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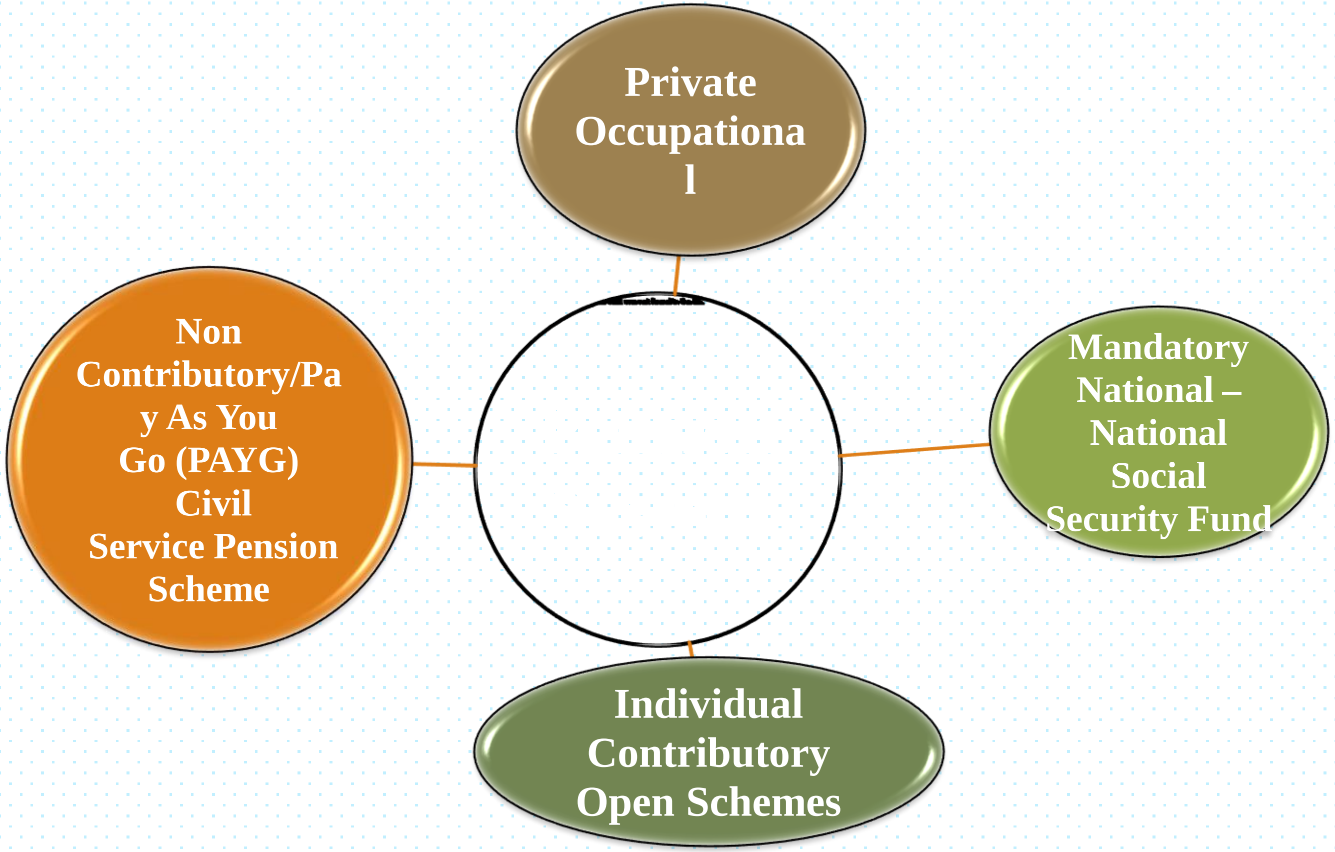
UNDERSTANDING PENSIONS

Divers of Change in Retirement Benefits Designs

- Encourages a saving culture for the employees
- Boosts Employee Motivation and Retention
- Members of Registered Retirement Benefits Schemes enjoy tax advantages on their savings
- They improve the standard of living by providing an income in form of pension during retirement
- Provides for a safe fall back ground in case of a job loss or ill health

THE KENYAN PENSION SYSTEM



Types of Pension systems in Kenya

The Pension system is in Kenya is in four categories namely:

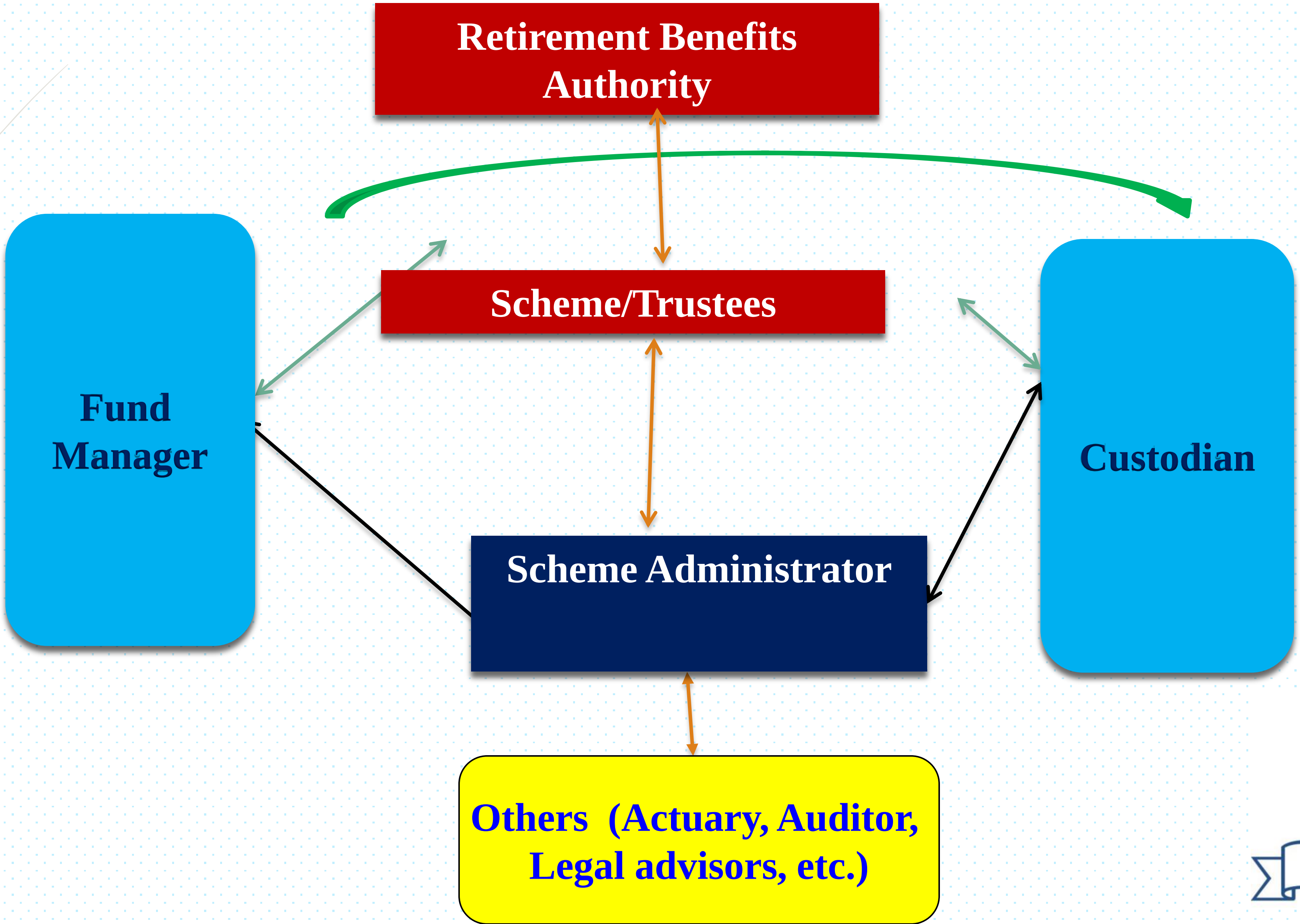
- The Civil Service Pension Scheme
- The NSSF
- Occupational Schemes
- Individual Pension Plans

SPRS

How a Pension Scheme is Set Up

- Schemes established through an irrevocable Trust
- A Trust Deed and Rules is developed to legally bind all the parties involved
- Trustees are appointed to hold the trust assets in trust on-behalf of scheme beneficiaries
- Schemes are required to be registered with RBA and KRA for Tax Exemption
- Trustees serve a maximum renewable term of three years
- Each Trustee required to be certified through the college of insurance
- Trustees are required to meet quarterly with the service providers

REGULATION MATRIX

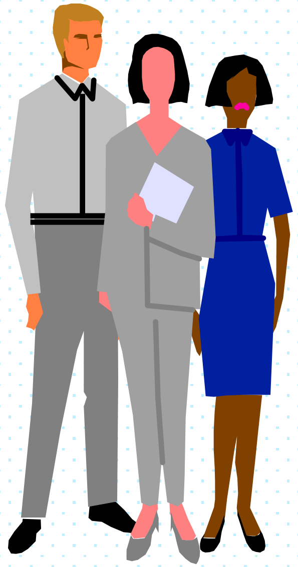


Composition of trustee boards

Scheme members

Management

Independent Individuals



Duties of Trustees

- to carry out the terms of the trust
- to act in the best interests of the beneficiaries
- to act impartially
- to act with care and good faith
- to act jointly
- to delegate duties as appropriate
- not to profit from the trust
- to see that money is paid to the plan
- to preserve and invest the assets
- to keep accounts and records
- to disclose information
- to use proper expert advice

Types of Scheme benefits Structures

- Defined Contribution
- Defined Benefits

Characteristics of Defined Contributions

- The employees and employer contributions are invested and the investment income allocated to the member accounts after audit
- Employees and Employer Make contributions to the scheme at fixed rates as defined in the scheme
- The benefits at retirement are determined by the level of the accumulated employee and employer contributions plus interest credited
- They are easy to manage and easily understood by members

Characteristics of a Defined Benefit Structure

- Benefits are paid on the basis of the members length of service and final pensionable salary
- The funding level of the scheme has to be assessed by an actuary from time to time
- The funding liability is borne by the sponsor
- The global trend is that many organizations are converting from DB to DC

DB/DC

Strategic Considerations	Defined Benefit Plans	Defined Contribution Plans
Employee Retention	Attracts longer/tenured/Older employees	Attracts short tenured/young employees
Financial Liabilities	Placed on the corporate sponsor	Placed on the participant
Responsibility placed on employee	Very Little	Significant – Voluntary contributions, necessary investment decisions
Responsibility placed on employer	Significant- investment decisions, financial liability	Less Significant

DB/DC

Strategic Considerations	Defined Benefit Plans	Defined Contribution Plans
Funding risk	Skewed to employer	Skewed to the member
Economic Savings	Significantly increases savings rates and the available pool of national savings	Less Significantly increases savings rate and available pool of national savings
Retirement Savings- AVC	Does not apply	Applies and enhances members benefits
Fees	Fairly higher due to actuarial requirements	Fairly lower
Administrative Complexity	Generally High	Generally low
Portability	Not Typical	Yes
Member education	Complicated for members to understand	Easily understood by the members

General Factors affecting Income in the Segregated Arrangement

- The size of the scheme- The higher the fund value of the scheme, the higher the opportunity for asset diversification to enhance the investment risk and return.
- The asset class allocation strategy adopted by the Trustees as per the recommendation of the fund manager.
- The investment policy adopted by the Trustees as recommended by the fund manager.
- The prevailing economic environment – The economic environment determines the available investment opportunities.
- The efficiency of the fund manager.

The Governance Structure

- The pension scheme is regulated by the Retirement Benefits Authority
- The trustees appoint service providers in line with RBA regulations.
- The service providers must be licensed by the Retirement Benefits Authority to carry out their various mandates.
- There is a list of all licensed service providers on the RBA website.
- The Scheme must have a valid tax compliance certificate for tax exemption
- The service providers of the scheme include the following
  - Fund Administrators
  - Fund Managers/Approved Issuer
  - Custodian
  - Scheme Auditor

How A Scheme is set up

Formed under a separate trust :

- The assets of the sponsor are separated from the assets of the scheme.
- Trustees are appointed to look after the assets for the benefit of the members and beneficiaries.
- Role of Trustees and how they perform their duties is clearly defined in the scheme Trust Deed and Rules. This includes:
  a. Ensuring contributions are paid to the scheme
  b. Maintaining proper books and records of accounts for the scheme
  c. Administering the scheme in accordance with the RBA and KRA Act
  d. Convening annual general meeting

The Role of the Regulator {RBA}

- To regulate and supervise the establishment and management of the retirement benefits schemes.
- To protect the interest of the members and sponsors of retirement benefits schemes;
- To promote the development of the retirement benefit sector;
- To advise the minister of Finance on the national policy to be followed with regard to the retirement benefits sector ;
- And Implement all government policies relating to the retirement benefits industry

The Role of a Fund Administrator

- Contributions crediting to the members accounts
- Member contributions reconciliations & Income allocation to the members accounts
- Issuance of member benefits statements
- Computation of members benefits and pension payroll administration
- Management of member relations for actives and non-actives.
- Member communications – leveraging on IT platforms (i.e- website)
- Keeping and updating nomination of beneficiaries records.
- Management of members annual general meeting
- Annuity options advice for members leaving the scheme at retirement

The Role of an Administrator Cont.

- Scheme cash flow management in liaison with the fund manager
- Maintaining the scheme books of accounts .
- Reconciliations with bank accounts and reports from service providers.
- Facilitate audit to meet the RBA and KRA deadlines.
- Prepare and submit quarterly detailed financial reports to the trustees.
- Prepare and submit schemes financial statements to the auditors for audit
- Scheme compliance management

The Role of an Administrator Cont.

- Scheme compliance management
- Review of scheme trust deed and rules
- Management of compliance of service providers agreements
- Submission of periodic returns to regulatory authorities
- Preparation of BOT notice and agenda
- Preparation of minutes
- Maintenance of action log
- Advisory services to the Board of Trustees
- Policy documentations – death benefits policy , income allocation policy

INVESTMENTS OF THE FUNDS

- The Retirement Benefits authority has put down guidelines on how the funds within the pension scheme should be invested as shown below:
  - **Segregated Arrangement (Managed Funds)**
  - **Insured Arrangement~Commonly Known us Guaranteed Fund**

RBA Investment Guidelines:

Item	Column	Max% of agg.assets
1	Cash and Demand Deposits of Banks Licensed in Kenya	5%
2	Fixed & Time Deposits	30%
3	Commercial Paper, Corporate Bonds, Mortgage Bonds and Other Loan Stocks Approved By the CMA	30%
4	Kenya Government Securities and Collective Investment Schemes incorporated in Kenya and approved by the CMA	70%
5	Preference and Ordinary Shares of Companies in Kenya, and CIS incorporated in Kenya Uganda and Tanzania	70%
6	Un-quoted shares of Companies incorporated in Kenya and CIS approved in Kenya by the CMA	5%
7	Off-Shore Investments in Banks, Govt Securities, quoted equities and Corporate Bonds and Off-Shore CIS	15%
8	Immovable Property in Kenya and Property Unit Trusts	30%
9	Guaranteed Funds	100%

Benefits of Saving Through a Pension Scheme

- Provision of regular income to replace earnings in retirement
- Provision of lump sum benefit income for surviving dependants
- It is the one of the most secure form of savings
- Separate members' retirement benefits assets from Company's assets
- Tax Reliefs
  - ✓ Income Tax relief on employee contributions
  - ✓ Pension schemes do not pay income or capital gains tax on investment returns.
  - ✓ Part of your retirement benefit may be paid as tax-free cash sum

TAXATION OF BENEFITS

Are my Benefits Taxed

Relief

- ✓ Tax Relief is for Kshs.60,000.00 for every year of service up to a maximum of 10 years i.e 600,000.00.
- ✓ At payroll level an amount 20,000Kshs. is Tax Exempt.
- ✓ All amounts above Kshs.20,000 are non tax exempt-meaning at payroll level, they are subjected to tax.

Upon Withdrawal

- ✓ Tax Exempt amounts/portion is subjected to Taxation
- ✓ Non Tax Exempt Portions are not taxed.
- ✓ Below 50 years/Less 15 years in the scheme, money is a subjected to lower tax bans(tax paid by individual is more).
- ✓ Above 50 years/More than 15 years in the scheme, money is subjected to wider tax bans(tax paid by individual is less)
- ✓ Above 65 Years of age-entire lump sum is tax free.
- ✓ Transfer-out to other Schemes is tax free

Tax Advantages for Registered Retirement Benefits Schemes

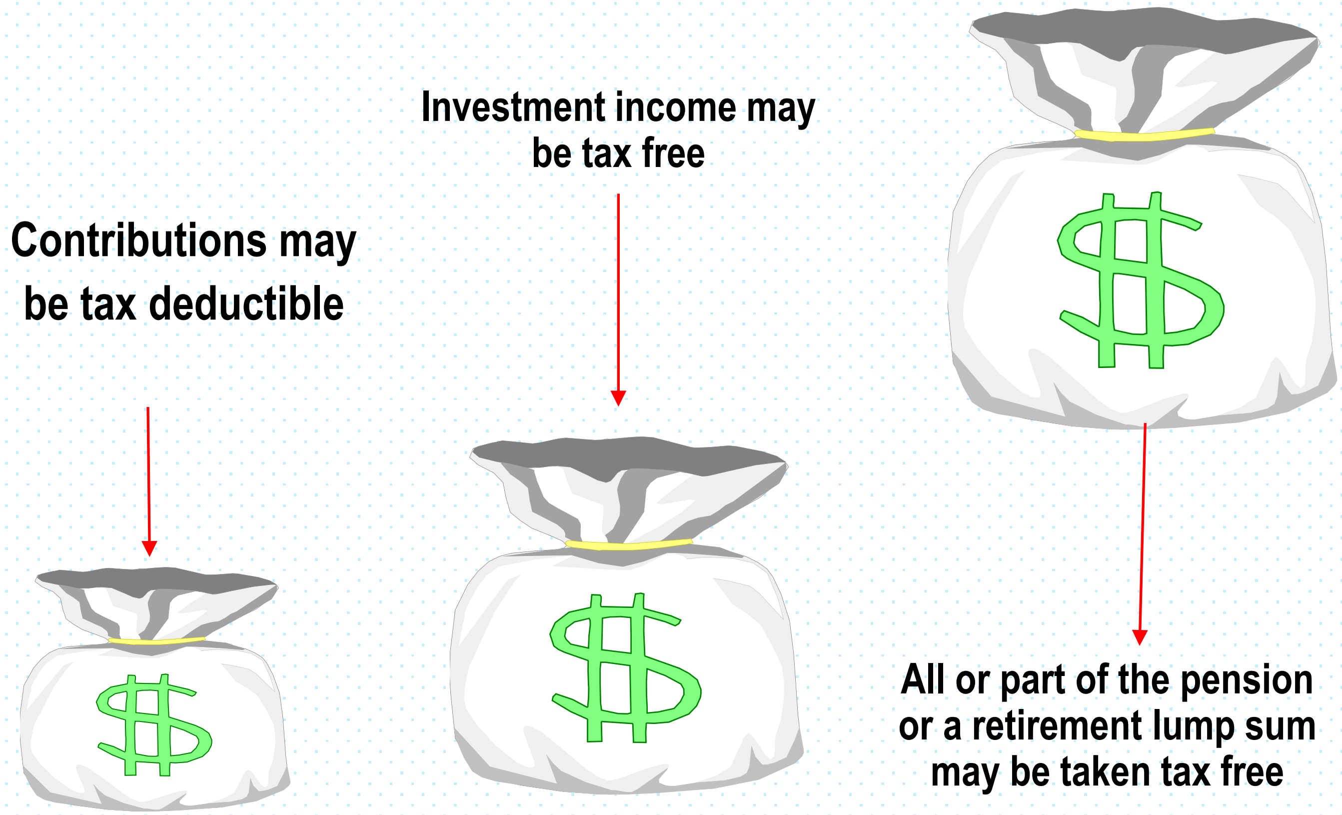


Illustration of Tax Advantages for Registered Retirement Benefits Schemes

Case 1 (with Pension)		
SALARY	Employee Pension Deduction at 7.5%	P.A.Y.E
100,000.00	7,500.00	(22,844.40)
80,000.00	6,000.00	(17,294.40)
50,000.00	3,750.00	(8,969.40)
30,000.00	2,250.00	(4,054.80)
20,000.00	1,500.00	(2,266.80)

Case 2 (without Pension)		
	Employee Pension Deduction at 0%	P.A.Y.E
100,000.00	-	(25,094.40)
80,000.00	-	(19,094.40)
50,000.00	-	(10,094.40)
30,000.00	-	(4,539.00)
20,000.00	-	(2,504.80)

Taxation of Retirement Benefits

- **Level 1-Tax Exemptions on Contributions**

  Contributions up to 30% of salary or Kshs. 240,000 per annum on aggregate whichever is less are tax deductible thus saving on Pay As You Earn (PAYE) tax by contributing members of retirement schemes.

  These contributions are classified as tax exempt contributions.

  Any contributions over and above Kshs.240,000 per year are considered non-tax exempt.

- **Level 2- Tax Exemptions on Investment Income**

  Investment income arising from contributions in respect of the **tax exempt** account is not taxed. However, the Investment income arising from contributions in respect of the non-tax exempt account is taxed at the rate of 30%.

Level 3 - Tax Exemptions on Benefits Payment

The current preferential tax treatment for members who leave a retirement benefit scheme after **fifteen years** of service or those who **retire after the age of 50 years** or those who retire at any time on **grounds of ill health** is such that the first Kshs. 60,000.00 for every year of membership up to a maximum of Kshs 600,000 of lump sum payment is tax free. Any amount above the tax free amounts is taxed at wider bands of Kshs. 400,000 as follows:

1. First Kshs. 400,000 at 10%
2. Next Kshs. 400,000 at 15%
3. Next Kshs. 400,000 at 20%
4. Next Kshs. 400,000 at 25%
5. Amount above Kshs 1,600,000 at 30%

SPRS

For those who terminate their membership in the scheme before the expiry of fifty years, the tax free amount is Kshs. 60,000 for every year of membership up to a maximum of Kshs 600,000 .

The amount above the tax free is taxed at the following graduating bands:

1. First Kshs. 121,968 at 10%
2. Next Kshs. 114,912 at 15%
3. Next Kshs. 114,912 at 20%
4. Next Kshs. 114,912 at 25%
5. Amounts above Kshs 466,704 at 30%

- Monthly pension income that is tax exempted is Kshs 25,000 per month

BENEFITS ACCESS & NOMINATION OF BENEFICIARIES

Benefits Access at Retirement

Pension Funds

- More flexible and wide ranging
- Regular pension payments in retirement
- Can commute part for a lump sum
- Early leavers get deferred pension or lump sum
- Usually additional death-in service benefits

Provident funds

- Provides only lump sum
- The lump sum can be used to purchase annuity

Income Drawdown

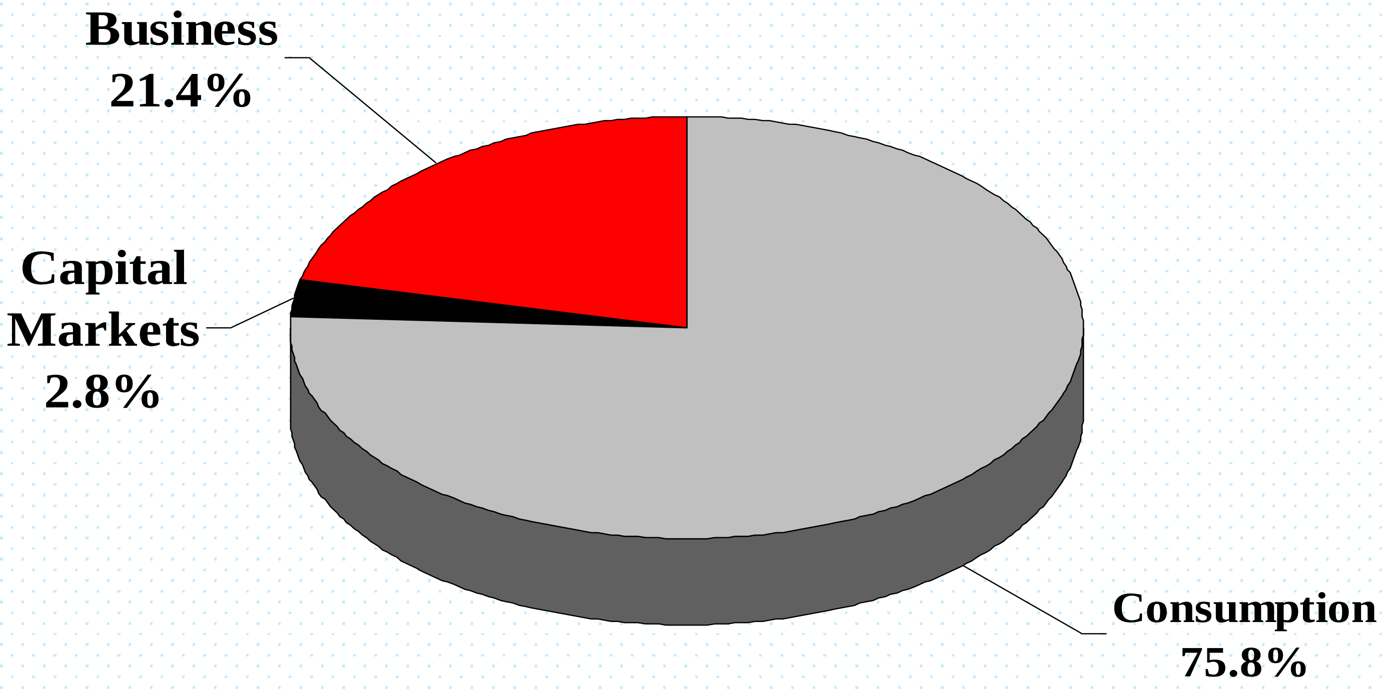
Benefits at retirement - Cash Lump sum

- Disadvantages of taking cash lump sum:
- Benefits are heavily taxed
- Intended use of benefits at retirement not achieved
- High risks in self investment

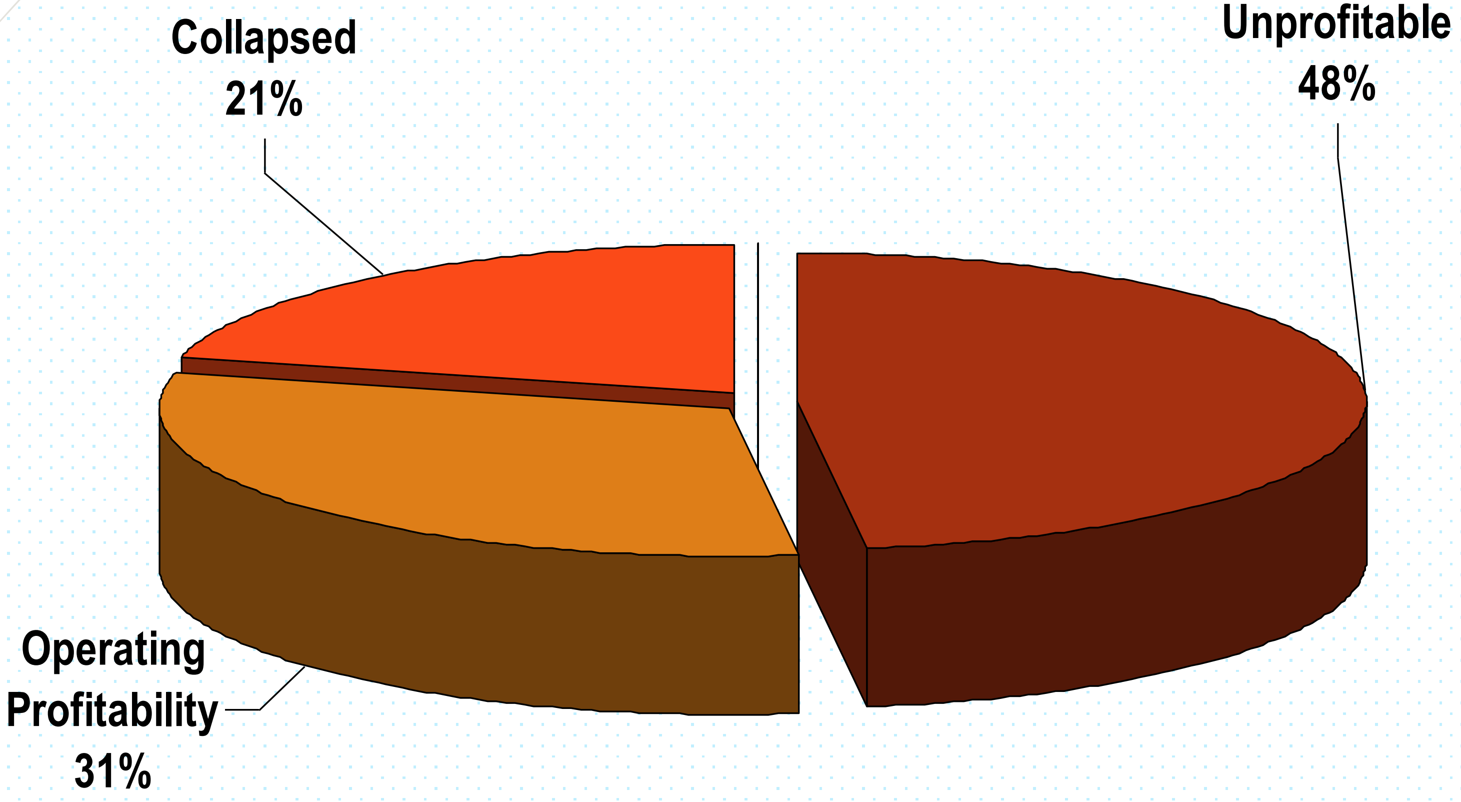
Options available in retirement ~ Mix

- Access part of the benefits as cash lump sum and purchase an annuity with the balance

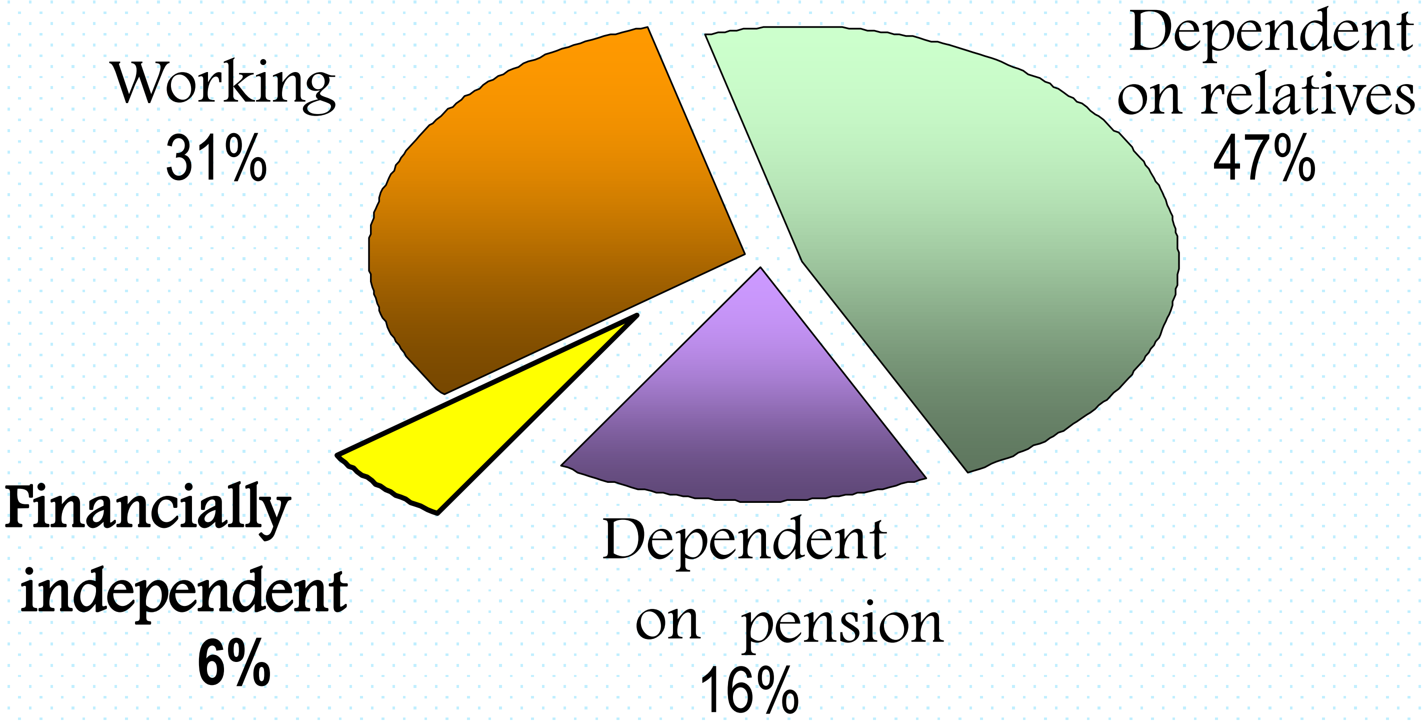
Lump sum benefits utilization



Lump sum benefits utilization ~ business

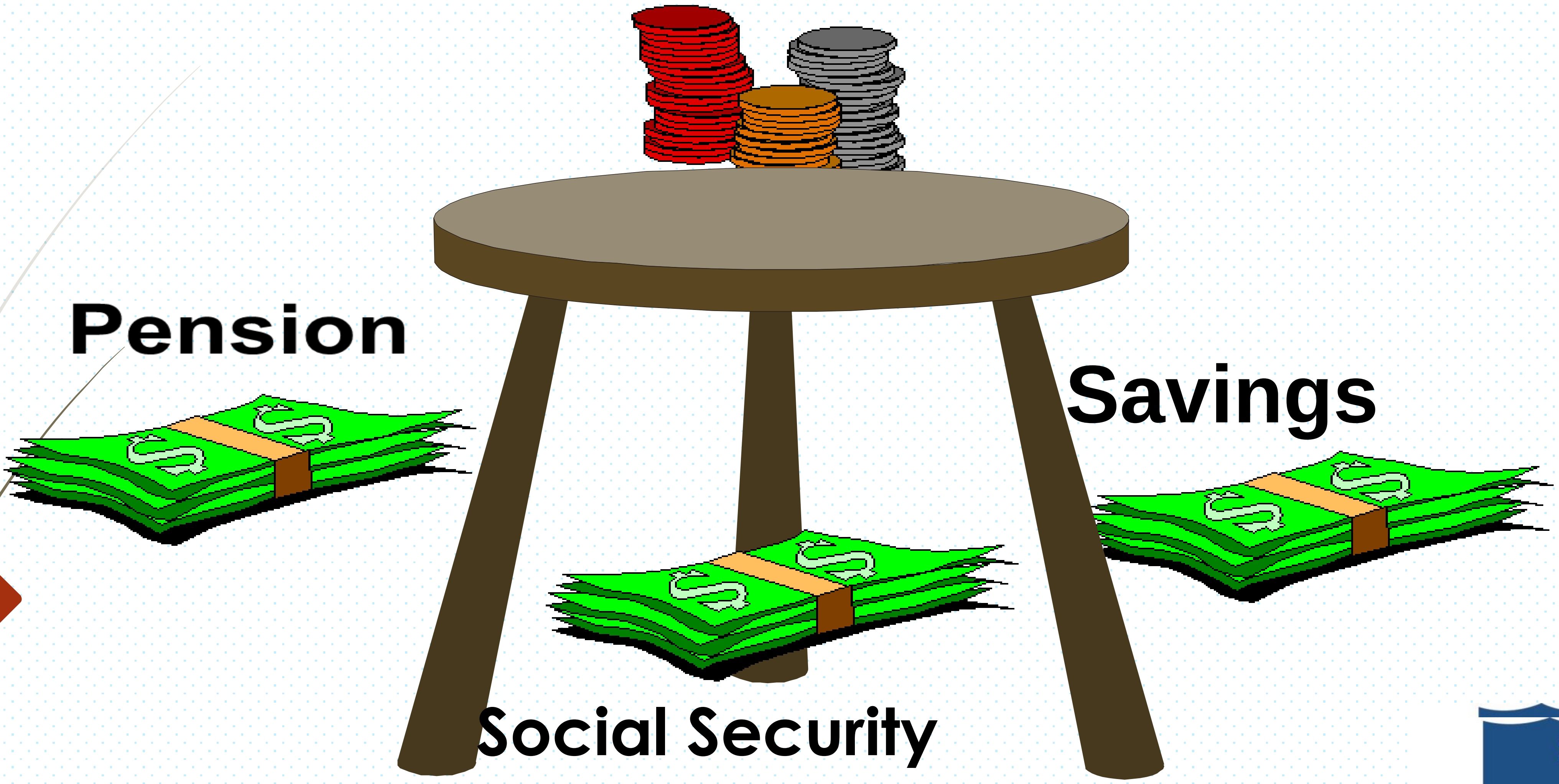


Life in retirement



Life in retirement

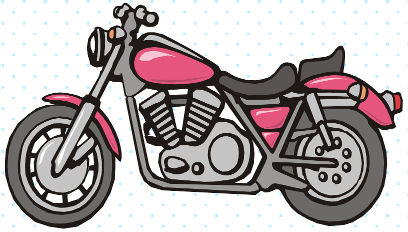
Traditional Income Sources

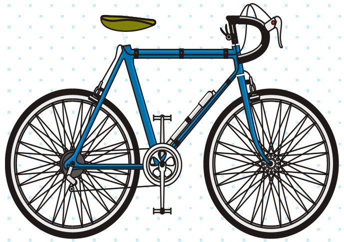


Effects of Inflation

- What could you do with Kshs 5,000.00…..?

1970 1980 1990 2000





Car Motorbike Bicycle Shoe

And in 2010?

A pair of socks!

Source: AFFS

Beneficiaries

Beneficiaries

Who is a Beneficiary?

Person named by the participant in an insurance policy or pension plan to receive any benefits provided by the plan if the participant dies.

Beneficiaries~ Importance

- Peace of mind knowing Deseret Mutual will release your information to that person or persons
- Assuring your money goes where intended
- To avoid potential legal battles

Primary Beneficiaries

A primary beneficiary is a person or entity designated as the first in line to inherit assets.

The beneficiaries will inherit the assets immediately upon the account holder's death, without going through probate court and regardless of the dictates of the participant’s will.

Example: Spouse is usually named as primary beneficiary, however you can also name any adult over the age of 18 if you do not have a spouse.

Secondary Beneficiaries

The person or persons named to receive benefits if the primary beneficiary is not alive upon the death of the insured or if the primary beneficiary does not collect all benefits before his or her own death.

Beneficiaries

Beneficiaries for your life insurance plans can be:

- Family
- Friends
- A Trust

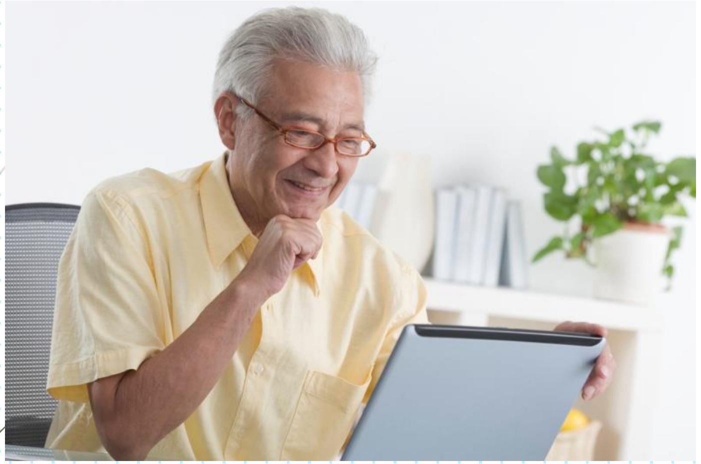
If minor children are named, a guardian must be named or one will be appointed through court proceedings. If one is not appointed, Deseret Mutual will hold the funds at simple interest until the minor is of age and requests the payment.

SPRS

What if you do not have a spouse?

- Your child or any adult the age of 18 or older can be named as primary beneficiary.
- You may also consider naming a secondary beneficiary, for example, a trust, family, or friend

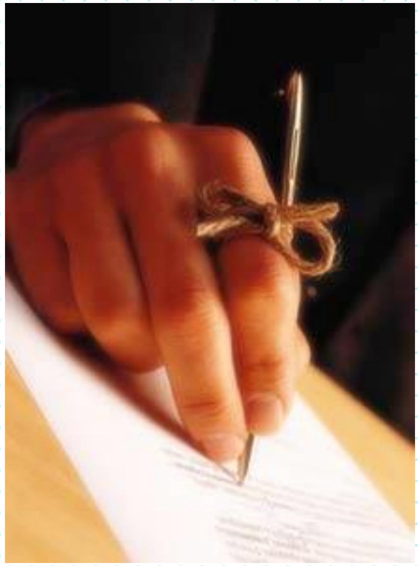
Beneficiaries



You may change your beneficiaries at any time

Life Events are main reasons for a beneficiary change, they are:

- Marriage
- Birth/Adoption
- Divorce
- Death



Premature Death Benefits

- From an individual employee's perspective, the financial needs likely to be associated with premature death include
  - The cost of funeral, burial, and other executor fund expenses
  - As well as the possible provision of income for surviving dependents
- Employers usually provide death benefits through group life insurance
  - However, both employers and employees should recognize that some death benefits also may be available to employees through Social Security or workers' compensation

RBA Regulations regarding disposition of death benefits

Regulation 26 of the Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations 2000 states that;

In the event of the death of a member of a scheme before attaining the retirement age, or of a member drawing retirement benefits, the scheme rules may provide that the death benefits, which shall include a capital sum and any other amount payable as benefits, may be payable in lumpsum to the nominated beneficiary, spouse, dependant child or any other dependant should any such entitled beneficiary elect in writing for lump-sum payment

RBA Regulations regarding disposition of death benefits

The Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations 2000 Regulation 24 gives Trustees discretionary powers in relation to benefits payments. The Regulation states:

The scheme rules may authorize the trustees to exercise their discretion in the following:-

(a) the amount of retirement benefits payable to a nominated beneficiary;

(b) the amount of retirement benefits payable to the children of a member;

(c) the apportionment of a lump-sum benefit amongst all dependants;

(d) the apportionment of a retirement benefit amongst surviving spouses and children; or

(e) the reinstatement of a surviving spouse's retirement benefit that had ceased on re-marriage.

Death Benefits

Upon the death of a member of a scheme, the benefit payable from the scheme shall not form part of the Estate of a member for the purpose of administration and shall be paid out by the Trustees in accordance with the Scheme rules.

Death Benefits

- Death benefits while in service
- Scheme death benefits in deferment
- scheme death benefits while in retirement

Member Rights

- Right to receive annual benefit statement – this statement should clearly show all accrued benefits
- · Right to receive a summary of the annual Audited accounts of the pension scheme free of charge
- · Right to question any anomalies within the audited accounts of the scheme
- · Right to inspect the registers of scheme, custodian or manager available at the Retirement Benefits Authority free of charge
- · Right to request for an investment report of the scheme funds, and to know the affairs of the scheme including any changes within the scheme

Member Rights

- Benefits Rights
- · It is the right of a member to access benefits at retirement; the employer cannot deny you your benefits under any circumstances or assign your benefits to settle any claim including a loan balance
- · It is the right of a member to receive pension benefits within 30 days after your retirement
- · Upon changing jobs the member has a right to retain benefits within the former employers scheme or to transfer the benefits to a new scheme.
- · Member has the right to file a complaint or claim for a pension benefit for whatever reason with the Retirement Benefits Authority for investigations

Member Communication

Members have a right to information and for a pension scheme to thrive, members have to be kept informed and engaged from the moment they join the pension scheme to the time they leave it.

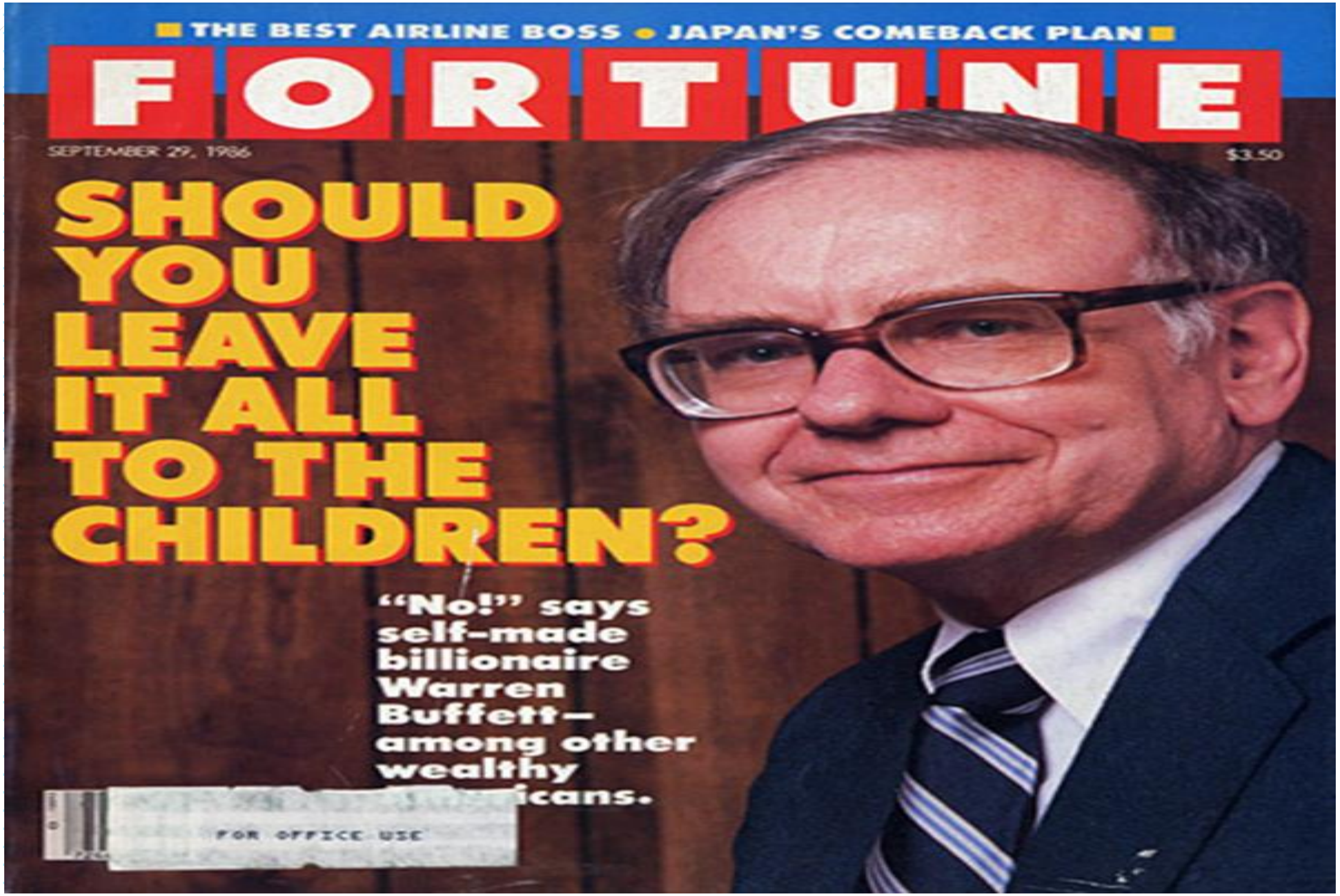
Critical information comprises:

- ❑ Benefits structure
- ❑ Contribution rates
- ❑ Retirement age
- ❑ Withdrawal process
- ❑ Scheme Governance

Disclosure Requirements - Information

- Trust Deed and Rules or documents constituting the scheme
- Basic Information about the Scheme
- Info about individual benefit entitlement i.e. rights/options
- Annual Member Statements and Scheme Financial Reports
- Statement of Investment Principles – Outlines Investment;
- Actuarial Valuation Report and Recovery Plan.
- Investments Performance
- Changes in Regulations or major happenings in the scheme

SUCCESSION PLANNING



LONGEST COURT BATTLES

MBIYU KOINANGE
HE DIED IN 1982
32 YEARS LATER.......

J.M KARIUKI
HE DIED IN 1975
40 YEARS LATER.......

JAMES KANYOTU
HE DIED IN 2007
9 YEARS LATER.......

MULTI MILLION COURT ESTATE BATTLES

OJODE'S WIDOW
FOUGHT BY HER
IN-LAWS OVER
INSURANCE
MONIES

WAMALWA'S WIDOW
SUED BY HER
STEP CHILDREN

RITHO'S FAMILY
CHILDREN FIGHTING
CONTROL OF THE
ESTATE

MURGOR'S FAMILY
FIGHTING CONTROL
OVER THEIR LATE
FATHER'S ESTATE

MAJOR BUSINESS LEGACIES