By social security study group

Strathmore UNIVERSITY

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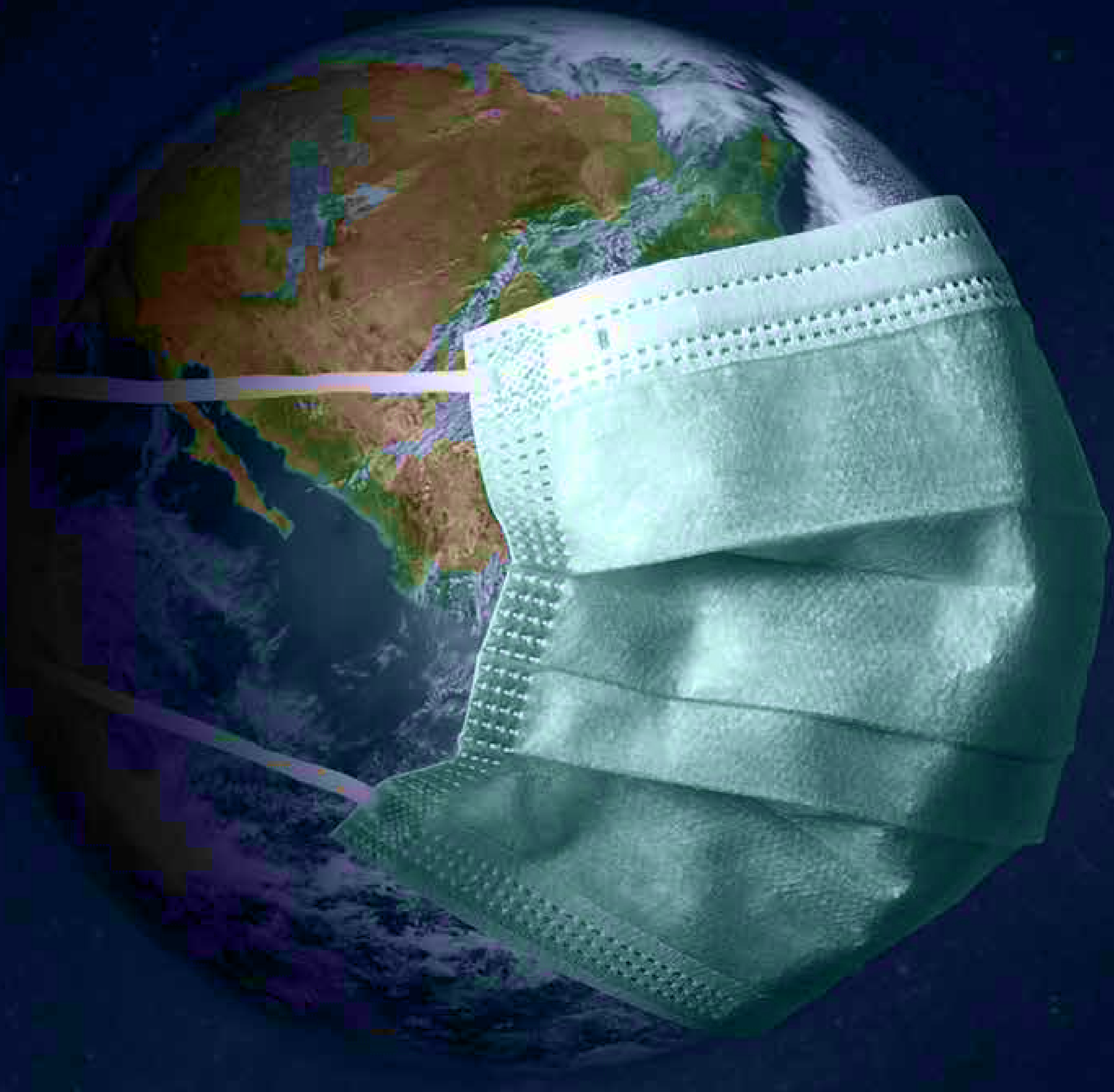

THE EFFECT OF COVID-19 ON FINANCIAL AND GENERAL WELLBEING OF RETIREES IN KENYA

CONTRIBUTORS AND ACKNOWLEDGEMENTS

Enwealth Financial Services Ltd. (Enwealth), in collaboration with Strathmore University, wishes to thank all members who participated in this research by providing their insight and participating in the survey.

This research aims to stimulate positive discussions and decision making of Retirees, Near-Retirees, individual members of Retirement Benefits Schemes and relevant policy bodies in the spirit of enhancing the social security industry in Kenya in the wake of COVID-19. More so, how the general public and policymakers respond to extreme scenarios that shook the financial markets and impact everyday lives.

ABOUT ENWEALTH FINANCIAL SERVICES

Enwealth Financial Services Ltd is licensed by the Retirement Benefits Authority as a Pension Administrator. Enwealth has taken a unique approach by providing customer-centric and innovative solutions in social security financial services and earned its position as a trendsetter in the industry.

Within the last 10 years, the company has registered tremendous success and is currently providing services to

over 120 Corporates with over $700 million in assets under Administration. Our innovative approach to client

service and product design, driven on the platform of strong corporate governance and integrity, has been the cornerstone of this momentous growth.

We express gratitude to the following team for their insightful contributions towards the development of this research.

SOCIAL SECURITY STUDY GROUP MEMBERS

STRATHMORE UNIVERSITY
Dr Thomas Kibua – Technical advisor
Naomi May Mwangi

ENWEALTH FINANCIAL SERVICES LTD
Simon Wafubwa – Managing Director
Bancy Kaleli – Business Development & Training
Gift Mbeja – Pension Administration
Nangilah Wamalwa – Business Development & Training
Payon Makokha - Pension Administration

ABSTRACT

The pandemic era has emphasized the need to develop elaborate and dynamic pension systems that can well respond to extreme scenarios that shock the economy and effect lifestyle changes over time especially for senior citizens who are considered to be among the vulnerable group. Through analysis on the effect of the pandemic on finances of senior citizens and changes in their sentiments within the past year will give an insight on areas of improvements within the pension systems.

The purpose of this study was to establish the effect of covid-19 on the financial and well-being of retirees in Kenya, with a specific focus on pensioners who are actively benefiting from Annuities and Income Drawdown funds. The research was guided by the following objectives: To determine the effect of Covid-19 on the financial well-being of the retirees in Kenya, to determine the effect of Covid-19 on the Healthcare and mental well-being of retirees in Kenya and to determine the overall life satisfaction of these retirees in Kenya.

The study adopted a descriptive research design. Primary data was collected through Administration of questionnaires and interviews. The target population comprised of pensioners from various schemes in Kenya. For analysis of the data, descriptive statistics such as frequencies, measures of central tendencies and measures of dispersion were used.

The findings indicated a shift in the factors from the previous years in comparison to 2020. The data collected contained information on five different demographic characteristics of the respondents, the financial adequacy and the level of life satisfaction within the past one year. The findings indicated that nearly half of the retirees have various sources of income with 57% of the respondents reporting other sources of income apart from pensions.

The first four sources of income ranked from rental income, farming, business income and consulting/lecturing which points towards investment-oriented minds of retirees as well as the importance of labor income even in later years. Some of the sources of income were returns from investments made in the financial markets for instance bonds and stocks.

These two ranked among the lowest sources of income. This shows that retirees were more affected by the low returns from the financial markets indirectly through pension systems rather than direct investment in the financial market. The value that retirees peg on the importance of diversification of sources of income also stands out from this analysis with some of the retirees doing it on a purely voluntary basis especially for wealthy retirees and others diversify to boost their pension earnings.

The analysis on the expenditure patterns and debt patterns of retires was also examined. The study established a rise in the expenditure of retirees in 2020 compared to the previous years. 60% of the respondents reported an increase in their expenditure since the onset of COVID – 19 in Kenya. This rise in expenditure is attributed to the adverse effect of COVID-19

on the economy and the consequential increase in inflation that resulted in an increase in prices on basis products.

The highest expenditure was support to family members indicating which explained the high elderly dependency ratio in the country. This concurs with the projection made by (Gilford, 1988) on the rise in elderly dependency ratio and a decline in the young dependency ratio in the 21st century despite the projected decrease in the total dependency ratio.

The rising expenditures further explain the increased level of debt accumulated by retirees.

65% of the respondents reported to have acquired a loan facility within the past year with mobile app and commercial banks being the highest sources of loans which were used for business expenses and normal consumption expenditure.

Assessment on the mental well-being of retirees was done through analysis of life satisfaction parameters. From this study, we established that retirees as satisfied with their lives some of the time. This shows a disconnect between the expected level of life satisfaction for people within this age bracket and the level of satisfaction that is generally expected for senior citizens.

The mental well-being is as important as the physical well-being as such policy makers and individual retirees should pay more attention to it and work improving it gradually. Furthermore, respondents who reported to have visited the doctor in the past one year used cash from pocket (41%) and insurance cover (32%) to pay for the medical expenses. This points to the availability of health insurance in the country that still needs improvement to cover more and more of the elderly population who are more susceptible to illness especially during a pandemic.

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CHAPTER 1:

RESEARCH BACKGROUND

1.1 Introduction

Retirement funding seeks to advance the promise of opportunity, financial well-being and dignity in an individual's retirement, which can be measured by determining the well-being of retirees in a given jurisdiction. The aim of achieving this financial well-being starts way before the retirement age. It starts by making well-thought-out choices in budgeting, intentional savings, and investing in equal measure.

Before the breakout of Covid-19 in late 2019, this would have been considered a walk in the park since most local pension markets, including Kenya, were recording growth. The COVID -19 pandemic has had an adverse effect on the Kenyan economy, especially in the last two quarters of 2020, leading to the reduction in the growth of AUM from 11.3% between 2018-2019 to 7.7% in 2019-2020 (Business Daily, 2021)

The Association of Retirement Benefits Schemes has defined the Income Replacement Ratio (IRR). The IRR is defined as the percentage of pre-retirement income that an individual will need to maintain a similar standard of life in retirement. (Association of Retirement Benefits Schemes, 2020). The recommended global Income Replacement Ratio (IRR) is between 70%-80%; however, the estimated IRR is at 35% in Kenya. (Association of Retirement Benefits Schemes, 2020). The effects of Covid-19, together with the eroding effect of inflation, would have substantially reduced the score of this IRR affecting the livelihoods of retirees massively. With the increase in inflation and increased healthcare expenses, mainly as most insurance companies refused to cover Covid cases, the dependency ratio went up.

According to the OECD International Network on Financial Education (INFE) research, senior citizens in most economies exhibited low levels of financial well-being even before COVID – 19. However, the pandemic hasorsened the situation due to the extreme financial situation that the economy has gone through (OECD/INFE, 2020).

As Hamilton Project puts it, a considerable number of individuals and family units, arguably throughout the world, are facing grave challenges against a backdrop of stagnant real wage growth and fiscally strained public sector and government-driven programs. Also, with the ageing of Baby boomers (the generation born between 1946 and 1964, now aged between 57 and 75) and rising life expectancy, the number of retirees receiving public support has increased markedly. The ageing population has consequently resulted in fiscal pressures on pension and social security systems and healthcare programs. At the same time, healthcare costs for seniors continue to rise. Now, with Covid-19, these effects are more acute than ever before. (David Boddy, 2015)

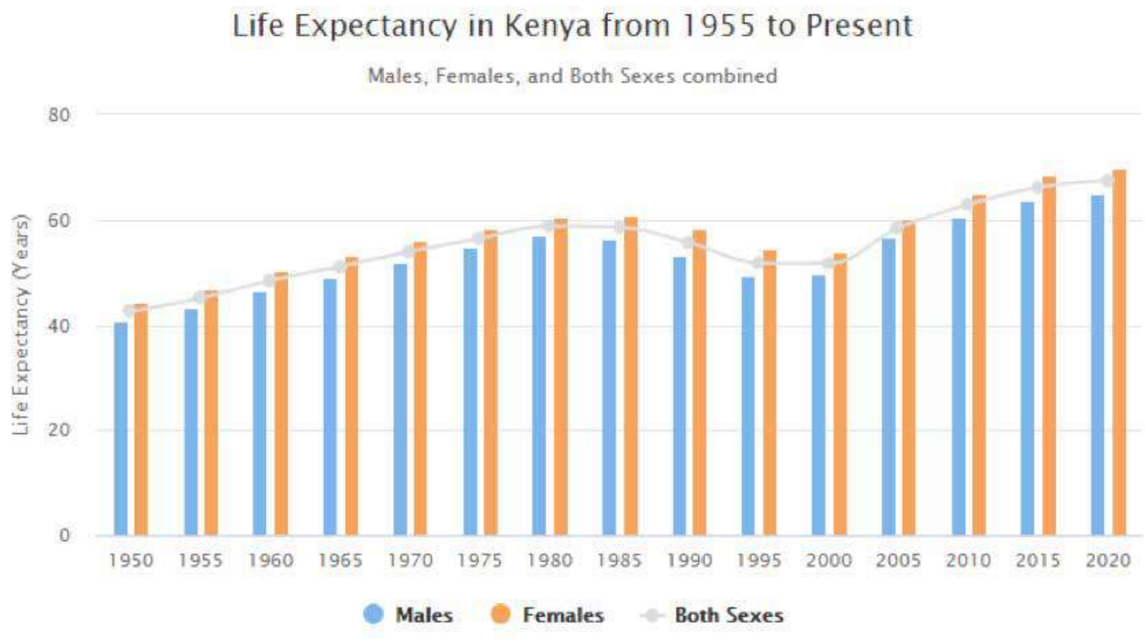

Figure 1: Growing life Expectancy in Kenya (Worldometer, 2020)

An increasingly large share of financial resources will be devoted to supporting the elderly in our country given the demographic changes, gains in longevity, and higher medical costs, which may directly be due to the pandemic. The growing ageing population in Kenya leads to several questions on the financial support for retirees.

With future changes in policies for the industry , the government increasing its support in providing care for seniors or perhaps the retirees planning and managing their finances better through investements give a ray of hope. This report will investigate to what extent the retirees can expect to rely on pensions to support them in their retirement years and the status of their general well-being, both financially and socially.

1.2 Effects of Covid-19 on Retirees

1.2.1. Kenyan Context

1.2.1.1. General Demographics

Like most African states, Kenya is marked by a continual rapid population growth rate, an increase in dependency ratio and an increased life expectancy of both genders. The Kenyan population is currently estimated at 54,698,558 as of Friday, April 16 2021, based on Worldometer elaboration of the latest United Nations data and is predicted to grow by at least 2.35% over the next year. ((Worldometer, 2021) This trend, together with the financial effects of the pandemic, calls for concern since it poses foreseen risk in finances of the country and more so a stress on the healthcare, social security and pension structures available at the moment.

In Kenya, approximately 20,000 people join the retired bracket yearly. Research from the United Nations Department of Economic and Social Affairs in 2009 showed that the number of Kenyans aged 60 years and above would rise from 1.6 million to an astonishing 3.4 million by the year 2030, making up a sizeable portion of the Kenyan population. Consequently, there will be an impact on the planning and development in the country in order to support the retirees.

In the 2020-21 financial year budget presented by Hon. Ukur Yatani, the cabinet secretary of National Treasury of The Republic of Kenya, Sh57.2 billion was allocated by the government to the ordinary pension vote head, with civil servants taking up Sh36.1 billion of the total amount and this amount has risen by a galloping 19%. In addition, the budget had a new expenditure item, “monthly pension for retired deputy presidents and other State officers” with 50 million shillings allocated to it. (Mohammed, 2020). If employees who have attained 50 years and above were to take early retirement, this bill would have bloated further. This budget is way beyond the world bank standard of budgetary allocations to pension for retired government employees, not over 2.5 % of a country’s GDP. A considerable amount of the collected government revenues goes into paying retirees and as such it is expected that they would be in a position to maintain an acceptable living standard. However, it is still possible to find retirees depending on their families and communities. (MBOGA, 2014)

1.2.1.2. Kenya Retirements Benefits Sector in Covid-19 era

The global pandemic, covid-19, has created a severe ripple financial challenge effect throughout the world pension system. As a result, some companies shut down, some downsized and others stopped contributions for an unforeseeable period of time. The financial challenges negatively impacted the projected Asset under Management. In addition, individual pension schemes experienced a surge in withdrawals by the members coupled with reduced contribution rates. Organizations that shut down also saw the members of these schemes withdraw substantial funds, which further reduced the asset under management. The lower pension contributions could in the long run lead to an even lower IRR in the future.

In addition, lower pension contributions and the effects is likely to have negative consequences on the provision of future retirement income, potentially leading to:

- A lower standard of living in retirement
- A decision by some individuals to defer retirement and thereby make up their pension shortfall through additional years in the workforce
- An attempt by some plan members to increase their investment return by increasing the level of risk within their portfolio ((Knox, Brink, 2020)

1.2.2. Financial Well-being of Retirees

The financial well-being of persons in society is attributed to the effective use of finance to carry out economic activities (Benard Alkali Soepding, 2020). Retirees are feeling the economic gut punch of the COVID-19 pandemic. Even those who have savings and other resources now fear that the financial stability they had envisioned for their post-working years is gone. Most retirees have experienced financial stress, mainly resulting from issues related to income (Federal Reserve Board, 2013). Previous studies have examined the relationship between financial resources and well-being, and the findings suggest that older adults with more financial resources report higher levels of well-being (Hansen, et al., 2008; Jivraj and Nazroo, 2014; Seay, et al., 2015). Hence, individual financial well-being and risk management are important for an individual to achieve financial objectives.

1.2.2.1. Utility Pattern of senior citizens & Bequest Patterns.

In the basic von Neumann Morgenstern framework, individual utility depends on a single attribute – one’s wealth (W Kip Viscusi, 1990). This implies that ones expenditure is subject to ones current and future wealth; utility therefore is contranied by acumualted wealth. Another interesting fuction to consider is the bequest utility. Surprisingly, most previous models of bequests assume that the bequest function has the same shape as the utility function. Thus, it is tacitly assumed that the preferences elderly have regarding the wealth they will leave to their heirs are the same as their preferences over their own utility. As we discuss in the next section, there is no reason why this must be the case. Indeed, we discuss why it is likely not to be the case, and discuss different shapes and their possible psychological basis. In our simulations we show that the shape of the bequest function impacts elderly asset management, especially at the very end of life, thus that this shape should be more prominent in discussions about the elderly and their management of their assets than it has been.

The model with bequest motives comes much closer to matching the limited demand for life annuities than the model without bequest motives.
Utility from bequests is

$$v(b) = \left(\frac{m}{1-m}\right){}^\wedge\sigma\left(\frac{\left(\frac{m}{1-m}co + b\right)^{1-\sigma}}{1-\sigma}\right) \; if\; m \in \; (0,1)$$

$v(b) = co^{-\sigma} b$ if $m = 1$, and $v(b) = 0$ if $m = 0$.
$c0 \geq 0$ is the threshold consumption level below which, under conditions of perfect certainty or with full, fair insurance, people do not leave bequests: $v0(0) = c^{-\sigma}0 = u0\ (c0)$.
m £ [0, 1) is the marginal propensity to bequeath in a one-period problem of allocating wealth w between consumption and an immediate bequest for people rich enough to consume at least c0(w ≥ c0).

Research indicates that most retirees may choose to hold much of their wealth as a form of insurance rather than buy actual insurance which indicates the widespread importance of bequest motives within a standard life. The estimated bequest motive significantly increases saving i.e. retirees may choose to spend less and save more due to bequest motives. In the wake of the pandemic, most people including the elderly became even more averse to spending therefore hording even more wealth which shows the increase in bequest motives within the past year. The presence of inter- household transfers of wealth (Gale William G.) during a life and survey responses about the importance of leaving bequest, also show how widespread leaving bequests is. The reduced demand for annuities, is attributed to having children which would suggest that those with a stronger bequest motive will be less likely to annuitize (James Banks, 2015) (but lean towards income drawdown arrangements or save by other means. Lower interest rates which result in a fall in asset income, also contribute to a reduced inclination for the aged to convert their wealth to annuities.

The pandemic has impacted the lives of everyone throughout the country, either directly through exposure to the virus, or indirectly through the measures put in place by the government to help reduce the spread of the disease. Since all elements of the economy are intricately interrelated with public health measures and lockdown, this resulted in economic instabilities of the nations hinting towards change in market dynamics (Seema Mehta, 2020). COVID-19 has taken a significant toll across all demographic groups, with the older population being disproportionately affected. The butterfly effect of COVID – 19 has permanently reshaped socio-economic lives in ways that has left the economy, governments, and social institutions years to recover in the best-case scenario. Senior citizens are likely to endure stricter lockdown measures in the present time and in the near future, limiting their possibility to live their (financial) lives as they did previously and requiring a profound adjustment (OECD/INFE, 2020).

1.2.3. Mental and Healthcare wellbeing of retirees

Older adults are more vulnerable to diseases due to several factors, including reduced immunity, pre-existing conditions, psychological factors and other environmental factors. Additionally, the public, including senior citizens, have become less vigilant in observing protective behaviour as time lapses despite the COVID -19 pandemic. As Kavita et al (2020), put it, these unexpected finding, especially among the elderly, provides another viewpoint and essential basis to design interventions, which should aim to increase knowledge and awareness among older adults during the pandemic.

Social isolation and loneliness are the long-standing mental health concerns among older adults, which appear to be exacerbating during the COVID-19 pandemic. Social isolation can be explained as an objective state of being physically separated from others, while loneliness is a subjective feeling of perceived "mismatch between the quantity and quality of social relationships" (Syed Ghulam Sarwar Shah, 2020). Given the pre-existing risk of latelife psychiatric disorders among older individuals, it is critical to determine challenges posed by COVID-19 and associated social distancing protocols as it relates to the psychosocial well-being of the aging population (Kavita Batra, 2020). Previous research shows that men more than women, have reported long-standing illnesses. Of these, men in early retirement have a common mental disorder compared to those still in work, men in early retirement have also reported higher levels of generalized anxiety disorders compared to their female counterparts (Julian W. Buxton, 2005).

Causes of stress and anxiety among older people is attributed to impaired physical health status, reduced mobility, lack of independence, the presence of comorbid conditions, retirement, confinement to home, fear of losing close relative, spouse bereavement, are cited as contributing factors of social isolation and adverse psychological health outcomes among the older adults. In the wake of COVID – 19, the fear of falling ill, being hospitalized, or death with no family members around amplifies the social isolation aspect leading to the deterioration of mental health among senior citizens. Therefore, there is need to address the emotional needs of retirees to improve the psychological health outcomes of this demographic.

i. The spectrum of psychological morbidities

COVID-19 has the potential to trigger a myriad of mental health problems among older adults including but not limited to depression, & anxiety. Depression (major depressive disorder or clinical depression) is a common but serious mood disorder which causes severe symptoms that affect how you feel, think, and handle daily activities, such as sleeping, eating, or working which persist for more than two weeks (Foundation, 2020). Other researches indicate an increased outbreak of bi-polar among older individuals whereby they exhibit behaviors such as excessive happiness and agitation, indecisiveness, and increased goal-directed activities, such as taking on new projects, having an unrealistic belief in one's abilities, and impulsive behavior such as spending sprees, and hasty business investments. Anxiety disorders are the third set of mental health problems. The third set of mental health problems can manifest as anxiety disorders, some of which are particularly relevant during COVID-19. Bouts of anxiety or panic attacks are discrete periods of intense fear or discomfort that develops abruptly and peaks within minutes. Additionally, panic disorder is accompanied by the subjective feelings of heart racing, shaking, dizziness, shortness of breath, sometimes chest pain, a fear of losing control, fear of dying, derealization, depersonalization, and dizziness. Posttraumatic stress disorder (PTSD) is a psychiatric disorder that may occur in people who have experienced or witnessed a traumatic event such as a natural disaster, a serious accident, a terrorist act, war/combat, or rape or who have been threatened with death, sexual violence or serious injury, (American Psychiatric Association, n.d.), or having lived through a pandemic. In Kenya, cases of PTSD among retirees, is mostly reported among people who worked in stressful work environments such the military or people who lived in places that have experienced terror attacks. In isolation, individuals with PTSD have to relearn how to deal with the disorder without the support of family and/ or friends.

A less prevalent health disorder is adjustment disorder which occurs in response to stressful life events. This disorder registers a while after occurrence of the stressful event. Three to four months from the occurrence of the stressful event, is the estimated period. Symptoms cause distress and feelings of tenseness, sadness, withdrawing from other people, acting defiantly or showing impulsive behavior which can affects the normal day-to-day life of a person, including social interactions.

ii.Psychosocial impact of COVID-19 among older adults

COVID-19 pandemic has a devastating effect on the psychological well-being of older adults. Research conducted in this on psychology in the wake of COVID-19 show varying results. According to the national survey of 1468 U.S. adults, the prevalence of psychological distress among older adults (> 55 years) was 7.3%, compared to the 3.9% reported during pre-pandemic circumstances in 2018 (Kavita Batra, 2020). A study on a Spanish based population attributed greater psychological distress among older adults to loss of loved ones, hospitalization of a family member, fear of death and fear of contracting the virus and financial insecurity. Reportedly, loneliness increased by 3% during the pandemic; this suggests that loneliness on its own has a low significant level on the rise of psychological health issues in the wake of the pandemic. However, the impact of loneliness cannot be overlooked. A focus on people who experienced loneliness prior to COVID-19 reported and increased burden of loneliness during the pandemic lockdowns. In the United Kingdom, the prevalence of psychological distress increased from 18.9% to 27.3%. Individuals with pre-existing chronic conditions, low-income households, and those belongi to Asian ethnicity form a sizable proportion (Yeen Huang, 2020).

Social distancing and self-isolation seemed like and is still the obvious prevention mechanism at the time this paper was written. However, the impact it has on the psychological health is harmful. Improving meaningful social connectedness through peer support groups and efficient public health monitoring of mental illness are the potential strategies to increase social inclusion among the older population.

Objectives of the Study

1.2.4. General Objective

The general Objective of this study was to establish the effect of Covid-19 on the financial and General well-being of retires in Kenya.

1.2.5. Specific Objectives

The specific objectives of this study were:

1) To determine the effect of Covid-19 on the financial well-being of retirees in Kenya.
2) To determine the effect of Covid-19 on the Healthcare and mental well-being of retirees in Kenya.
3) To determine the level of satisfaction of life of retirees in Kenya.

CHAPTER 2:

METHODOLOGY

This chapter gives an overview of the methodology used to conduct the research. It gives an outline of the research design used, the population under study, the sample used in the study and the methods used in data collection.

2.1. Research Design

The study adopted a descriptive research design. Primary data was collected through the administration of questionnaires and interviews. The target population comprised of pensioners from various schemes in Kenya. For analysis of the data, descriptive statistics such as frequencies, measures of central tendencies and measures of dispersion were analyzed and presented using Microsoft Excel.

2.2. Sample Size

Based on statistical sampling for an infinite population, the target for this study was 400 respondents, including pensioners and retirees who had retired in the past one year. One hundred and Seventy-six (176) total responses were received, representing 47% of the target population.

The link to the questionnaire used is as below;

- https:/enwealthfinancialserviceslimited.cmail19.com/t/j-l-aulkijy-iilhikjkjt-r/

CHAPTER 3:

DATA ANALYSIS AND PRESENTATION OF RESEARCH FINDINGS

3.1. Introduction

This chapter consist of research findings and data collected. The data was obtained through administering of questionnaires. The findings are summarized, interpreted and compared to other studies in the area of interest. Data was analyzed using descriptive statistics and the findings are presented using charts, graphs and figures.

3.2. Analysis of the results of the Survey

3.2.1. General demographics of the participants

There were 168 valid responses to the questionnaire sent out for the study. Of these 35% of the respondents were men, while 65% were women as shown in the diagram below.

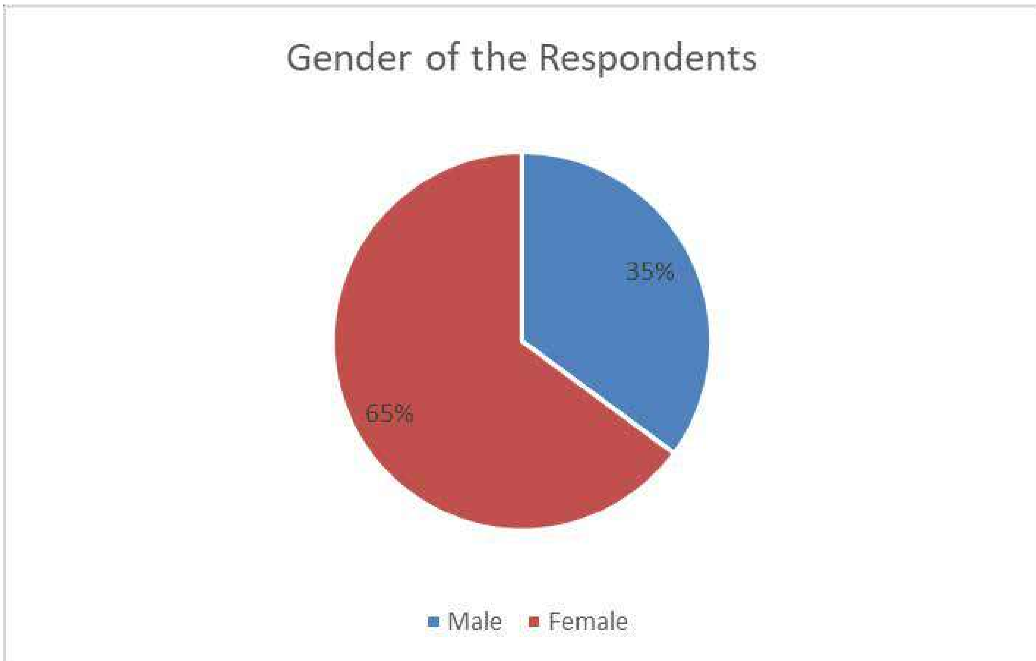

Figure 2:Gender of Respondents

As indicated in figure 3, below, 49% of the respondents were between 61-70 years, while 35% of the responds were between 51 – 60 years. The respondents with age categories below 50 years and above 70 years were 8% of the population.

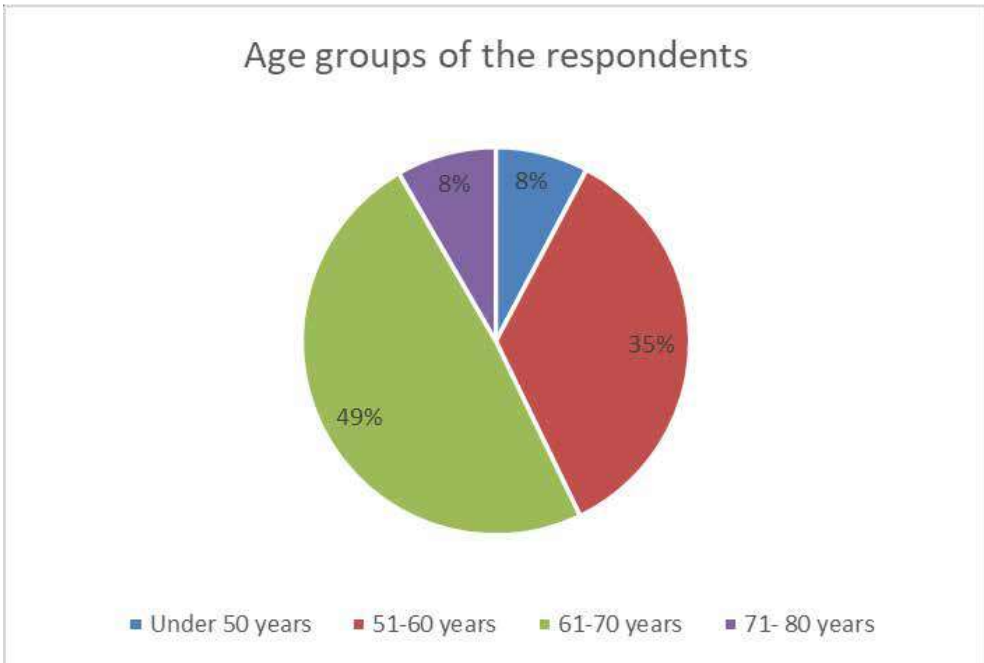

Figure 3: Age Group of Respondents

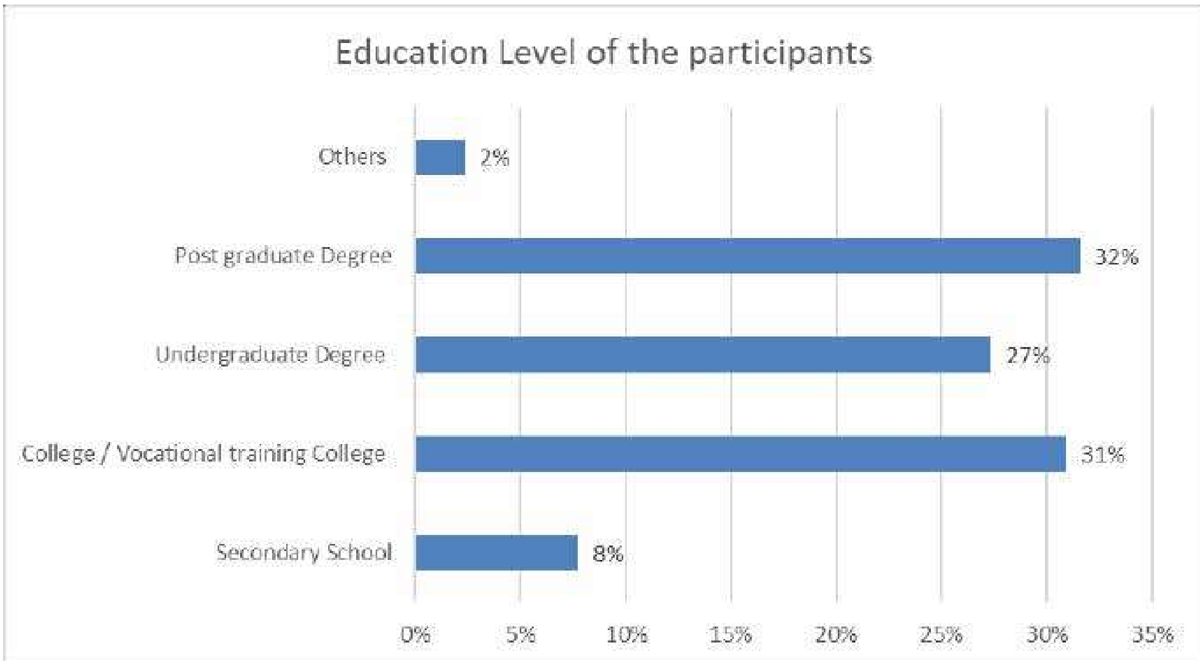

Figure 4: Education Levels of Participants

As shown in figure 4 above, 90% of the respondents had at least a college or university level degree, which is a good indicator that a large number of retirees are educated and hence have the capacity to make wise retirement decisions in order have quality life.

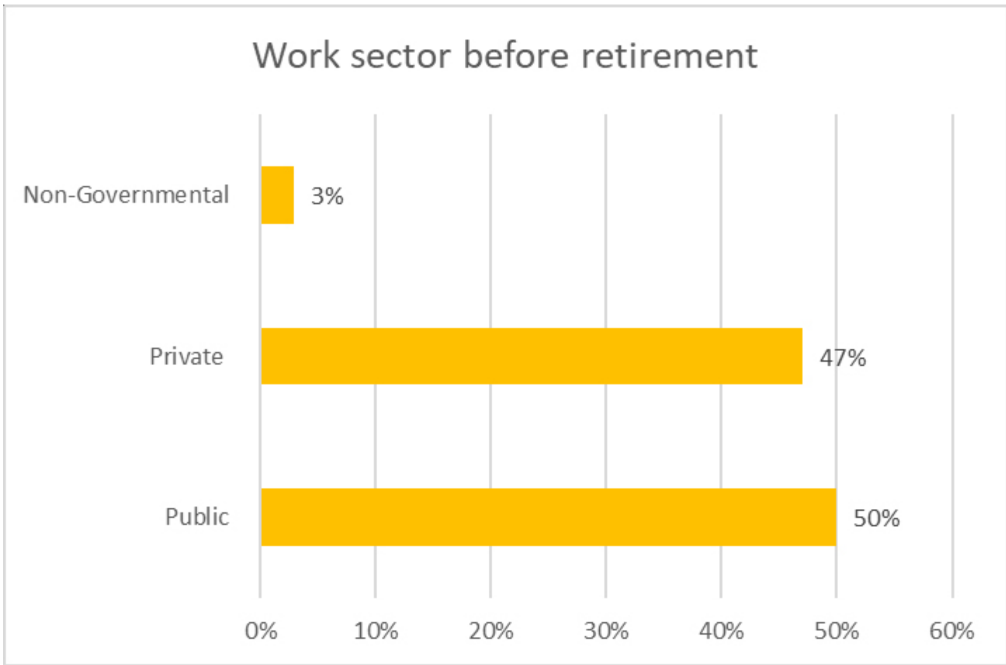

Figure 5: Work Sector before Retirement

Before retirement , 50% of the respondents were working in the public sector, 47% in the private sector while 3% were working in the Non-governmental organizations. This is illustrated in figure 5 above.

It was further observed that the respondents who previously worked in the public sector had a lower uptake of loan facilities in retirement at 36% compared to 46% of those who previously worked in the private sectors and 40% in non-governmental organizations.

Of those who experienced an increase in their expenses and utilized loan facilities (since the onset of the pandemic), 83% of them previously worked in the private sector while 73% in the public sector. While those who experienced an increase in their expenses but did not utilize loan facilities, 50% of them were from public sector and 57% of them previously worked in them private sector. The disparity between the spending and loan patterns of this sector groups could be attributed to a higher IRR that has often been associated with public sector employees owing to the generosity of the scheme structures that these employees are in and the long tenure periods for these workers which enabled them to accumulate higher pension funds over time. Most public sector employees have longer tenure periods that is not marred by several breaks in between working years. This enables them to accumulate much higher pension funds at the time of retirement. Furthermore, there is substantial heterogeneity across jurisdictions in the savings generated in primary Defined Contribution (DC) plans because of differences in the level of mandatory employer and employee contributions. One notable difference between public and private sector DC plans is that public sector primary DC plans are characterized by required employee or employer contributions (or both), whereas private sector plans largely feature voluntary employee contributions that are supplemented by an employer match (John Beshears, 2011).

Of importance to note is the difference in financial literacy of these sectors in terms of financial management, owing to the fact that 57% of previous private sector workers who didn't experience a change in their expenditure still took loans during the pandemic year.

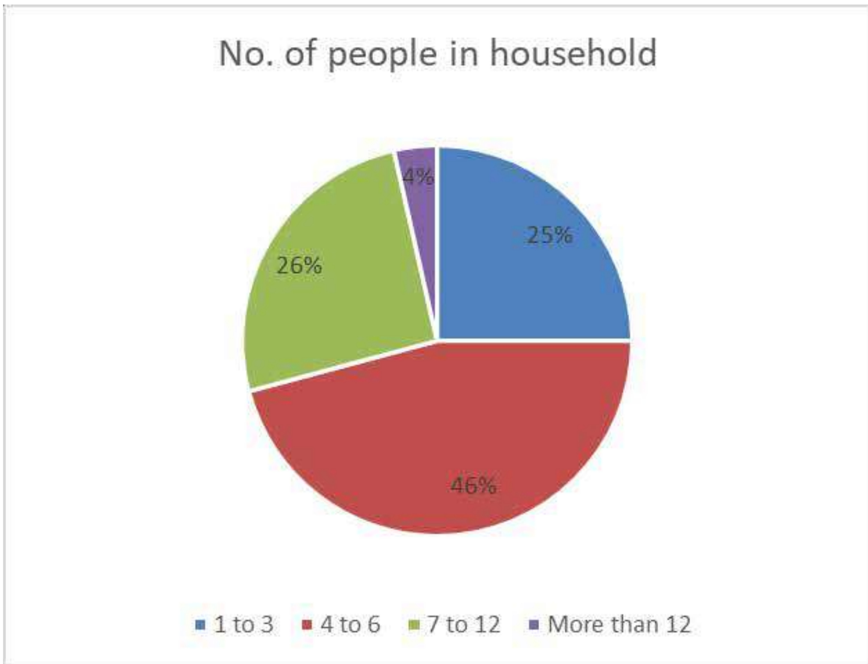

Figure 6: Size of Household

The study sort to establish the reason for retirement among the respondents. As shown in figure 6 below, 59% of the respondents had retired as they had reached the retirement age, 21% had taken voluntary retirement before attaining the retirement age, while the organization retrenched 15%. For those who were retrenched, the reasons given by the respondents were that the organization had gone bankrupt or into receivership due to the effects of COVID -19 pandemic. In addition, 4% of the respondents had retired due to health reasons.

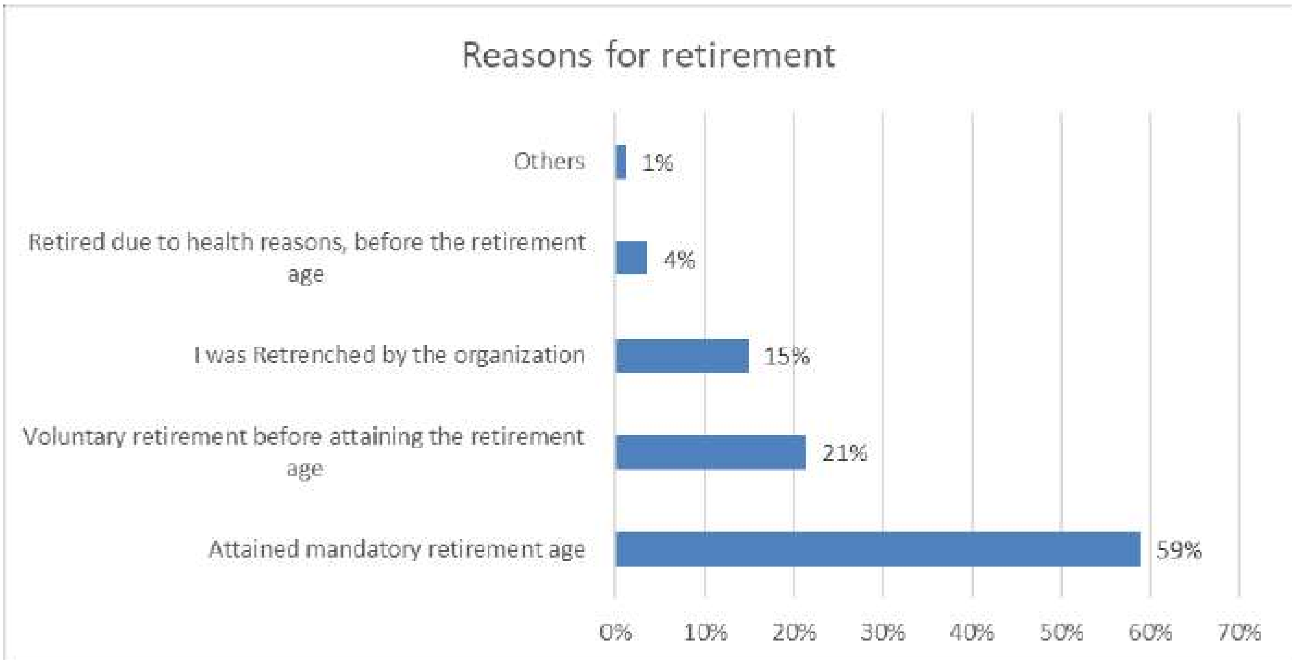

Figure 7:Reasons for retirement

As indicated in figure 8 below, 90% of those who retired had accessed their retirement benefits and 95% of these were in a pension scheme and remaing 5% in provident funds. as illustrated in figure 8.

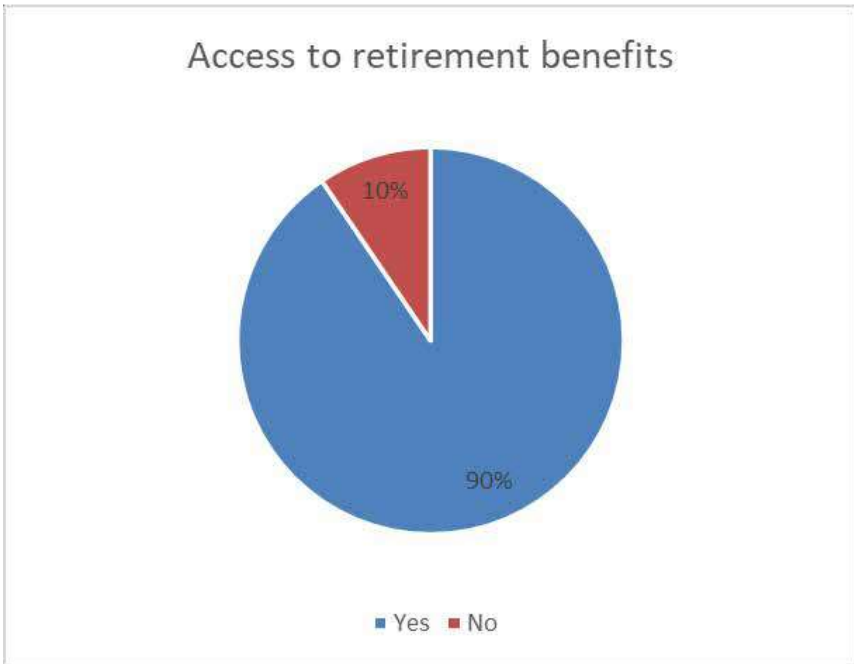

Figure 8:Access to Retirement Benefits

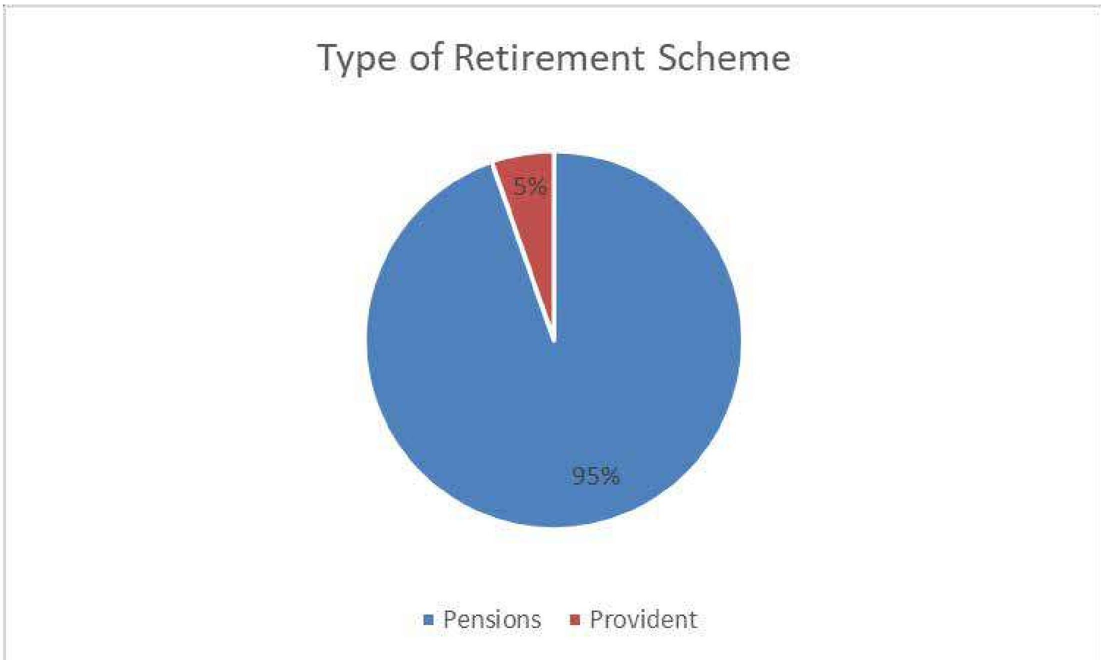

Figure 9: Type of Retirement Scheme

The study sort to find out what percentage of the retirement funds they had accessed and they choices the made regarding the remaining amount of their pension.

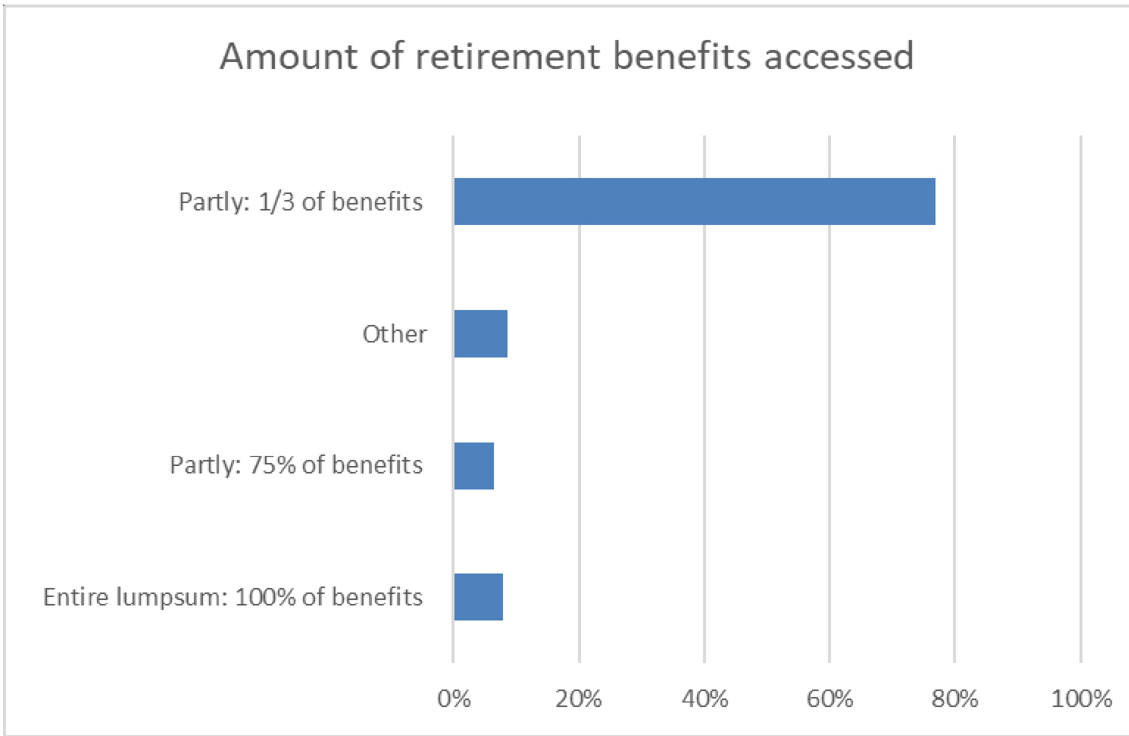

Figure 10:Portion of Retirement Benefits Accessed

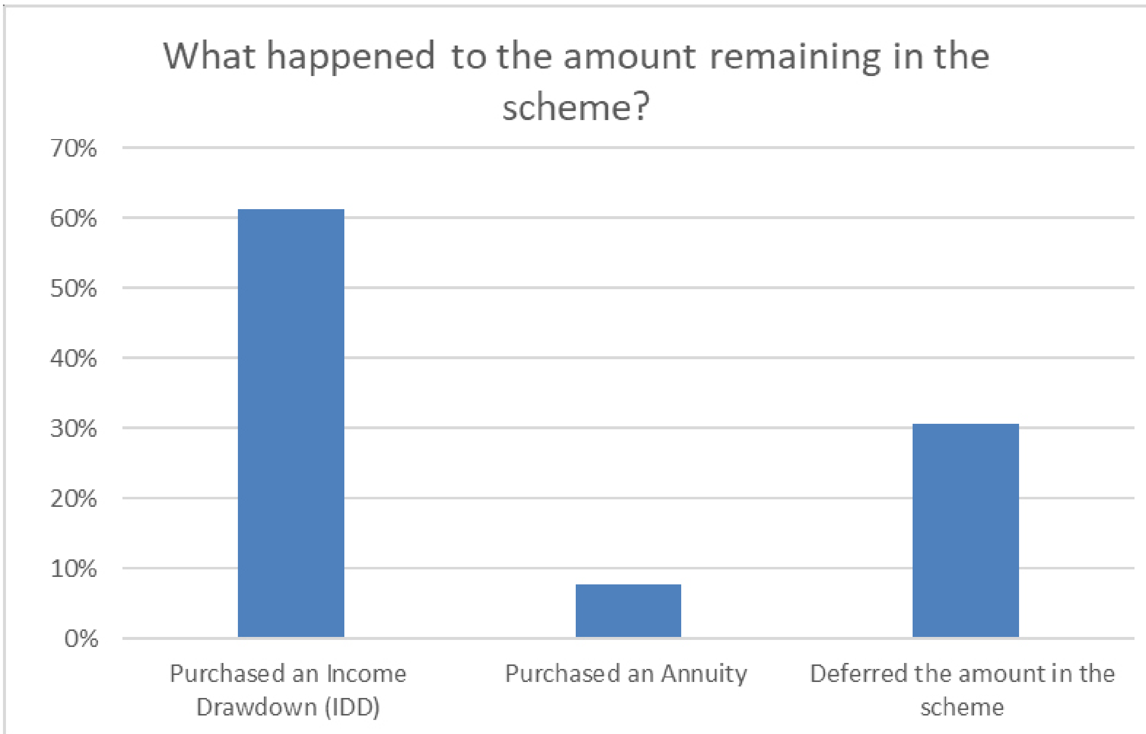

Figure 11: Allocation of Remaining Benefits:

77% of the respondents accessed a third of their pension amount, as shown in figure 10 above. Another 16% of the respondents withdrew some of the money in the pension with 8% of the respondents withdrawing the whole amount.

Regarding money that remained in the fund, 61% of the respondents indicated that they converted into an Income Draw Down(IDD) scheme, 31% of the respondents had the amount deferred in the scheme, and only 8% purchased an annuity. This is shown in Figure 11 above.

Further, the study sort to find out if the respondents had invested the money accessed from their pension funds and if so, what they invested the money into.

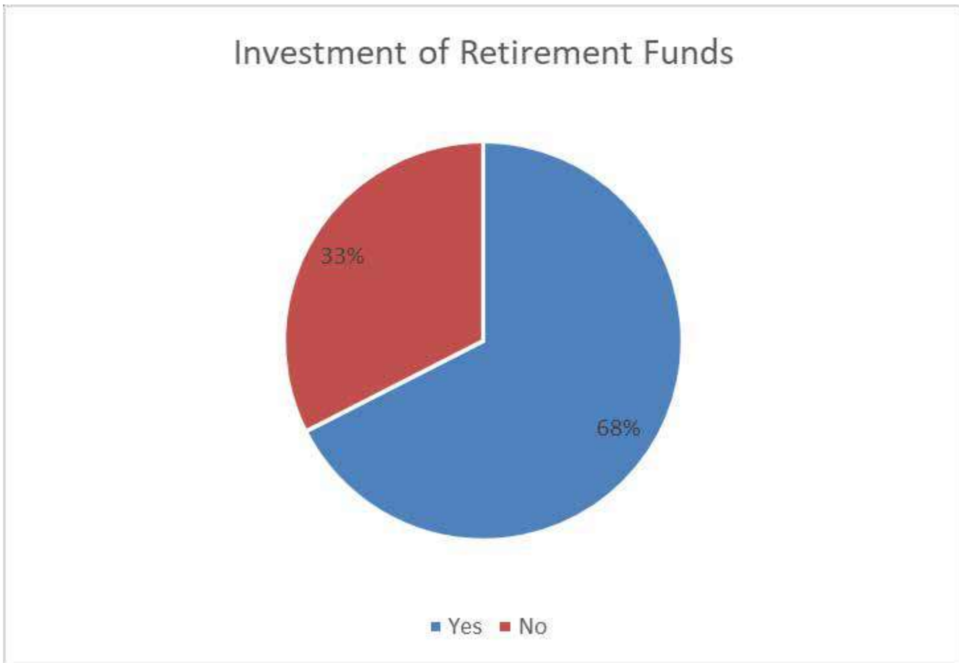

Figure 12: Investment of Accessed Portion of Retirement Funds

68% of the respondents indicated that they had invested the money withdrawn from the pension fund as shown in figure 12 above.

As illustrated in figure 13 below, the most common types of investments the respondents participated in were farming, business, building of rental/commercial houses and investment in money market funds.

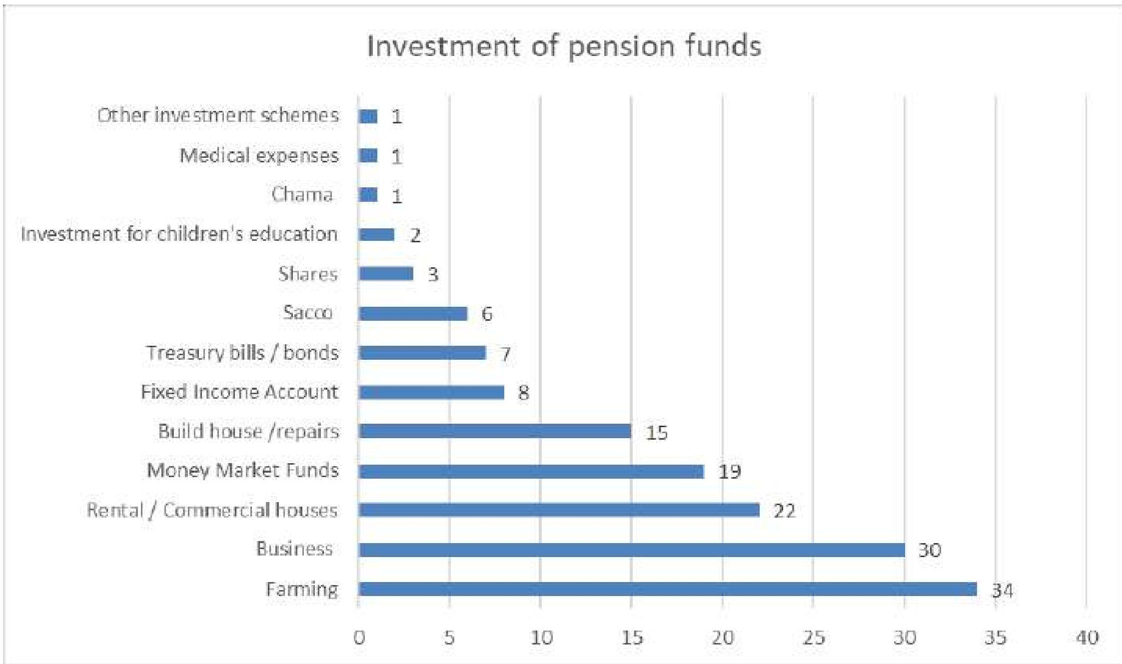

Figure 13: Type of Investment Made

3.2.2. Financial wellness

The survey sought to identify the status of the respondents as regards their financial status after retirement. We asked the respondents if they had additional sources of income apart from income from pension funds? As shown in figure 14, 57% of the respondents indicated that they had additional sources of income in addition to pension funds.

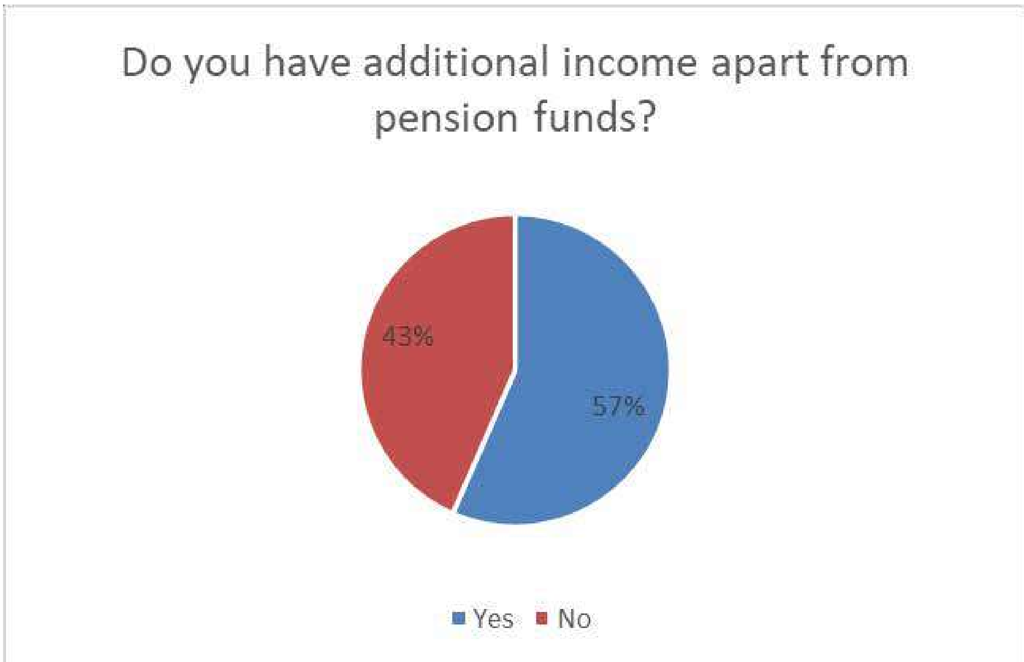

Figure 14: Proportion of respondents with other sources of Income

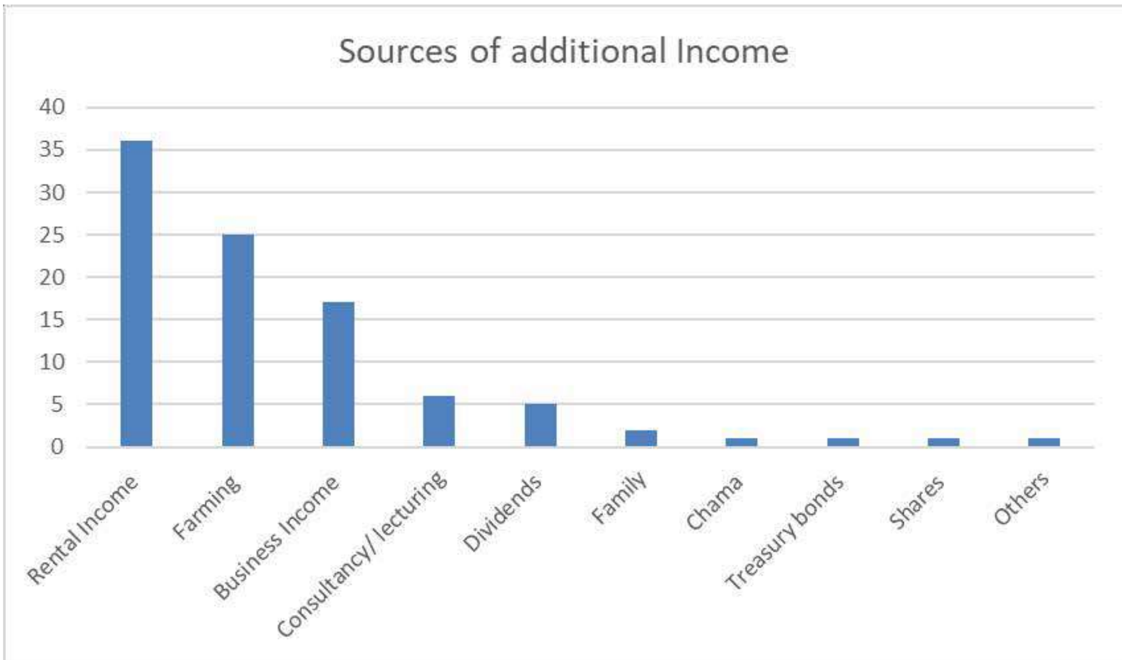

Figure 15: Other Sources of Income

Figure 15 above, shows the sources of additional income for the pensioners. The most common sources were rental income, farming, business, consultancy / lecturing and dividends.

A decrease in old-age mortality has a significant impact on an individual's lifecycle retirement planning as well as the economic cycle. For individuals, it implies a need to plan for potentially longer retirement spans or longer working lives, and to adjust saving plans accordingly (Poterba, 2014). For wealthy retirees, observations made display a varied mix of income sources, with pension incomes and incomes from other investments and assets liquidations along the retirement lifecycle including labor income.

According to (Barry Bosworth), there has been a large shift in the composition of income sources especially for retirees aged 65 and above as more and more retirees chose to spend their time and resources in employment. This shows an increase in the importance of labor income to an individual's overall accumulated income. Incomes can also be attributed to continual learning and the education level of retired workers who choose to continue working or to go back to employment. (Barry Bosworth, 2012).

Analysis of this paper has focused on the individual effect of a single income. The analysis of a single income may erode the standard of living for the individual from the income stated, considering that some households may comprise more than one household income source. Analysis of the fraction of the source of household income contributed by a single retiree will shed more light on the impact of such a source on the living standard of a single Kenyan retiree.

3.2.3. Expenditure Patterns for Retirees

The respondents were asked to rank a pre-determined list of expenses in order, starting with those most incurred. As shown in figure 16 below, school fees and household expenses were the top-ranking expenses.

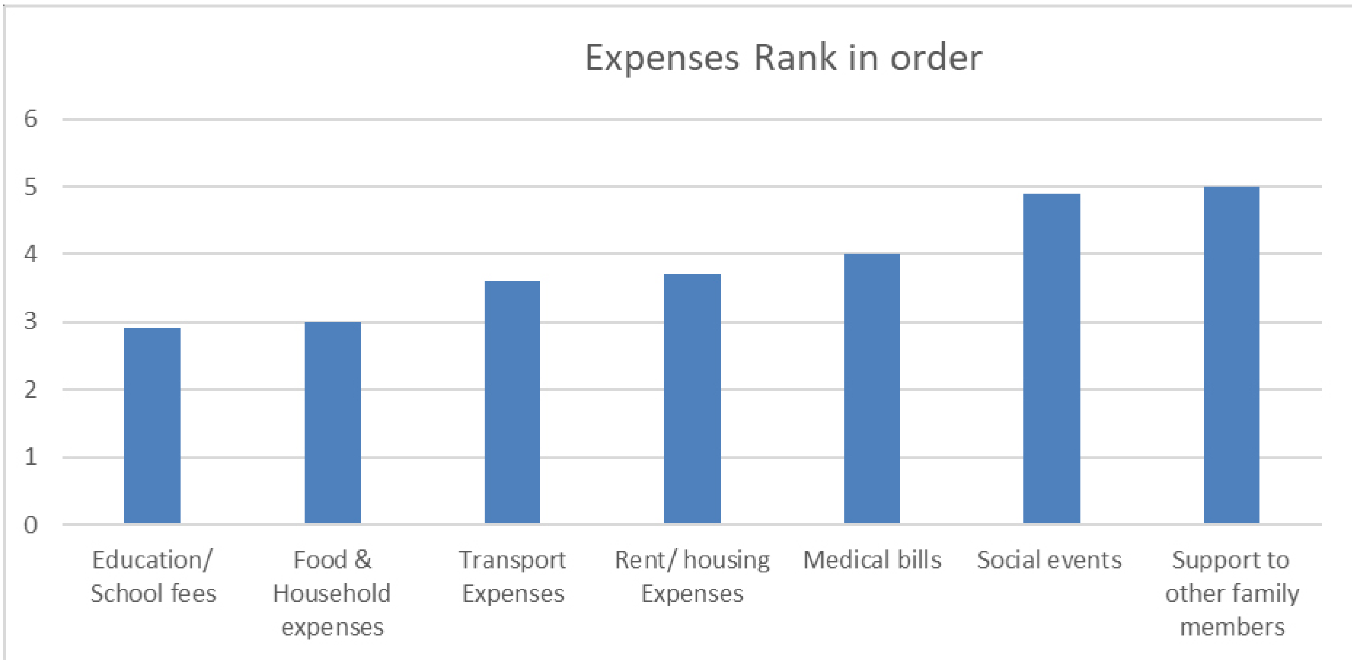

Figure 16: Rank of Expenses

60% percent of the respondents indicated that their expenses had increased in 2020, since the COVID pandemic hit the country, as shown in figure 18 below. As per figure 19 below, 78% of the respondents indicated that their expenses had increased by 11-50% with the one of the main reasons being support to family members.

It is expected that the increase in elderly dependency ratio will be greater than the decline in the young dependency ratio, despite the projected decline in total dependency ratio. (Gilford, 1988)

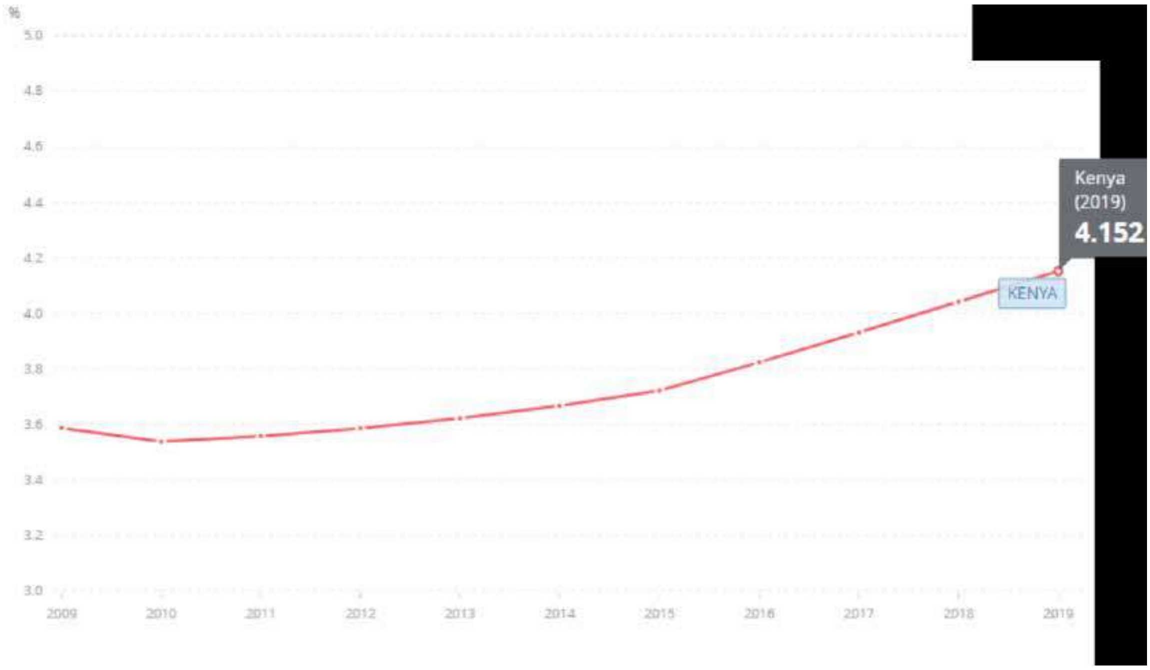

Figure 17: Age dependency ratio (World Bank, 2019)

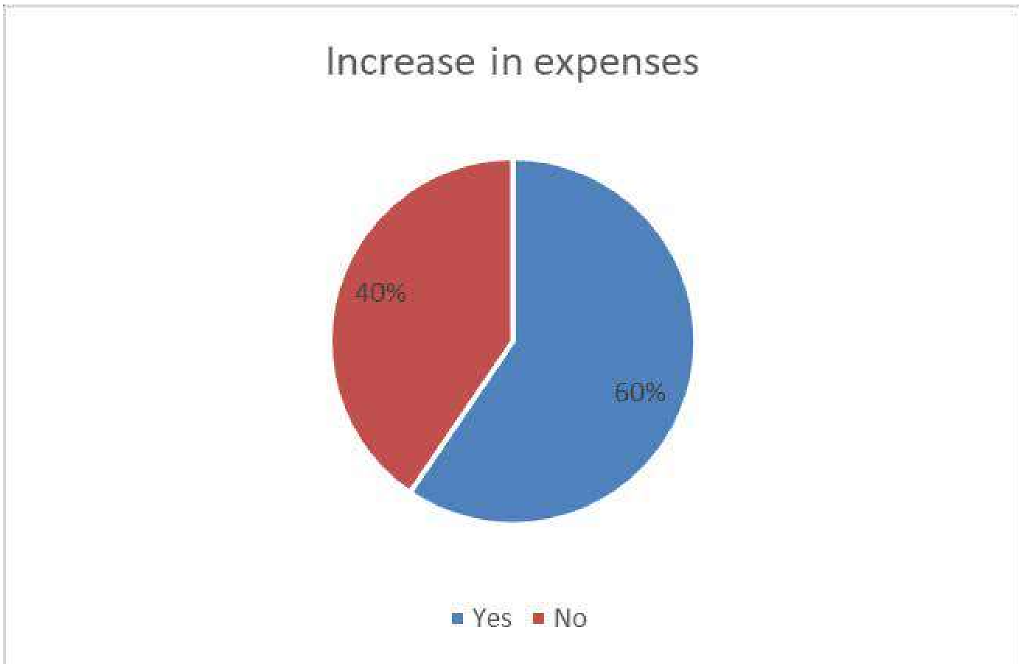

Figure 18: Increase in Expenses

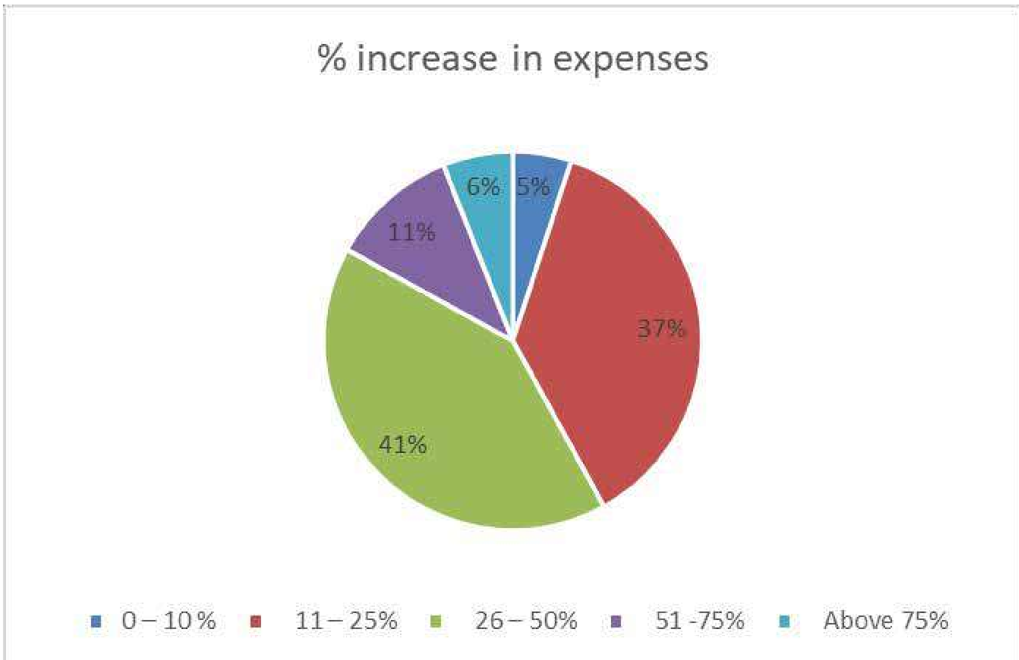

Figure 19: Percentage Increase in Expenses

Given the increase in expenses, the study sort to find out if the respondents had taken any loans in the last one year. Figure 20 below, shows that only 35% of the respondents had taken a loan in the last one year.

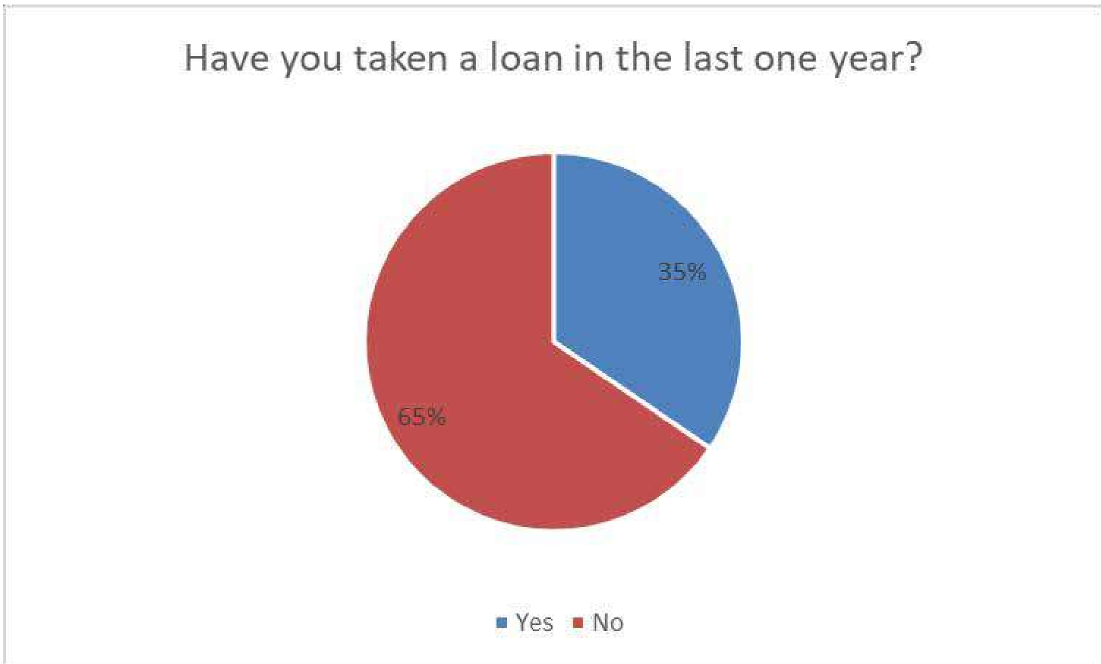

Figure 20:Access of Loan Facilities

The most common sources of loans were mobile loaning apps and commercial banks as per figure 21 below. The respondents used the loans mainly to cover business expenses and for normal consumption expenses as illustrated by figure 22.

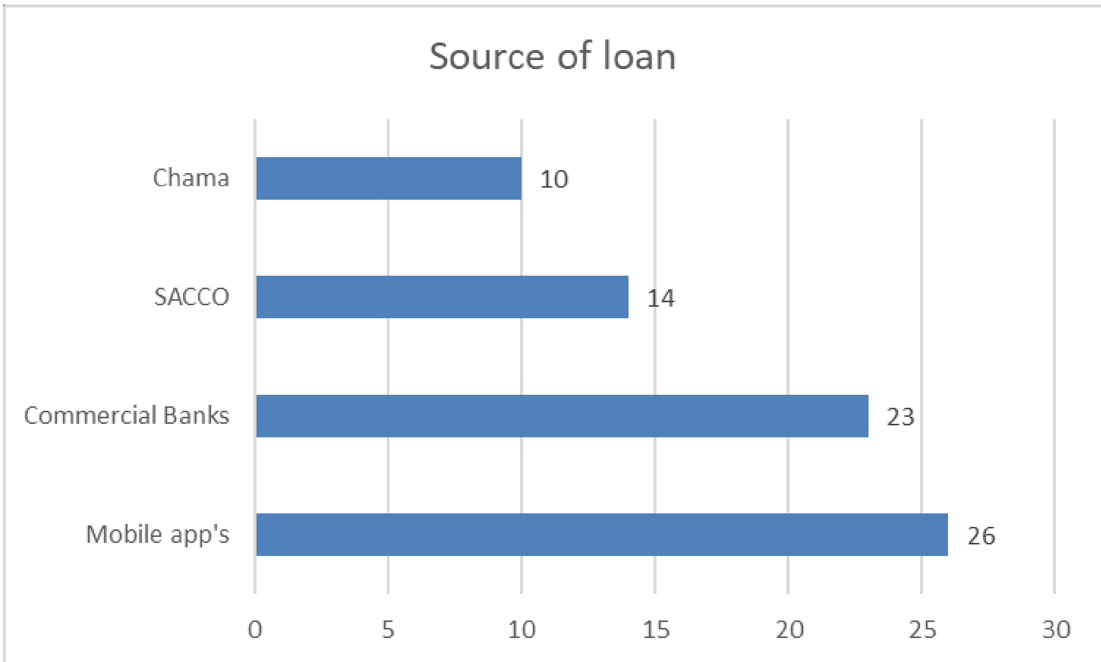

Figure 21: Sources of Loan

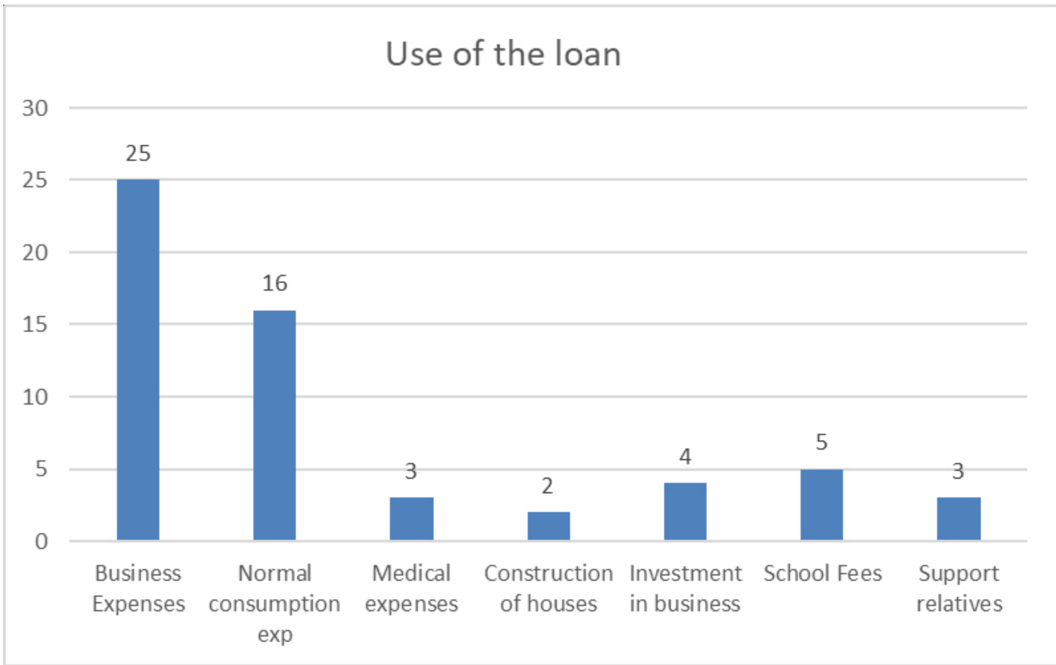

Figure 22: Purpose of Loan

3.2.4. Well Being

The study finally sort to investigate, the well-being of the respondents by asking questions related to the health and perceptions regarding their well-being. Figure 23 below, describes the number of times the respondents sought medical attention in the last one year. 44% of the respondents saw the doctor less than 2 times, 33% of them between 3-5 times and 23% of the respondents saw the doctor more than 5 times.

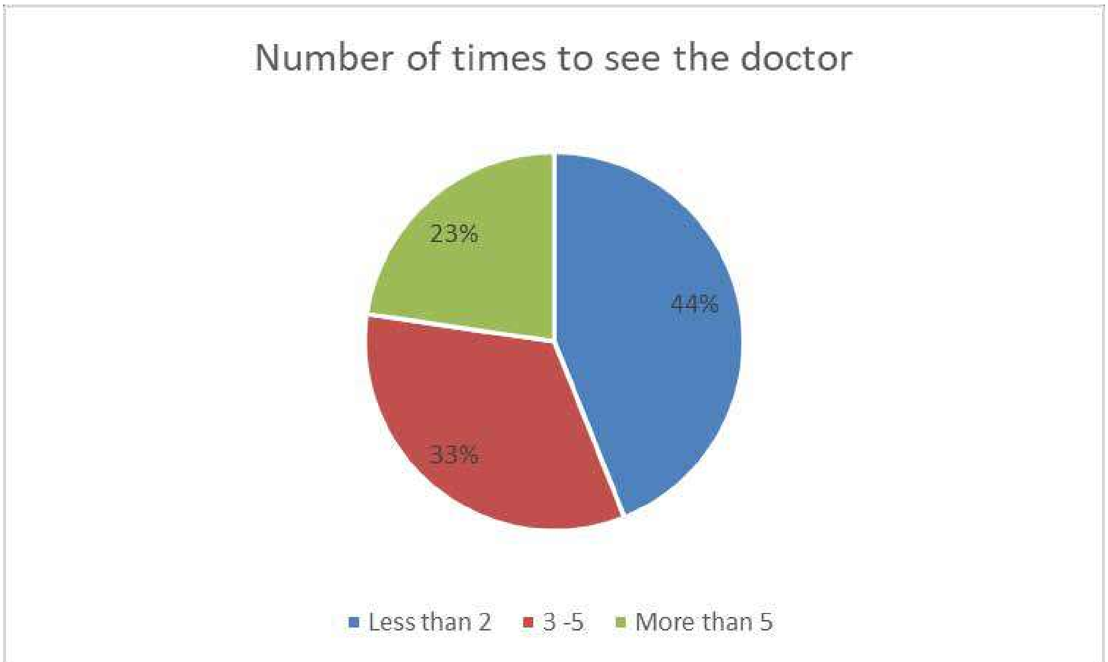

Figure 23: Number of Doctor visits

As per figure 24 below, 41% of the respondents paid for their medical bills using cash, 32% had insurance that covered the medical bills and 20% of the respondents used the National Hospital Insurance Fund (NHIF) to pay for their medical bills.

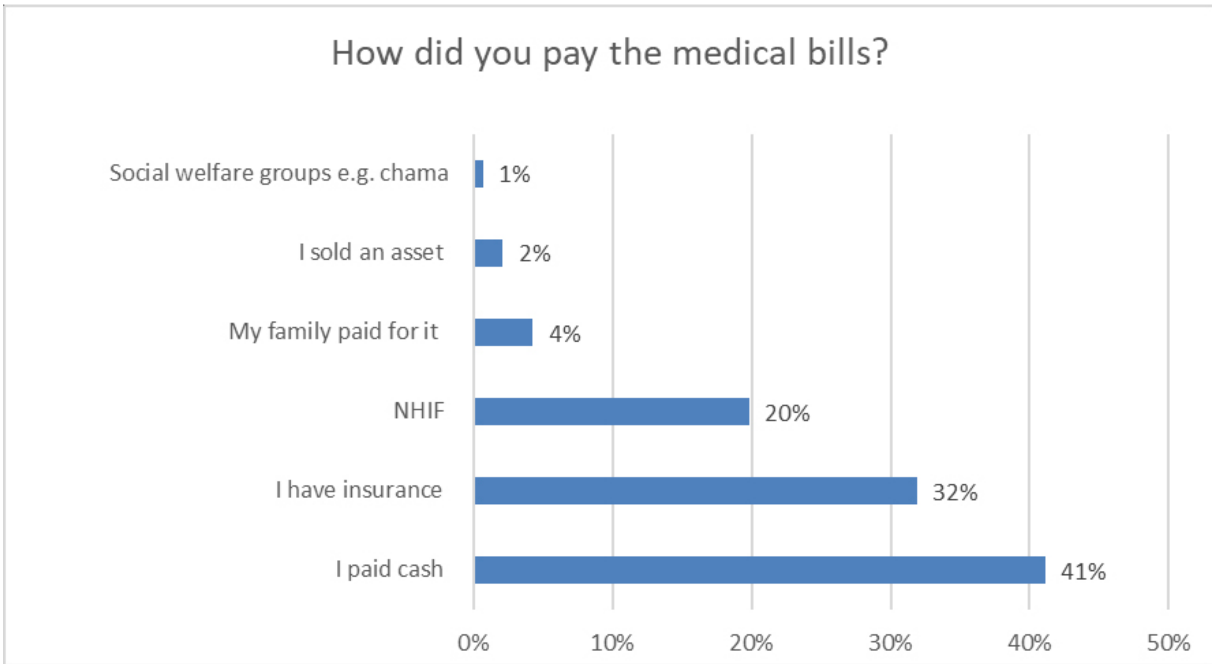

Figure 24: Sources of Funds for Medical Bills

To measure the perceptions of wellness among the respondents, we asked the respondents to relate statements regarding satisfaction with life after retirement in the last one year to the following statements;

1. At no time, 2. Less than half the time, 3. More than half the time, 4. Some of the time, 5. Most of the time,6. All the time.

Perceptions regarding wellness in the last one year	Average
I have felt cheerful and in good spirit	4.35
I have felt calm and relaxed	4.17
I have felt active and vigorous	4.09
I wake up feeling fresh and rested	4.29
My daily life has been filled with this that interest me	4.17

Table 1: Life Satisfaction

On the six-pointer scale used to measure the life satisfaction on the well-being of retirees and their outlook on general well-being, the respondents indicated that they were only satisfied some of the time.

Michael Smith's advice-model of desirability states that an agent is happy when a more informed and rational hypothetical version of her would judge that the agent's actual life matches the best life-plan for her. Academics have also found that life satisfaction falls in our 20s and 30s, then hits a trough in our late 40s before increasing until our 80s which can be attributed to a compounded effect of emotional stability and overall life experiences. Analysis of the 5 parameters above, implies that since the respondents were only satisfied some of the time, then their actual lives do not match their rational expectations.

CHAPTER 4:

DISCUSSIONS
4.1. Policy and Structural Changes by Governments

4.1.1. Kenya

Following the Tax Laws (Amendment) Act, 2020 recently signed by the President, below are the key changes affecting the retirement benefits schemes effective 25 April 2020.

Until January 2021, the benefits that accrued from tax-exempt contributions and income received a certain level of tax relief and thereafter subjected to tax. 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 was subjected to less tax during the year 2020.

Tax bands applicable to pension receipts were also capped to maximum rate of 25% from the previous rate of 30%.

4.1.2. Other Markets

Whereas some governments have taken steps to respond to Covid-19's rippling effect on their pension systems like allowing early access to pension, some, like Netherlands and Denmark, whose Pension systems ranked top in Mercer CFA Institute Global Pension Index 2020; with their assets being more than 150% of their country's GDPs, have not. (Dr David Knox (Mercer), 2020)

One of the simplest responses taken by some governments has been to increase the level of government support to the older population of their countries with an intent of stimulating the economy by increasing spending. This has notably been done in Australia, India and New Zealand. (Knox, Brink, 2020)

In Australia, this response by the government to increase support for the older population occurred with a means-tested bonus which implies that payments were done for individuals who demonstrated that their income and capital levels were below the specified limits. In India, it occurred with an ex-gratia payment which implies that it was given as a favor from a sense of moral obligation more than it was a legal requirement. Whereas in New Zealand it was given with a doubling of the winter energy payments and in Turkey it was accompanied with an increase in state pension. (Dr David Knox (Mercer), 2020)

Another notable way that governments have increased spending in order to create economic stimulus has been to enable members of pension plan to access their benefits to a greater extent than is normally permitted. For instance, Australia made it possible for individuals whose income had dropped by more than 20% to access up to Australian Dollars (AUD) 20,000 from their benefits, while India allowed partial withdrawals channeled towards COVID-19 treatment and a payment from the accrued pension benefits not exceeding three months' wages and allowances. (Knox, Brink, 2020)

In other countries like Spain, Thailand, Indonesia and Singapore the governments responded differently than the above mentioned. In Spain unlike in the United States where permitted distributions of up to USD 100,000 to individuals who qualified from eligible retirement plans together with favorable tax treatment were made, the approach adopted was that the eligible participants could receive a benefit equal to the lesser of an amount related to their lost wages and Government Formula. Other governments, like Thailand and Indonesia provided additional funds by reducing the level of contributions payable to pension arrangements. In Singapore, they scheduled increase in contribution rates was deferred to January 2022.

In the long run, the latter approach, of having reduced level of contributions in the short term as opposed to the former of permitting early access pension is likely to have less significant influence on the level on individual pension plans. Many other governments, according to the report by Mercer, 2020 also gave additional benefits to those who lost their jobs, suffered reduced income or were elderly.

4.1.3. Different Regulators Actions

There are a range of issues that stakeholders in the pension industry are facing as a result of Covid-19 with some of the key issues that need to be addressed being; payment of benefits, risk of scams, employers continuing to contribute, retirement benefit schemes' members support to make good decisions in these challenging times that won't in the long run harm their benefits. All these issues need some form of administrative breaches that will maintain a reasonably proportionate approach for all parties involved. (The Pensions Regulator, 2020)

Whereas it is recognizable that regulators need to take some steps to provide temporary relief, in the wake of Covid-19, it cannot ignore that in many jurisdiction regulators' scopes and governed and limited by legislations.

CHAPTER 5:

CONCLUSION AND RECOMMENDATIONS

5.1. Recommendations

a. Spread of Investment portfolio

With growing portfolio assets, and given their largely longer-term liabilities, pension funds operating with appropriate incentives and regulatory contexts have natural incentives to invest more in assets of longer maturity terms (African + Pension + Funds, 2020).

The COVID crisis's impact on the industry has shed new light on the importance of encouraging a more diversified portfolio approach by pension funds that allows for investment in a range of asset classes as a means of enhancing risk management, including during times of crisis and economic downturns Where pension funds diversify into alternative assets that tend to have lower correlations with equity or bond markets, they may gain some downside protection even in the short-to-medium term.

By taking a more diversified portfolio approach, local institutional investors could provide some means of risk mitigation in the event of future negative shocks.

This on its entirety will help to promote and cushion retirees especially at the point of accessing the funds. For the retirees who opt to subscribe to the monthly payouts, this will see an increased income replacement ration by a wide margin.

The large-scale withdrawals of foreign capital from emerging markets—with a flight to cash and "safe haven" assets by international investors—puts new emphasis on the importance of developing and strengthening local investors with longer-term investment horizons such as pension funds. In this way, the crisis provides an opportunity to deepen local participation in the market.

Further, a lack of a diversified approach to asset management may reflect different factors that can vary by market and level of development.

These factors may include national regulatory restrictions on cross-border investment or holding certain asset classes, internally-set investment ceilings and limits, capacity limitations in evaluating How the COVID-19 crisis is impacting African pension fund approaches to portfolio management risks associated with newer kinds of asset classes, as well as a lack of investable product.

These impeding factors can be addressed through appropriate sequencing and regulation that strikes the right balance in safeguarding pension funds' role as contractual savings institutions while enabling them to maximize returns on investment, including by introducing new asset classes tailored to investor needs and strengthening investors' capacity to evaluate and manage associated risk.

b. Policy framework on taxation and other incentives

The legislature should set-up new rules and guide-lines that dictates a well-thought-out taxation framework which seeks to cushion the retirees, on top of what already exists. This will go along way with ensuring that the retirees not only have a substantial retirement package but also that they are not overburdened with the tax liability, whose cumulative effect would be a lowered income replacement ration.

The government through the national treasury to set up a separate emergency kitty which facilitates financial cushioning to the less fortunate, the needy and the elderly (retirees) in the society. The kitty to have an annual budget allocation each financial year and a well-defined investment structure which will see the growth of the funds. This would also help to reduce on the national debt liability.

c. Retirement Funds Access legislation

Concerted efforts by the state, the trustees and the service providers of retirement savings schemes to optimize the accumulated lumpsum at the point of retirement. This would effectively be achieved by reviewing the RBA act; to have a clear framework such as setting limits on permissible accessible portion before retirement age as low as possible, or lock all the funds for access until one attain at least the early retirement age.

d. Upgraded Education Curriculum to factor in more financial management skills

Engage the relevant stake-holders in the industry to have more mandatory financial literacy programs/ education incorporated into the learning institutions — both in the educational system curriculum and at the point of microcredit and other microfinance product transaction — to actively promote a culture of savings, even among the very poor with limited means to help reduce the negative severe impact in the times of uncertainties such as COVID-19 pandemic

e. Post-retirement healthcare fund

Retirement Benefits Schemes should come up with Post-Retirement Medical funds (PRMF) as special funds/scheme of contributory participation to realize benefits of medical attention to members of the scheme post retirement. This would help to lower the medical cost for retirees, who are highly vulnerable to diseases, especially at such a time when there is a pandemic. From the report published by Enwealth Financial Services Ltd, a pension Fund administrator in August 2018, a larger share of the expenses at retirement goes towards catering for medical bills. Establishing a medical scheme for post-retirement is therefore a crucial step towards combatting a financial crisis for retirees and allowing them to experience a lifetime of peace and good health.

5.1.2 Recommendations for the pensions industry and government regarding the management of a crises

The study sought from the respondents their recommendations to the pension industry players and the government regarding the management of a crises. Figure 24 below shows the responses given by the retirees. The retirees were most concerned about access to health care. They recommend that the government should provide a comprehensive medical cover for senior citizens. In addition, the amount of money that the retirees receive during a crisis was of concern. The recommendation was that that the government increases the amount that retirees receive.

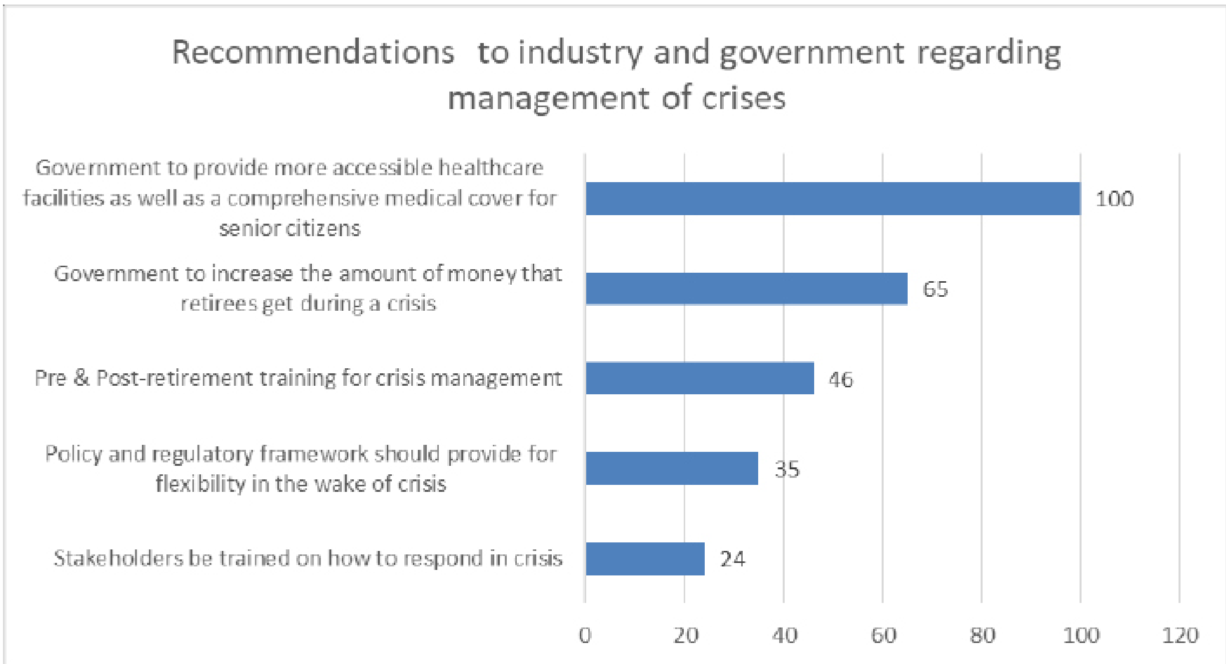

Figure 25: Pensioners' Recommendations

5.2. Conclusion

The pandemic has brought investment risk to the fore of many people's minds, as it is one of many economic, demographic, financial and social uncertainties in pension systems. Eradication of risk is an unattainable goal. However, risk can be reduced or managed through diversification. The COVID–19 situation reinforces the message that old age security is maintained through diversified pension provision.

DEFINITION OF TERMS

I. Pension fund; at the point of retiring a proportion of the retirement fund is commuted as lump sum with the remainder paid out as periodical payments (Retirement Benefits Authority, n.d.).

II. Pensioners are members in receipt of a pension

III. Stakeholders – Within the study's context; trustees, fund managers, fund members, legal teams, fund administrators, fund custodians, fund sponsors, regulators.

IV. Income Replacement Ratio is the percentage of a worker's pre-retirement income that is paid out by a pension program upon retirement (Kagan, 2020)

V. Assets Under Management (AUM) is the total market value of the investments that an organization manages on behalf of its clients (Paisabazaar, 2020)

VI. Defined Contributions (DC) scheme is a scheme in which the contribution rate is pre-determined.

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Enwealth Financial Services Ltd,
Morningside Office Park, 1st Floor Suite D2, Ngong Road
P.O Box 52840-00200 Nairobi

Pilot +254 20 2788000
Tel: +254 20 8160312, 202319162, 202316467
Mobile: +254 0727 617 443, 0788 617 443

Email: fanisi@enwealth.co.ke
Website: www.enwealth.co.ke