A Guide To

Personal Pension

DON'T LOSE OUT ON YOUR GOOD YEARS

AKI
ASSOCIATION OF KENYA INSURERS

INTRODUCTION

Kenya, like many other nations, is striving to develop effectively to a level similar to that of industrialized countries through capitalism; an economic system driven by private business ownership. This has led to significant changes in our social and economic lifestyles; we have had to move away from a traditional lifestyle to a modern one driven by the need to increase wealth.

One area of life that has changed drastically is social security, especially the guarantee of being free from poverty in old age. In the traditional African society, social security was assured. The traditional society ensured that disadvantaged members such as the elderly were taken care of by other members of the society. The social and economic changes we see are increasingly leading to a breakdown in the traditional systems that ensured security in old age.

Fortunately, the capitalist economic system offers other ways of ensuring security in old age, such as retirement benefit schemes, which provide payments to retired persons through pension or lump sum payments.

Considering all this, it mostly depends on you the individual to secure your old age. The best way to do this is by becoming a member of a private retirement benefits scheme.

The insurance industry in Kenya is a major provider of retirement benefits schemes. The retirement benefits offered by Insurance companies guarantee the funds put into the scheme by clients and offer a minimum rate of return as well.

A good number of Life Insurance companies in Kenya offer Retirement Benefits Schemes; this includes Employer Pension Plans and Personal Pension Plans. We encourage you to contact any of these companies for enquiries about joining a retirement benefits scheme; their contact details are given on the last page of this booklet.

> “A retirement benefit scheme can be seen as a form of insurance; you pay premiums while you are working to cater for the period when you will not be earning later in life. The scheme protects members against the risk of poverty in old age by ensuring that they are able to provide for themselves in retirement.”

Personal Pension Plans (also referred to as retirement plans) are mainly offered by insurance companies to help individuals to build up a sum of money that can be used in retirement. The money is invested to generate a regular income, which is referred to as pension. Pension plans are different from life insurance policies which are taken to cover risk in case of an unfortunate event happens.

WHY PLAN FOR RETIREMENT?

You will enjoy Tax benefits

Saving in a registered retirement benefits scheme is one sure way of keeping your savings safe from the tax man. Contributions to a retirement benefits scheme are tax exempt as per the set limits (Kshs. 20,000/- per month or 30% of salary, whichever is less). The return earned on the investment is also tax exempt.

Retirement is guaranteed

No matter how active we are today, there will come a time when we will have to retire. However our living expenses such as food, medical care, housing and electricity do not retire. Saving in a retirement benefits scheme now helps us to save and create the income needed in retirement to cater for these expenses.

The family unit is weakening

It is a reality that parents will not be able to depend on their children for their upkeep in old age due to a breakdown in the traditional systems that provided security in old age. Are you sure that your children will take care of you in your retirement?

You can expect to live longer

People are living longer due to advances in the medical field. You will need more money in retirement to cater for the expected longer life.

It helps you to save in a disciplined way

Money put away in a retirement benefits scheme is not readily available for withdrawal unlike money in a bank account.

WHAT ARE THE VARIOUS WAYS OF SAVING FOR RETIREMENT?

Government Sponsored Plans

The National Social Security Fund provides basic financial security to Kenyans upon retirement. Contribution is compulsory for employers and employees. However, the benefits paid out are often not enough to provide for retirement.

Employer Sponsored Plans

These schemes are formed by the employers for the benefit of their employees. It is not compulsory for employers to form pension schemes. Many employers in Kenya have not set up retirement schemes meaning that their employees have to plan for their own retirement saving.

Individual Pension Plans

Employed people who are not in an employer sponsored scheme as well as self-employed people can join an Individual Pension Plan.

WHO FORMS THE PERSONAL PENSION BENEFITS SCHEME?

Insurance companies are the main founders of Personal Pension Schemes and the appointed corporate trustees run the schemes as a Trust on behalf of the members. The schemes are registered by the Retirement Benefits Authority and Kenya Revenue Authority and enjoy all the benefits enjoyed by Employer Retirement Benefit schemes.

WHAT IS THE DIFFERENCE BETWEEN PENSION AND GRATUITY?

Pension	Gratuity
Contributions are tax deductible up to a maximum of Kshs. 20,000 per month	Contributions are not tax deductible
Provides a lifetime income	Pays short term lump sums that can be exhausted
The benefits grow via investment	No income from investment
Benefits are guaranteed by law under the RBA Act	Benefits can be lost after many years of service through summary dismissal
Funds are held in Trust separate from employer's influence	No funds are set aside and employer has full control of the funds.

CAN MY EMPLOYER CONTRIBUTE TO MY PERSONAL PENSION PLAN?

Yes. Your employer can contribute a percentage of your monthly salary towards your personal plan based on the agreement between you and your employer. The employer is allowed to treat the contributions to the scheme as a tax allowable expense in their books of accounts.

WHO CAN JOIN THE SCHEME?

Anyone over 18 years of age who is either employed or self-employed can join a personal pension benefits scheme. You can join such a scheme by filling a simple application form and making your first contribution.

Membership is open to:

- People working in organizations that do not have a retirement benefits scheme.
  People in seasonal or contractual employment.
- Self employed people.
- People working in the Diaspora.
- Members of existing schemes who are changing jobs and would like to transfer their pension funds from the employer sponsored scheme.
- Members of existing pension schemes who

"This should not be you"

want to enhance their retirement savings.

- Small and medium sized employers who cannot afford to set up a Staff Retirement Scheme
- People working in Non-Governmental Organizations.

CAN I LOSE MY RETIREMENT FUND?

NO. The contributions have a 100% capital guarantee. The retirement benefit schemes managed by Insurance companies are guaranteed funds, which means that the insurance company guarantees the capital put into the scheme plus a minimum rate of return. This means that if money is lost in the course of investment, clients' money is fully guaranteed and the insurance company bears the loss.

"This means that members of the scheme do not bear the risk of investment. This is an important aspect to consider when it comes to retirement funds in the current unpredictable investment market."

WHAT HAPPENS IF I LEAVE MY JOB OR CHANGE JOBS?

The individual pension plan belongs to you and is not affected by job changes. If your current employer is contributing to your plan, you need to negotiate with your future employer about contributing to your plan in case they do not have a staff retirement scheme.

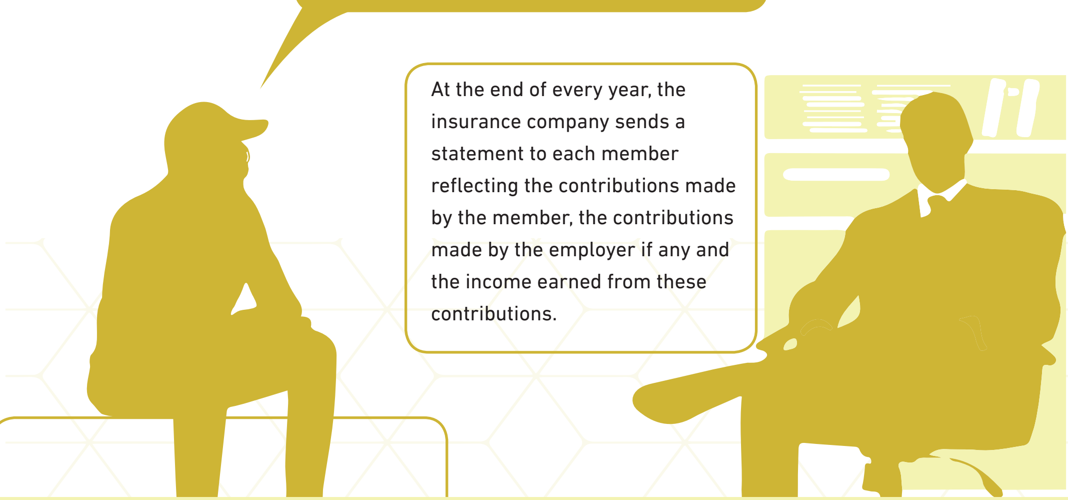
> Pensions increase older people's access to services such as health care and reduce their dependency on the younger generation (Help Age International, 2006).

DO CONTRIBUTIONS MADE TO THE SCHEME EARN ANY INTEREST?

Yes. The contributions are invested and start earning income from the day the contributions are received by the Insurance company. Your total accumulated fund is made up of your contributions and the investment returns.

HOW DO I KNOW HOW MUCH I HAVE CONTRIBUTED TO THE SCHEME AND THE INTEREST I HAVE EARNED?

At the end of every year, the insurance company sends a statement to each member reflecting the contributions made by the member, the contributions made by the employer if any and the income earned from these contributions.



WHAT HAPPENS IF I DIE OR BECOME COMPLETELY UNABLE TO WORK?

The total fund made up of contributions and investment returns is paid to the nominated beneficiary immediately upon the death of the member. The total fund is also paid to you or your beneficiary in case you become ill and completely unable to work.

WHAT HAPPENS WHEN I RETIRE?

This depends on the type of scheme. If it is a pension scheme, you are allowed to take 1/3 of the Total Pension Fund as cash (after applicable taxes - see tax table 1 below). The remaining 2/3 of the Total Pension Fund is converted into a monthly pension which is paid to you at the end of every month for the rest of your life. If the scheme is a provident scheme then the entire fund (subject to applicable taxes) is paid to you as a lump sum at retirement.

CAN I USE THE BENEFITS AS SECURITY TO BORROW MONEY?

Yes. A member may assign up to sixty percent (60%) of his/her accumulated benefits as additional security for a mortgage in line with the RBA regulations.

> *If you are not financially stable while you are still young, strong and working, you can do something about it. You can get a better job, find better employment opportunities, or go back to school.*
>
> *Unfortunately, this is not possible once you retire. After crossing the retirement age, very few options are available.*

WHAT TAX BENEFITS DO I ENJOY?

The Kenya Revenue Authority currently allows a tax relief up to a maximum of Kshs. 240,000 per annum or Kshs. 20,000/- per month for amounts contributed to a registered scheme. At withdrawal or retirement you are also entitled to receive tax free lump sum payment from the fund of Kshs. 60,000/- for every year of membership in the scheme up to to a maximum of Kshs. 600,000/-. The tax on the excess amount is then calculated as per the tax table 1 below.

Tax Table 1

If you are under 50 years of age, or you have been a member of the scheme for less than 15 years, the cash amount is subject to tax as per the table 2 below.

First the tax free lump sum is deducted (Kshs. 60,000/- for each year in the scheme up to a maximum of Kshs. 600,000/-), and then the balance is subjected to tax as follows:-

On the First	KShs. 121,968	10%
On the next	KShs. 114,912	15%
On the next	KShs. 114,912	20%
On the next	KShs. 114,912	25%
On the balance		30%

If you are over 50 years of age, or have been a member of the scheme for more than 15 years, the cash amount is subject to tax as per the Tax Table 2.

Tax Table 2

First the tax free lump sum is deducted (Kshs. 60,000/- per year in the scheme subject to a maximum of Kshs. 600,000/-) and then the balance is subjected to tax as follows:

Up to KShs. 400,000	10%
KShs 400,000 to KShs. 800,000	15%
KShs 800,000 to KShs. 1,200,000	20%
KShs 1,200,000 to KShs. 1,600,000	25%
Over KShs. 1,600,000	30%

SUMMARY OF THE BENEFITS OF JOINING A PERSONAL PENSION PLAN

- The contributions have a 100% capital guarantee. The retirement benefit schemes managed by Insurance companies are guaranteed funds which means that the insurance company guarantees the capital put into the scheme plus a minimum rate of return.
- Contributions are flexible depending on your financial ability and your needs.
- Contributions are easy to make through deductions from your salary, Direct Debits, M-Pesa, etc.
- The fund earns compound interest. This allows small regular contributions to grow to significant retirement savings over time.
- It gives the member an opportunity to save and improve financial security in his/her retirement.
- It offers a pooling advantage. Funds from various members are pooled together to form a huge fund that allows a larger scale of investments, resulting in higher returns.
- It consolidates pension management for individuals who are changing jobs. If you change jobs, you can transfer your benefits to a Personal Pension Plan.
- Allows one to create a fund of which 60% may be used as additional security for a mortgage.
- The accumulated fund plus investment income are paid to survivors upon the death of the member, providing a financial cushion for them.
- Withdrawal terms are flexible.
- An employer can contribute on behalf of the employee as long as the combined contributions do not exceed 30% of the employee's salary. Any amount above this will not enjoy tax-exemption benefits.
- Provides various flexible payments to a member at retirement i.e lump sum, Pension/ Annuity and even the option to keep the savings invested and draw an income from it.

ensions can therefore play an important role in breaking intergenerational poverty cycles and thus increase the life expectancy of the elderly generation (Help Age International 2006; Keizi, 2007).

Tax Benefits

- Contributions are tax deductible. The Income Tax Act allows for a maximum tax deductible contribution of Ksh 20,000 per member per month (or 30% of your salary whichever is less)
- Income earned from investments is tax free and therefore generates more funds for reinvestment.
- The first Ksh 600,000 of a lump sum payment is not subject to tax if the member has been a member for more than 10 years.
- On retirement before 65 years, the annual tax free pension is Ksh 300,000. Pension and lump sum payments after the age of 65 are tax free.

The NSSF ACT, 2013

Is the NSSF Act, 2013 operational?

The National Social Security Fund Act, No. 45 of 2013 was signed into law on 24th December 2013 with an implementation date of 10th January 2014. However, the Cabinet Secretary for Labor extended the implementation date to 31st May, 2014. The NSSF Act, 2013 became effective on 31st May 2014 as per the extension granted by the Cabinet Secretary for Labor. However, some stakeholders moved to court opposing the implementation of the Act and as a result, the Act is yet to be operational due to the pending court case.

Must all employers contribute to NSSF?

- Every employer who under a contract of service, employs one employee or more shall register with the fund as a contributing employer and shall register his employee(s) as member(s) of the fund.
- Any person who is registerable as an employer shall produce proof of registration with the scheme as a pre-condition of dealing/accessing public services.
- Any employer who fails/neglects/refuses to register is liable to a fine of up to Kshs 50,000/=

What are the contribution rates?

- The rates of contribution to the new pension scheme will now be at 12% of the monthly pensionable earnings broken down as follows:
  - Employee-6%
  - Employer-6%
- Contributions will be increased gradually in the first five years since the start of the New Act as per the table below.
- Self-employed people who are members of the provident fund will pay a minimum voluntary contribution of Kshs. 200/-.

What are Tier I and Tier II Contributions?

- Tier I contributions refers to Pensionable Earnings up to the lower Earnings limit.
- Tier II contributions refers to Pensionable Earnings between the lower earnings limit and the upper earnings limit.

What is the contracting out Option?

- An Employer can make an application to the Retirement Benefits Authority to contract out of Tier II of NSSF. The employer and employees then make the equivalent contributions to a Private Retirement Benefits Scheme.

WHAT HAPPENS IF AN ORGANIZATION HAS A PRIVATE PENSION SCHEME?

Tier I contributions must be made to NSSF, while Tier II contributions can be paid to your private pension scheme once an Employer applies to opt out of making Tier II contributions to NSSF and approval is given by The Retirement Benefits Authority.

"This should not be you"

Many people assume that their children will take care of them during their retirement life. The cost of living is going up every day. Young people are finding it difficult enough to provide for themselves and their young families. Even the most doting children may not be able to earn enough to afford giving their parents a decent retirement life.

WHICH COMPANIES OFFER PERSONAL PENSION?

NAME OF COMPANY	PHYSICAL ADDRESS	TEL NO. (020)	EMAIL ADDRESS
APA Life Assurance Ltd	Apollo Center, Off Ring Road. P.O.Box 30389-00100 Westland, Nairobi.	3641000	insurance@apalife.co.ke
Britam	Britam Center Mara/Ragati Road. P.O.Box 30375-00100 Nairobi.	2833000	info@britam.co.ke
CIC Life Insurance Company Ltd	CIC Plaza, Mara Road. P.O.Box 59485-00100, Nairobi	2823000	callc@cic.co.ke
ICEA LION life Assurance co. Ltd	ICEA LION Center, Riverside Park, Chiromo Road. P.O.Box 46143-00100 Nairobi.	2750000	insurance@icealion.com
Jubilee Insurance	Jubilee insurance house, wabera street. P.O.Box 30376-00100 Nairobi.	3281000	info@jubileekenya.com
Kenindia Assurance	Kenindia house, Loita Street. P.O. Box 44372-00100 G.P.O Nairobi.	2214439	kenindia@kenindia.com
Kenyan Alliance Insurance Company	Chester Hse, Koinange street. P.O.Box 30170-00100 GPO, Nairobi.	2253900	kai@kenyanalliance.com
Liberty Life	Liberty Hse, Mamlaka Rd. P.O.Box 30364-00100 Nairobi, Kenya.	2866000	csc@libertylife.co.ke
Madison Insurance Company Ltd	Upper Hill Close, P.O. Box 47382 – 00100, Nairobi	2721970/1	madison@madison.co.ke
Monarch Insurance Company Ltd	Monarch hse,664 Ole Nguruone Avenue. P.O.Box 44003-00100 GPO Nairobi, Kenya.	4292000	info@monarchinsurance.co.ke
Old Mutual Life Assurance Company Ltd	Old mutual Building, Corner hse Mara/hospital Road. P.O.Box 30059-00100, Nairobi.	2829000	omkeny@oldmutualkenya.com
Pan Africa Life assurance Company Ltd	Pan-African Hse, Kenyatta Avenue. P.O.Box 44041-00100 Nairobi.	2247600	customerservice@pan-africa.com
Pioneer Life Assurance Company Ltd.	Pioneer Hse, Moi Avenue. P.O.Box 2033-00100 Nairobi	2220814/5	info@pioneerassurance.co,ke
Saham Assurance Company Ltd	Eco bank Towers, Muindi Mbingu Street PO Box 20680-00200, City Square	2218244	info@sahamassurance.com
UAP Life Assurance Ltd	UAP Insurance Company Limited Bishop Gardens Towers, Bishop Road P.O. Box 43013 – 00100, Nairobi, Kenya	2850000	uapinsurance@uap-group.com

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