PENSION INDUSTRY DEVELOPMENT IN KENYA: DISCUSSION BY THE RETIREMENT BENEFITS AUTHORITY

Presentation by: Edward Odundo
Chief Executive

‘A reasonable and sustainable standard of living for every Kenyan worker after their retirement’
AGENDA

- Background
- Why do we need a National Pensions Policy
- Conceptual Basis for National Pensions Policy
- Challenges
- Proposed Structure
- Way Forward
Presenter has raised a number of pertinent issues in the pensions industry

Retirement Benefits Authority has developed a draft National Pensions Policy

Policy addresses current concerns as well as future development of the pensions industry in Kenya
1. Exiting system is disjointed as different sectors have different legal frameworks:
   - Retirement Benefits Act
   - NSSF
   - Civil Service
   - Judiciary
   - Parliamentary
2. Coverage of existing system is low

- Below 15% of active workforce covered
- Coverage is mostly in the formal sector
- The uncovered are in the informal and agricultural sectors

Current low coverage is result of:

- Optional for Employers to sponsor a scheme
- Individual Retirement Benefits scheme still in infancy stage
- Fast growing informal sector than the formal
- Poverty- retirement savings not a priority
3. **Old Age Poverty is High**

Why we need a National Pensions Policy - III

Source: AGEING AND POVERTY IN AFRICA AND THE ROLE OF SOCIAL PENSIONS, Nanak Kakwani And Kalanidhi Subbarao
Why we need a National Pensions Policy - IV

4. Life Expectancy after Retirement is Increasing

![Life Expectancy-Kenya Graph](chart.png)

Source: UN WPP
5. Role of Pensions in Economic Development

- Increasing the generation of long-term savings;
- Lengthening the maturity profile of public and private debt due to the long term nature of pension investment;
- Stimulating financial innovation and new products such as asset backed securities and Infrastructure bonds;
- Improving market integrity through professionalism, activism and influence of institutional investors;
- Intensifying financial market competition by act as a countervailing force to the banking sector; and,
- Transfer of knowledge due to international service provision to pensions sector
ILO- PRINCIPLES AND STANDARDS

- Extension of Coverage to All
- Protection against Poverty in Old-age, on Disability and Death
- Provision of Partial Income Replacement
- Adjustment for Inflation and Living Standards
- Additional Voluntary Provisions
MULTI-PILLAR APPROACH

- Non-contributory Social Pension; Minimal Level of Protection
- Contributory System Linked to Earnings to Replace part of Income
- Mandatory Individual Savings Accounts
- Voluntary, Flexible And Discretionary, Defined Benefit or Defined Contribution, employer-sponsored or Individual
- Informal Financial and Non-financial Support, Including Housing And Health Care
CONCEPTUAL BASIS - III

WORLD BANK PRINCIPLES

- Adequacy
- Affordability
- Sustainability
- Robustness
### Conceptual Basis - IV

#### Retirement Systems Worldwide

<table>
<thead>
<tr>
<th>Country</th>
<th>Mandatory</th>
<th>Tax Advantage</th>
<th>Employer Influence</th>
<th>Member Choice (1)</th>
<th>Gov't Invol'ment</th>
<th>Union Invol'ment</th>
<th>Industry Richness</th>
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- **Full Rating**
Challenges in Pension Policy

- Poverty alleviation vs income replacement
- Voluntary vs Compulsory
- Public vs Private
- Employer based vs Industry based
- Achieving ILO 40% standard RR vs keeping contribution rates low
- Death and disability
- Defined benefit vs defined contribution vs hybrid
- Self provision vs solidarity
- Actuarial balance and fairness
- Default options and member choice
- Sustainability and Robustness
- System Cost
# Proposed Structure for Kenya

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Description</th>
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<tbody>
<tr>
<td>Zero Pillar</td>
<td>Basic poverty alleviation state grant either universal, means tested or affluence tested to all citizens above a certain age threshold - funded from tax revenue</td>
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<td>Pillar 1</td>
<td>Compulsory contributions to a Defined Contribution National Social Security Pension Fund for all employers and employees with an opt out to prescribed occupational retirement benefits schemes</td>
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<td>Pillar 2</td>
<td>Tax and other incentivized voluntary contributory Occupational Retirement Schemes which can also receive mandatory pillar 1 contribution. Reformed contributory Public Service Schemes.</td>
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<td>Pillar 3</td>
<td>Tax and other incentivized voluntary Individual Retirement Benefits Schemes</td>
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<td>Pillar 4</td>
<td>Additional social assistance for elderly eg. medical, discounted services, discounted transport, discounted holidays, low interest loans etc.</td>
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PROPOSED WAY FORWARD

- Submission of draft policy to Ministry of Finance – November 2009
- National Pensions Conference to discuss draft – February 2009
- Cabinet Approval
- Enactment of necessary laws and/or amendments