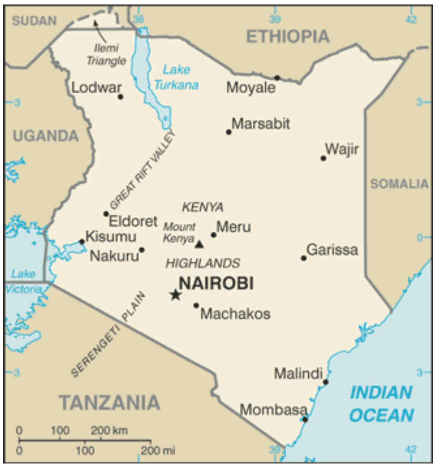
IOPS COUNTRY PROFILE: KENYA



DEMOGRAPHICS AND MACROECONOMICS

GDP (USD bn)	**85.98**
GDP per capita (USD)	**1,790**
Population (millions)	**49.7**
Labour force (millions)	**19.3**
Employment rate (%)	**71.6**
Population over 65 (%)	**3**
Dependency ratio (%)[1]	**78.3**

Data from 2017 or latest available year.

1. Ratio of over 65-year-olds per labour force. Source: OECD, various sources.

KENYA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Public provident fund, administrated by the National Social Security Fund (NSSF)
- Public sector pension fund: Civil Service Pension Scheme

Private pensions: occupational (voluntary)

- Managed through pension funds or provident funds
- DB or DC

Private pensions: personal (voluntary)

- DC pension funds: often offered by financial institutions

Source: OECD Global Pension Statistic.

KENYA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The NSSF is a statutory fund established under an Act of Parliament (new Act in 2013 converted the NSSF from a provident into a pension scheme). It covers employed persons, traders, the self-employed and, since 2004, some workers in the informal sector. It is mandatory for all employers to enrol their members, but open to all other individuals mentioned above. Members of the scheme contribute 5% of monthly earnings up to a maximum of 200 KES[1] a month, which is the contribution rate for those earning more than 4,000 KES. Employers pay 5% of payroll, with subject to a maximum of 200 KES. Self-employed persons contribute 5% of their monthly earnings, with no minimum or maximum earning limits for contribution purposes. The new Act, which has been challenged in the court, proposes an increment in contribution to 6%, without caps.

The Civil Service Pension Scheme covers all members of the Civil Service and is established under an Act of Parliament as a PAYG system. It is currently non-contributory, although plans are underway to make it a contributory system.

OCCUPATIONAL VOLUNTARY

Overview

Pension plans can be administered through pension funds or provident funds, and through DB or DC arrangements.

Coverage

An employer or a group of employers may on a voluntary basis establish a complementary occupational pension plan for their employees. Most plans are established by one single employer. Membership in an occupational pension or provident plan is often compulsory for covered employees. Once an employee decides to become a member, however, withdrawal from membership while being employed by the same employer is not allowed.

Current level of coverage to the total labour force is approximately 20%. This consists of occupational schemes, individual schemes, umbrella schemes, civil service scheme and the statutory National Social Security Fund (NSSF). The number of members is approximately 3.5 million with a total asset value of USD 12 billion.

Contributions

There are no legal rules for employee or employer contribution levels. A typical plan requires employees to contribute at a rate of 5% of salary and employers to contribute 10%.

Employees must be allowed to pay additional voluntary contributions to the plan without any limit (although contributions are only tax-deductible up to a limit).

[1] KES – Kenyan shilling

Benefits

Plans can be Defined Benefit or Defined Contribution in nature. The age at which benefits become available is not regulated and must be laid down in plan rules.

Upon attainment of the retirement age, provident plans pay out a lump sum. Pension plans pay out benefits out as a monthly pension for the rest of the retired person's life. Up to one-third of total benefits can be commuted into a lump-sum payment if the plan is contributory (25% if non-contributory). The Board of Trustees is required to give the scheme member the opportunity to choose their annuity provider and preferred annuity, if the member retired from a defined contribution scheme.

Plan rules may provide for different benefit formulas for different categories of workers under certain circumstances.

Taxation

The total of employee and employer contributions is tax-deductible up to the limit of the lower of 20,000 KES or 30% of salary. All investment income earned by tax-registered retirement benefits schemes is tax-free. Both lump sum payments and annuities enjoy more generous tax treatment, as long as the member retires on disability or age grounds, or has been a member of a retirement benefits scheme for at least 10 years.

Pensions are tax-free for pensioners receiving up to 25,000 KES. With effect from June 2007, pensions for individuals above the age of 65 are not taxable.

For non-tax-registered retirement benefits schemes, contributions and investment income are taxable at normal tax rates. However, no further tax is charged on the benefits from this portion.

PERSONAL VOLUNTARY SCHEMES

Thirty-Six (36) individual, DC-type personal pension schemes exist, which cover approximately 10% of total retirement benefits membership. They are mostly offered by insurance companies and are available to anyone willing to join a retirement scheme. They are attractive to those workers whose employers do not offer a pension plan and to the self-employed.

A list of these schemes is available in the pension regulator's website.

MARKET INFORMATION

Occupational voluntary

Retirement benefits schemes are managed by board of trustees. The regulations provide for minimum, maximum number of Trustees as well as composition. All trustees are required to engage the services of an assets manager for the management of their assets.

Vesting of benefits is immediate and when a member exists before the early retirement age (50 years), they can access 100% of their contribution and 50% of the employer's contribution plus interest. The balance is accessible upon attainment of the early retirement age.

With effect from January 2008, members are allowed to assign 60% of their savings as mortgage security.

In 2018, there were around 1246 registered retirement benefit schemes, of which approximately 10% were DB schemes. The majority of schemes are pension schemes as opposed to provident funds.

Topical Issues

Post-retirement poverty, low coverage, high ratio of Kenyans in the informal sector, low contributions rates and the HIV/AIDS epidemic (which had reduced the life expectancy of Kenyans to below the normal retirement age) present challenges for the Kenyan pension system.

The government has introduced the "zero" pillar in form of old age transfers for the population over 70 years. Plans are underway to establish a contributory scheme to replace the current non-contributory scheme for civil servants. The government issued a circular requiring the conversion of all public sector DB schemes to DC schemes. This has seen the closure of majority of DB schemes and therefore the industry is mostly on DC structures.

REFERENCE INFORMATION

KEY LEGISLATION

The Retirement Benefits Act of 1997 established the Retirement Benefits Authority (RBA) for the regulation, supervision and promotion of privately managed retirement plans. The Act also regulates the registration and operation of occupational pension plans. The Act was supplemented by a series of Regulations in 2000 and has been amended on a number of occasions. The RBA plays an important role in educating pension trustees and the general public about the pension system. The RBA also supervises the NSSF and individual pension schemes.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Retirement Benefits Authority
www.rba.go.ke