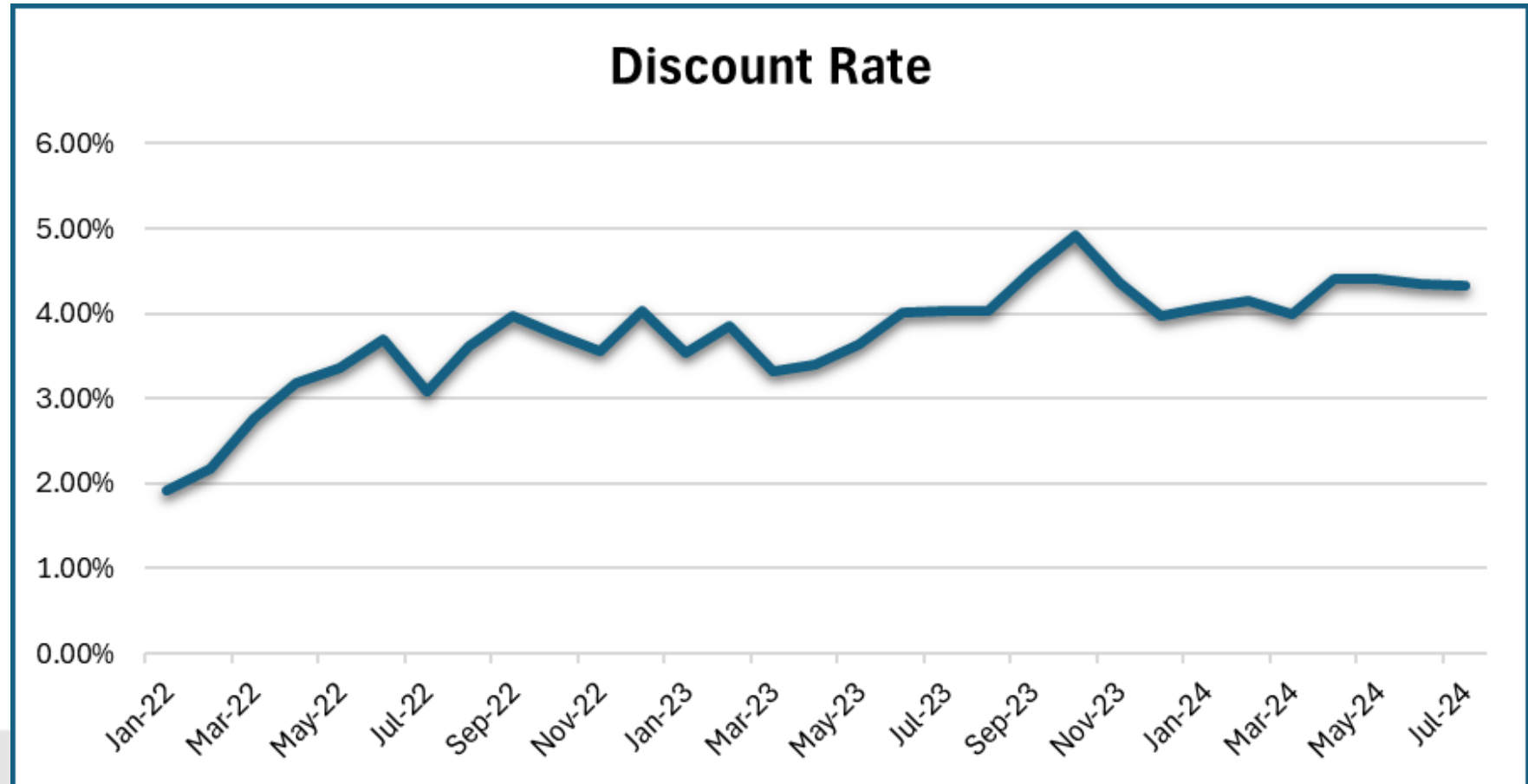


Jurisdiction	Long Service Leave Entitlement	Per year of Service
Tasmania	8.67 weeks with full pay after a period of 10 years continuous service and 4.33 weeks on full pay in respect of every subsequent 5 years of service	0.867
Western Australia		0.867
New South Wales		0.867
Queens Land		0.867
Victoria	6.06 weeks with full pay after a period of 7 years continuous service and 0.867 weeks on full pay in respect of each subsequent year of service thereafter	0.867
Australian Capital Territory		0.867
South Australia	13 weeks with full pay after a period of 10 years continuous service and 1.3 weeks on full pay in respect of each subsequent year of service thereafter	1.300
Northern Territory	13 weeks with full pay after each period of 10 years continuous service and a further 6.5 weeks leave after every subsequent five years of service thereafter	1.300

Australia – Parameters



Discount Rate – Source: www.investing.com



Australia – Parameters



Mortality Rate – *Source: Australian Life Tables 2015-17*

Salary Escalation Rate – *Range of 1% to 3%*

Attrition Rate – *Typically higher around 20%*

Retirement Age – *60 or 65 years depending on the companies*

Philippines

☐ Retirement Benefit

Philippines – Employee Benefits



Key Regulations	Republic Act (RA) No. 7641; also known as the Retirement Pay Law Labor Code of the Philippines, RA 11210, RA 8187, RA 8972, RA 9710, RA 9262
Other Regulatory Key Benefits	<ul style="list-style-type: none">➤ Retirement Benefit➤ Service Incentive Leave (SIL)➤ Maternity Leave➤ Paternity Leave➤ Parental Leave for Solo Parents➤ Special Leave Benefits for Women➤ Leave for Victims of Violence Against Women & Their Children
Other Benefits provided by companies	<ul style="list-style-type: none">➤ Vacation Leave➤ Bereavement Leave➤ Sick Leave➤ Emergency Leave
Key Benefits in which valuation is required	Retirement Benefit

Philippines – Retirement Benefit



Eligible Salary	Salary includes all remunerations paid <u>excluding</u> Cost of Living Allowance (COLA), Profit-sharing payments and other Monetary benefits which are not considered a part of the regular salary of the employee
Condition	Only on Retirement & Not on Death, Resignation, etc.
Benefit Payable on Retirement	One-half month salary is defined as fifteen (15) days salary plus one-twelfth (1/12) of the 13th month pay and the cash equivalent of not more than five (5) days of service incentive leaves.
Benefit Factor	$= \left(\frac{15}{30} + \frac{1}{12} + \frac{5}{30} \right) = 0.75$
Benefit Formula	$= 0.75 * \text{Last Drawn Monthly Salary} * \text{Past Service}$
Vesting	5 years
Maximum Ceiling	No Limit

Philippines – Parameters

Discount Rate – Source: www.investing.com



Philippines – Parameters



Mortality Rate – *Source: 2017 Philippine Intercompany Mortality*

Salary Escalation Rate – *Range of 3% to 8%*

Attrition Rate – *Typically higher around 40%*

Retirement Age – *Optional – 60 years*

Compulsory – 65 years

Sri Lanka

□ Gratuity

Sri Lanka – Gratuity Benefit



Regulation	Payment of Gratuity Act No. 12 of 1983
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Benefit Payable on Resignation, Retirement & Death	15/30 * Last Drawn Monthly Basic Salary * Past Service
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Vesting	5 years
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Maximum Ceiling	No Limit
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Other Practice followed by some companies in Sri Lanka

Benefit Payable on Resignation, Retirement & Death	15/26 * Last Drawn Monthly Basic Salary * Past Service
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Sri Lanka – Parameters



Discount Rate – Source: www.investing.com

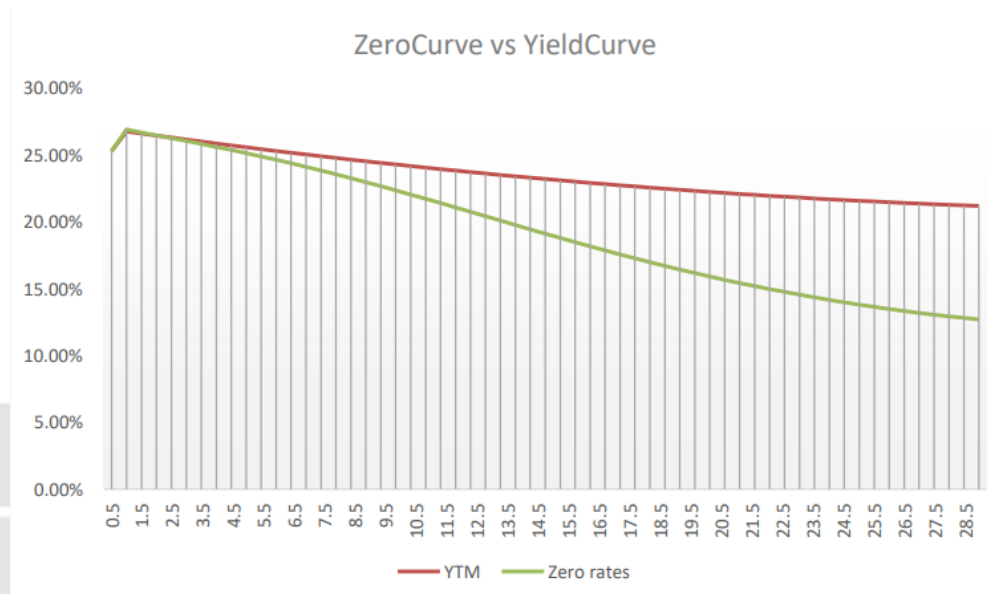


Technical Guidance on Discount Rate



During March 2023 valuations, **the Big 4 Auditors** issued a Technical Guidance due to very high increase in the Discount Rates where the discount rates were ranging between 25% to 32%

The Government bonds in Sri Lanka is coupon bearing and accordingly, to match the characteristic of the gratuity payment liability and the resulting yield to maturity, the coupon bearing yield has been converted to a zero-coupon yield.



Based on the left-side indicative rates:

Expected Avg. working life	Indicative Discount Rate
< 5 years	19.5% - 21.5%
5 years and above	17.75% - 19.4%

Sri Lanka – Parameters



Mortality Rate – Source: www.who.int

Salary Escalation Rate – Range of 7% to 14%

Attrition Rate – Typically higher around 25%

Retirement Age – 60 years

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Section - 3 – Malaysia, Thailand, Nepal, Bangladesh, Pakistan

Aditya Ghatge
Universal Actuaries and Benefit Consultant



Malaysia

☐ Severance Pay / Termination Benefit

Malaysia – Termination Benefit



Definition

Severance Pay/Termination Benefit refers to the compensation an employer pays an employee upon termination of employment given that employees meet certain eligibility criteria.

History

- Employees covered under the Employment Act are entitled to severance payment when their employment contracts terminate.
- In the past, the act only covered employees performing manual labour or earning a monthly income not exceeding RM 2,000.
- However, amendments in 2023 to Employment Act have made it applicable to all employees.

Malaysia – Termination Benefit



Exceptions & Exclusions

There are some exceptions & exclusions which can make employees ineligible for termination compensation. These include:

- Retirement
- Misconduct
- Voluntary Resignation
- Contract Renewal

Severance Pay Calculation

The Employment Regulations 1980 sets out the minimum statutory severance payments that should be paid to employees who have been employed for more than 12 months:

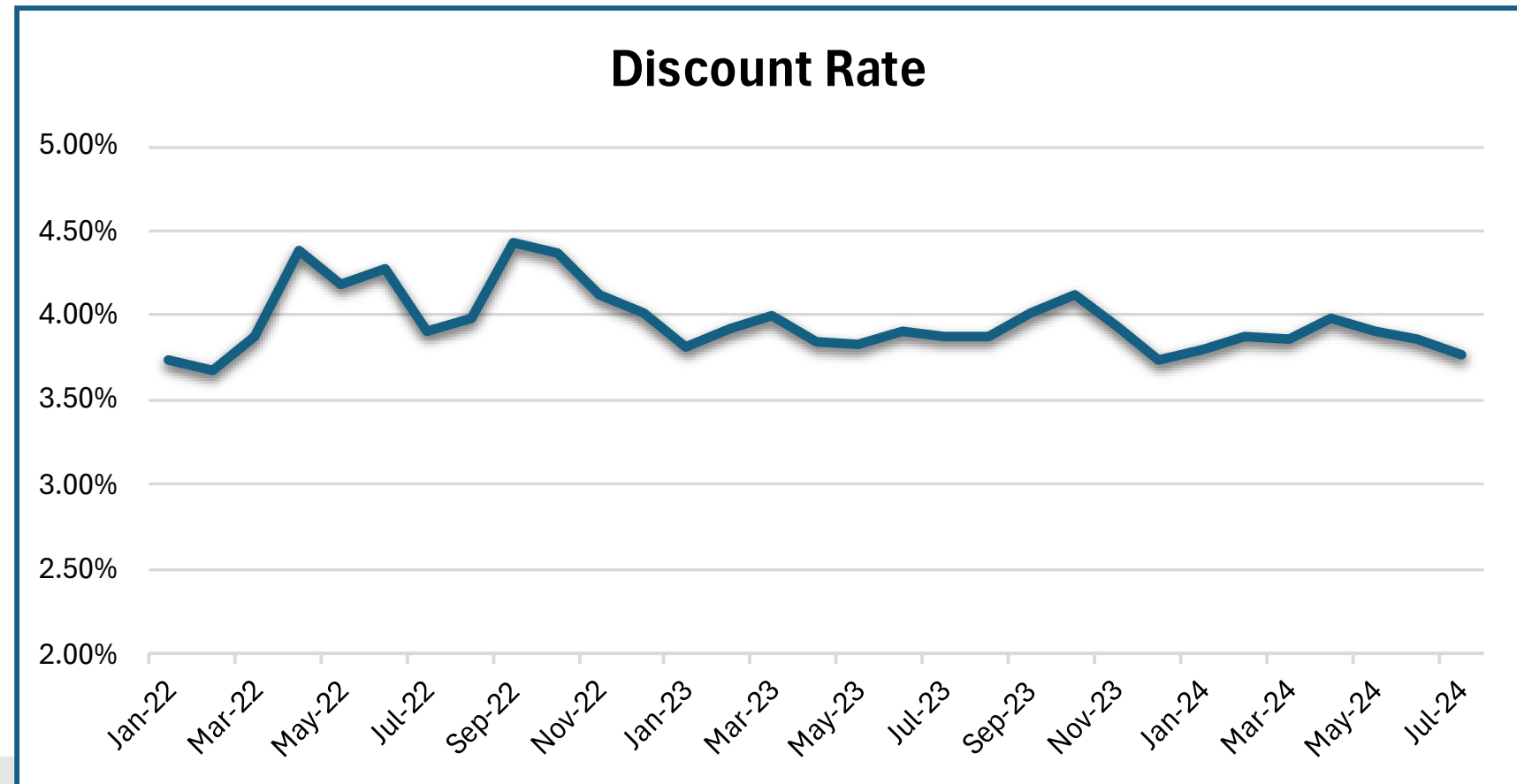
- 1 – 2 years employment – 10 days salary
- 2 – 5 years employment – 15 days salary
- 5+ years employment – 20 days salary

Malaysia – Termination Benefit

Malaysia - Termination Benefit	
Benefit Payable on Involuntary Exit	
Service 1 - 2 years	$10/(365/12) * \text{Salary} * \text{Service}$
Service 2 - 5 years	$15/(365/12) * \text{Salary} * \text{Service}$
Service 5+ years	$20/(365/12) * \text{Salary} * \text{Service}$
<i>Proportionate Service is considered</i>	
Note: No Benefit Payable on Retirement, Misconduct, Voluntary Exit and Contract Renewal	
Eligible Salary	Last Drawn Monthly Wages
Maximum Ceiling	No Limit
Vesting Period	1 Year

Malaysia – Parameters

- **Discount Rate** – Source: www.investing.com



Malaysia – Parameters



Mortality Rate – *MALM 2011-2015*

Salary Escalation Rate – *Range of 1% to 5%*

Attrition Rate – *Involuntary attrition around 2% to 5%*

Voluntary attrition around 10% to 20%

Retirement Age – *60 years*

Thailand

Severance Pay / Termination Benefit

Thailand – Severance Pay



Key Regulations

The Labor Relations Act of 1975, The Provident Fund Act of 1987, The Workmen’s Compensation Act of 1994, and The Labor Protection Act of 1998

Termination Scenarios

Fixed-period employment

- Employment contract states the work period start and end.
- The work duration must not exceed two years.
- The contract cannot be extended, else, it will not qualify as a fixed-period employment contract.
- **Severance pay does not have to be paid** when the fixed-period contract has been terminated.

Ongoing employment

- Employees who have worked for 120 days or more are entitled to severance pay if they are terminated without cause.
- However, if employees have worked for less than 120 days and are dismissed without cause, they are not entitled to severance pay.

Thailand – Severance Pay

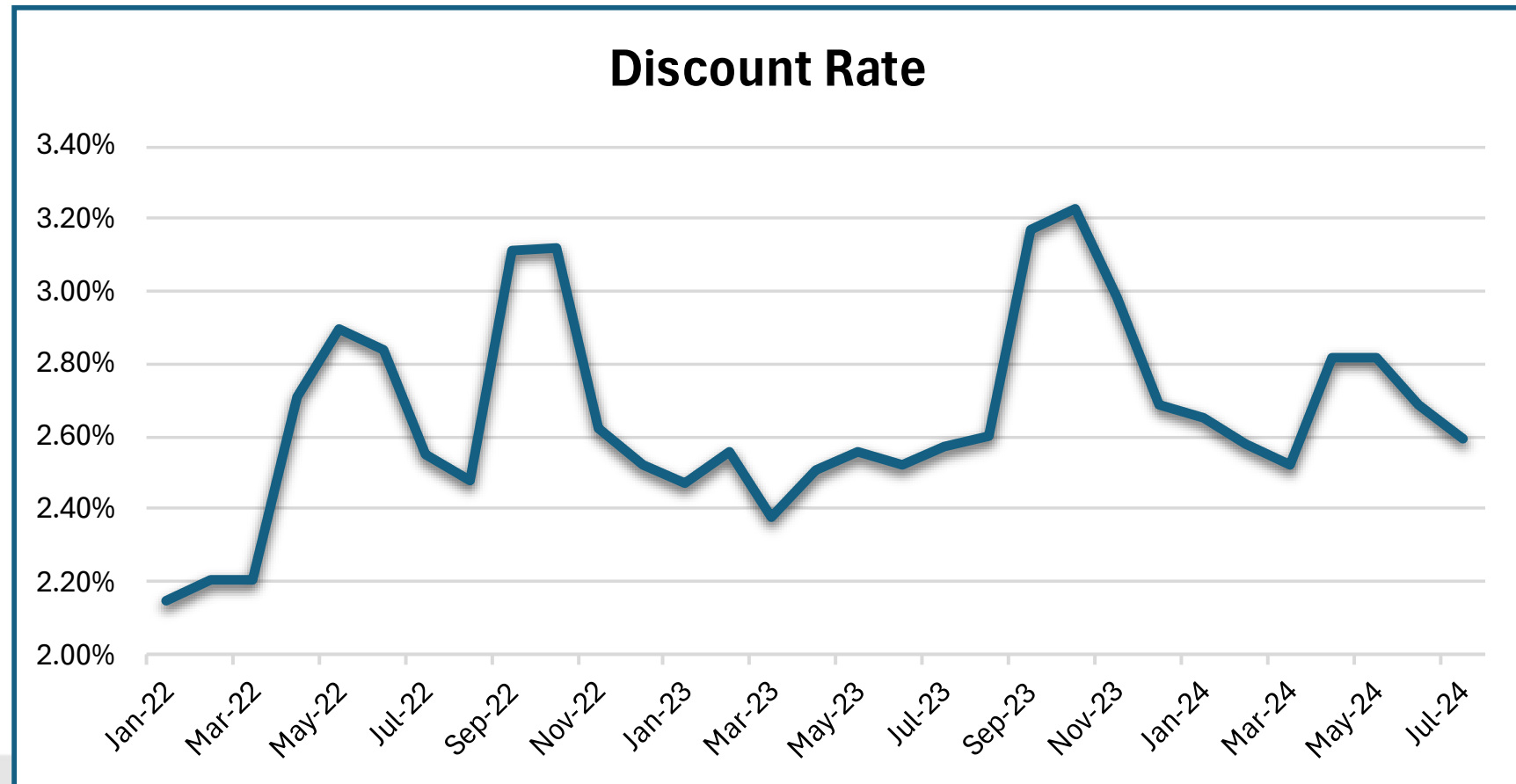
Termination Scenarios	
Ongoing employment (continued)	<ul style="list-style-type: none">• Severance Pay is not payable in case an employee voluntarily leaves employment.• Also, according to the Labour Protection Act, severance pay is not payable if employee has been terminated due to:<ul style="list-style-type: none">▪ Dishonest performance▪ Wilful damage caused to employer▪ Negligent acts causing serious damages▪ Violation of company rules▪ Neglect of duties for 3 consecutive days without cause▪ Imprisonment• The rates of severance pay payable to employee in case of termination without statutory cause are called out in the next slide.

Thailand – Termination Benefit

Thailand - Termination Benefit	
Benefit Payable on Termination without statutory cause	
Service 120 days to 1 year	30 Days Salary
Service 1 to 3 years	90 Days Salary
Service 3 to 6 years	180 Days Salary
Service 6 to 10 years	240 Days Salary
Service 10 to 20 years	300 Days Salary
Service > 20 years	400 Days Salary
Note: No Benefit Payable on Voluntary Exit, Termination with statutory cause and Retirement	
Eligible Salary	Last Drawn Monthly Wages
Maximum Ceiling	No Limit
Vesting Period	120 days

Thailand – Parameters

- **Discount Rate** – Source: www.investing.com



Thailand – Parameters



Mortality Rate – *Source: TMO17*

Salary Escalation Rate – *Range of 1% to 5%*

Attrition Rate – *Involuntary attrition around 2% to 5%*

Voluntary attrition around 10% to 20%

Retirement Age – *60 years*

Nepal

- Gratuity
- Home Leave
- Sick Leave

Nepal – Gratuity

Gratuity Rules	
Labor Act, 2048 (1992)	New Labor Act, 2074 (2017)
<ul style="list-style-type: none">• For Service Below 7 years: $(1/2) * \text{Salary} * \text{Service}$• For Service Between 7 to 15 years: $(2/3) * \text{Salary} * \text{Service}$• For Service Above 15 years: $(1) * \text{Salary} * \text{Service}$	<ul style="list-style-type: none">• There is no criteria of duration of service for the calculation of amount of gratuity as per the new act.• 8.33% of basic remuneration is deposited every month to the Social Security Fund (SSF)
<ul style="list-style-type: none">• Eligible after the completion of 3 years of service	<ul style="list-style-type: none">• Eligible from the first day of employment.
<ul style="list-style-type: none">• Benefit Payable shall be deposited to Enterprise Level Fund or Retirement Fund.	<ul style="list-style-type: none">• The accrued gratuity amount in SSF shall be paid at the time of Retirement in the form of i) pension or ii) retirement benefit

[Click here](#) for more information

Nepal – Home & Sick Leave



Entitlement	Home Leave – 18 days per year (1 day for every 20 days) Sick Leave – 12 days per year
Maximum Accumulation	Home Leave – 90 days Sick Leave – 45 days
Encashment on Separation	Leave Balances * Last Drawn Monthly Basic Remuneration / 30
Inservice Encashment	Leaves above max days will be encashed at the end of each year at the rate of last drawn monthly basic remuneration

Nepal – Parameters

- **Discount Rate – Source:**

<https://tradingeconomics.com/nepal/interest-rate>



Nepal – Parameters



Mortality Rate – *NALM 2009*

Salary Escalation Rate – *Between 5% to 10%*

Attrition Rate – *Between 2% to 20%*

Retirement Age – *58 years (As per Labour Act)*

However, retirement age as per SSF is 60 years

Bangladesh

□ Gratuity

Bangladesh – Gratuity



Eligibility & Calculation

Provision for Gratuity is contained in Bangladesh Labour Act 2006 and states:

- Service up to 10 years: Wages of 30 days for every completed year of service
- Service more than 10 years: Wages of 45 days for every completed year of service

More than six months of service will be deemed as 1 year.

Gratuity is payable in cases of death, discharge, resignation, retrenchment, and termination of employment

Bangladesh – Gratuity

Bangladesh - Gratuity	
Benefit Payable	
Service \leq 10 years	Salary * Service
Service > 10 years	1.5 * Salary * Service
<i>Service more than 6 months will be deemed as 1 year</i>	
Eligible Salary	Last Drawn Monthly Gross
Maximum Ceiling	No Limit
Vesting Period	6 months

Bangladesh – Parameters

- **Discount Rate** – Source: www.investing.com



Bangladesh – Parameters



Mortality Rate – Source: www.who.int

Salary Escalation Rate – Range of 6% to 10%

Attrition Rate – Typically in the range of 8% to 20%

Retirement Age – 60 years

Pakistan

- Gratuity

Pakistan – Gratuity

History

- The Gratuity Act of 1972 outlines the legal framework for gratuity payments in Pakistan.
- Originally set at 15 days' wages per completed year of service, this rate was increased to 20 days' wages in 1973 and further to 30 days' wages in 1994.
- After the 18th Constitutional Amendment of 2010, gratuity is payable as per below.

Benefit Payable	
Punjab and Islamabad Capital Territory	$30/26 * \text{Salary} * \text{Service}$
Khyber Pakhtunkhwa and Sindh	$\text{Salary} * \text{Service}$
Balochistan	$2 * \text{Salary} * \text{Service}$

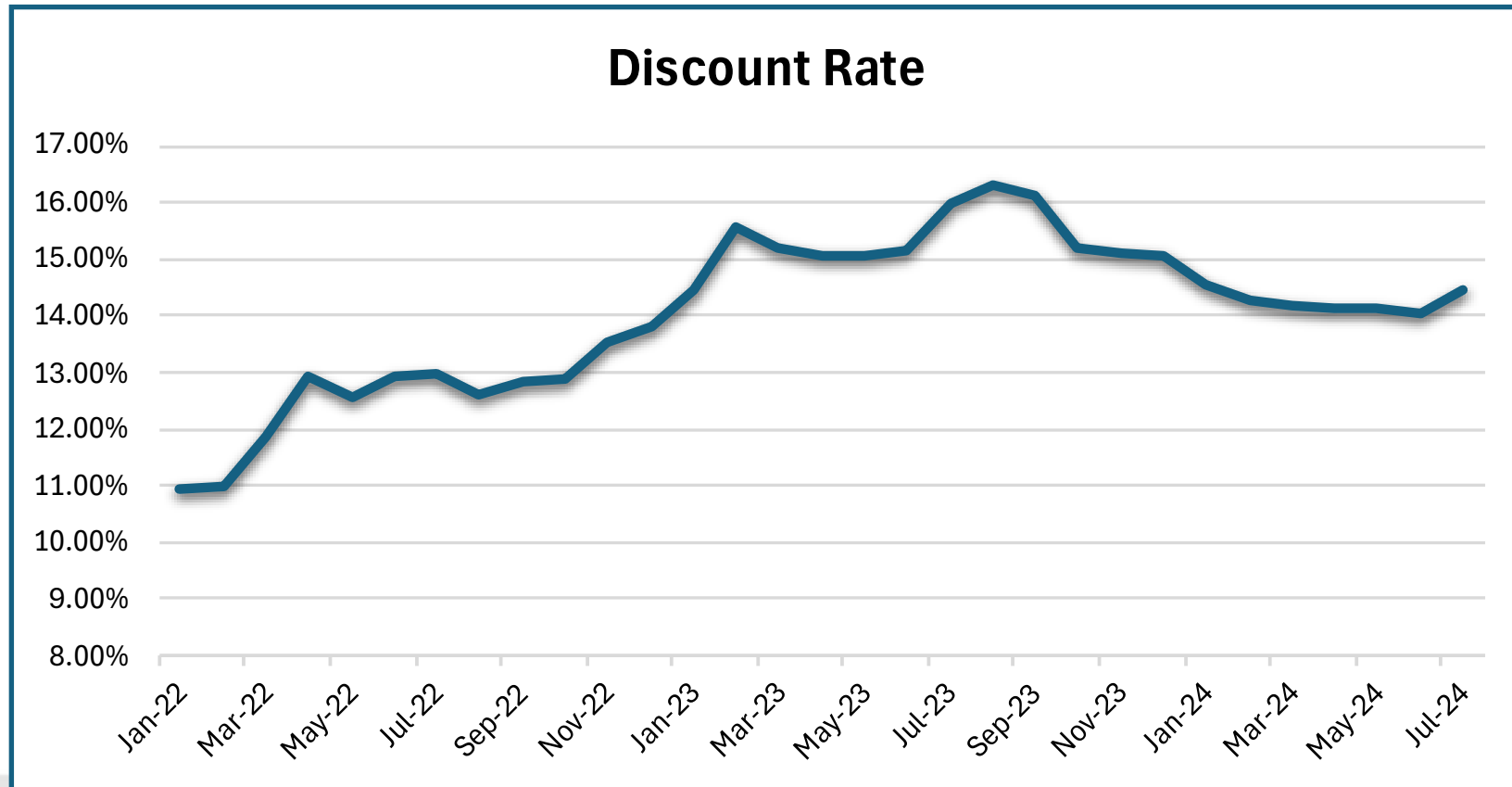
- Gratuity is payable in cases of death, discharge, resignation, retrenchment, and termination of employment

Pakistan – Gratuity

Pakistan – Gratuity	
Benefit Payable	
Punjab and Islamabad Capital Territory	$30/26 * \text{Salary} * \text{Service}$
Khyber Pakhtunkhwa and Sindh	$\text{Salary} * \text{Service}$
Balochistan	$2 * \text{Salary} * \text{Service}$
<i>Service more than 6 months will be deemed as 1 year</i>	
Eligible Salary	Last Drawn Monthly Gross
Maximum Ceiling	No Limit
Vesting Period	6 months

Pakistan – Parameters

- **Discount Rate** – Source: www.investing.com



Pakistan – Parameters



Mortality Rate – Source: www.who.int

Salary Escalation Rate – Range of 10% to 15%

Attrition Rate – Typically in the range of 10% to 20%

Retirement Age – 60 years

Q&A

