Attitude and Behaviour relative to Long-term Saving and Protection: a Challenging policy priority

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RETIREMENT BENEFITS AUTHORITY

KENYA
Location:
Outline of Presentation

- Introduction
- Current status of Pension coverage and Replacement rate
- Attitude and Perception towards saving
- Policy Framework for Saving and Protection
- Challenges to saving for retirement
- Interventions
- Way Forward
### Introduction: Kenya’s Retirement Benefits Structure & Membership

<table>
<thead>
<tr>
<th>The Civil Service Pension Scheme – 22%</th>
<th>National Social Security Fund (NSSF) - 67%</th>
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<tbody>
<tr>
<td>▪ Non contributory &amp; Unfunded</td>
<td>▪ Provident Fund</td>
</tr>
<tr>
<td>▪ Covers all service employees</td>
<td>▪ Contributory &amp; funded (both employee</td>
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<tr>
<td>▪ Exempted from Retirement Benefits</td>
<td>and employer)</td>
</tr>
<tr>
<td>Authority Supervision</td>
<td>▪ Accounts for 28% of total industry assets</td>
</tr>
<tr>
<td>▪ Legislated by Act of Parliament</td>
<td>▪ Covers all employer with 5+ employees</td>
</tr>
<tr>
<td></td>
<td>▪ Regulated &amp; Supervised by RBA</td>
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<table>
<thead>
<tr>
<th>Private Occupational Schemes – 11%</th>
<th>Individual Retirement Benefits Schemes - 0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ contributory &amp; funded</td>
<td>▪ Contributory &amp; funded</td>
</tr>
<tr>
<td>▪ Accounts for 70% of Industry Assets</td>
<td>▪ Open to all - formal &amp; informal workers</td>
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<tr>
<td>▪ Covers employees of the employer</td>
<td>▪ Regulated &amp; Supervised by Retirement</td>
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<tr>
<td>▪ Regulated &amp; Supervised by RBA</td>
<td>Benefits Authority</td>
</tr>
<tr>
<td>▪ Legally formed under trust deed</td>
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</tr>
<tr>
<td>▪ 1365 schemes (Estimated membership</td>
<td>▪ 20 Individual Retirement Benefits</td>
</tr>
<tr>
<td>– 13,000)</td>
<td>▪ Schemes</td>
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Pension saving is a voluntary exercise – Need for compulsion

Only 15% of the workforce is covered (mostly in the formal sector)

Plans underway to reach the more than 80% (informal sector) that was not covered

No universal pension – Pilot cash transfer programme targeting senior citizens (over 65 years)

Low replacement rates (at 20%) – people not saving enough to increase income replacement ratios at retirement
Attitude and Perception towards Retirement

- The concept of retirement to many does not involve pension schemes—mainly associated with savings for assets - house, land, cows etc

- Suspicion that scheme providers may collapse with members savings or may just refuse to allow them access to the savings

- Employer’s responsibility to drive the pension agenda

- Retirement is too far away so why worry about it now?

- Traditional social fabric – children take care of Parents/elderly

- Stigma associated with retirement – even dreaded. Considered not for the young and trendy
General Saving Culture

- Dip-Stick Survey commissioned in March 2009 to ascertain the level of awareness on the importance of saving for retirement among Kenyans.

- Expenditure Priority:

  1. Rent
  5. Church offering
  2. Food
  6. Clothing
  3. Household Bills and
  7. Entertainment
  4. Transport
  8. Saving

- Saving is not considered a priority and can be done away with.
Policy Framework – moderating factor to saving and protection

- Legal framework put in place to protect the interests of the public – instilled confidence in the sector which has led to increased saving
  - Regulatory and Supervisory structures
  - Sensitization – members know their rights
  - Tax incentives
Challenges to saving for retirement

- Low levels of awareness on retirement benefits products
- Language barrier – financial jargon
- Low financial literacy among a majority of Kenyans – especially in the informal sector
- Finance “Taboo” subject – never discussed among most families
- Aversion to long term saving – want access to savings now
- Interference from Legislature (Preservation Rule)
- Negative perception of the insurance industry and financial sector
- Competition (Cooperatives, Investment groups, saving accounts, etc)
- No tangible benefit – need to incentivize retirement saving
Interventions:

- **Policy provisions**
  - Include elements Compulsion
  - Tax exempt (65 years)

- **Incentivize retirement saving**
  - Tax benefit
  - Mortgage Regulation

- **Education to Demystify the pension subject**

- **Penetration of the informal sector**
Pension Education campaigns

Multi-faceted campaign using different interventions:

Multi-media campaign
- TV, Print, Lifestyle Magazines, FM Radio Stations, etc

Trustee Seminars
- Equip Trustees with skills to enable them improve administration of the schemes and compliance with the law

Retirement Planning Seminars
- Equip members with investment and social skills to help them cope with life in retirement

Corporate Social Investment
- RBA/Operation Ear Drop (OED) Hearing Conservation Programme
- Joint promotional activities with Informal sector Associations

RBA Open Day (annual)
Exhibitions (Regional)
Roadshows
Media Relations – Sensitization Fora
Trustee Training Seminars

RBA runs a Trustee training programme targeting individual trustees at no cost to schemes to enhance the sector’s growth through improved governance.

- One day curriculum covers the following topics:
  - The general role & Responsibilities of Trustees
  - Compliance requirements
  - The role of Trustees in Investment of retirement Benefit Scheme assets
  - Taxation
  - National Insurance Hospital Fund products
  - Groups exercises

- Majority of participants are 1st-time participants

- To date, over 1000 schemes with 2,611 trustees of the 1300 registered schemes have been trained (83%)

- Trustee training available to all schemes irrespective of compliance status

- Trustee and Pensions professionals Training certification programme is being developed in collaboration with ARBS and College of Insurance
Objective:

- To equip members with investment and social skills to help them cope with life in retirement

Key Topics:

- Testimony from a retiree
- Benefits
- Time Management
- Attitudes to retirement
- Investment & Personal Financial Management
- Health Issues in retirement
Corporate Social Investment (Outreach)

Hearing Conservation Programme

- Joint collaboration between RBA, Operation Ear Drop (OED) and Informal sector (Kenya National Federation of “Jua Kali” Associations) – *which means “hot sun”*

- **Objective:** Promote Hearing health and prevent Noise Induced Hearing Loss (NIHL) among industrial workers exposed to occupational noise; **Ultimately** sensitize them on the importance of saving for retirement

- **Reach** – Countrywide (over 8 million informal sector artisans)

- **Roll out:** Pilot programme launched in Nairobi and Kisumu with ENT clinic. Over 2,700 artisans have been treated and sensitized

- Country-wide sensitization campaign from end of 2010
Penetration of informal sector

- “Jua Kali” (which literary means “working in the hot sun”) artisans have come together to form a unique pension scheme where members make contributions through mobile telephony systems (M-Pesa and Zap).

- This is a major milestone for the pensions industry considering that the scheme targets the Association’s membership of over 8 million artisans countrywide.

- So far the scheme has registered over 17,000 members within a span of six months.

- Scheme contributions have been set at a minimum target of Kshs.500 (US $ 6.25) per month, which translates to Kshs20 per day (US $ 0.25), hence the name ‘Mbao’ which symbolizes an old twenty shilling note.
Roadshows

**Objectives:**

- Raise awareness on the importance of saving for retirement and various pension products
- Provide an interactive forum for RBA and the public to engage each other

**Medium of communication**

- Visual branding of truck and crew
- Audio hype on truck
- Music concert
- Satire
- Trivia
- Fliers
- On air support from FM Radio stations (live links, live interviews and brand talk ups)

**Roll out: Country-wide**

RBA Roadshow truck go through the coastal city of Mombasa
Way Forward

- Intensify Public education campaigns to increase awareness levels
  - Mass Media:
    - Vernacular FM Radio stations
    - Influence local TV Programming
- Lobby government for greater incentives
- Introduce financial literacy curriculum in schools to inculcate a saving culture in children
- Media partnerships through education fora to sensitize media on pension issues and enlist their support in disseminating pension messages
Opportunities Summarized

**Financial Education**
- Intensify Financial literacy
  - Public education campaigns
  - School curriculum
- Change mindsets

**Targeting**
- Informal sector
- Target youth to inculcate a saving culture

**Messaging**
- Direct and simple message – “A little saving goes a long way”

**Competition**
- Move funds from competition to retirement schemes
THANK YOU

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