



“DIGNITY IN RETIREMENT”

**NAVIGATING THE EVOLVING REGULATORY ENVIRONMENT:
*CHALLENGES AND OPPORTUNITIES***

27th November 2024

Lazarus Keizi

Sustainable Governance Conference– Lake Naivasha Resort

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RBA'S MANDATE



**Regulate and supervise -
establishment and
management of retirement
benefits schemes**



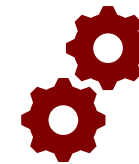
**Protect - interests of
members and sponsors**



**Promote - Development of
the retirement benefits
sector**



**Advise - The Cabinet
Secretary for the National
Treasury**



**Implement - Government
policies relating thereto**

INDUSTRY OVERVIEW

Pension Assets



1.9 Trillion

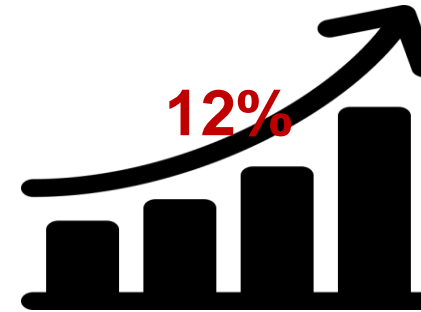
June 2024

Registered Schemes



1,031

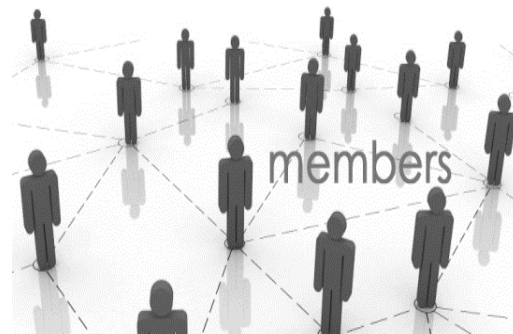
Average Industry Growth



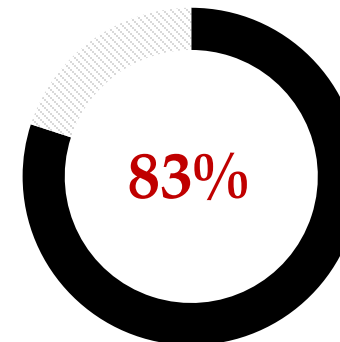
Trustees



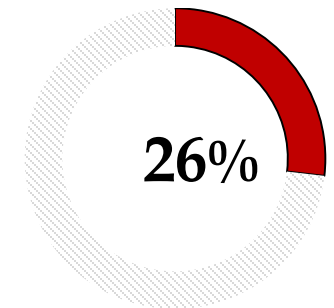
Service Providers



Active Members:
4.49 million



Informal Sector



Pension
Coverage

Key Regulatory and Policy Changes:

1. The national Retirement Benefit Policy
2. Strategic Plan 2024 – 2029
3. Bond Valuation Guidelines
4. Post-Retirement Medical Fund Guidelines



NATIONAL RETIREMENT BENEFITS POLICY

This policy aims to provide a framework to guide the harmonization, coordination, good governance and growth of the retirement benefits sector through the following **key policy interventions**: -

1. COORDINATE FRAMEWORK

To Coordinate and harmonize the existing legal and regulatory framework to integrate various legal provisions governing the retirement benefits sector.

2. ENHANCE COVERAGE

To enhance Retirement Benefits Coverage

3. SUSTAINABLE GROWTH

Provide mechanisms of good governance and sustainability of the retirement benefits to promote growth and diversification of retirement benefits funds investment

4. FACILITATE PORTABILITY

To promote and facilitate portability of retirement benefits between schemes and across-borders

5. PROMOTE INNOVATION

To promote and facilitate innovation in the retirement benefits sector

6. AFFORDABILITY AND ADEQUACY

To promote affordability and adequacy of retirement benefits for workers.

7. BENEFITS PAYOUT

To regulate retirement benefits payout phase

8. MEDICAL BENEFITS

To promote Post-Retirement Medical Benefits and Old Age Care.

9. HOUSING

To establish a housing sub-fund for members when saving for retirement

NEW STRATEGIC PLAN: STRATEGIC OBJECTIVES

1	Enhance customer experience by increasing the customer satisfaction index to 82% and the brand awareness and confidence index to 60% by 2029	<i>Customer Experience</i>
2	To strengthen institutional capacity and development by increasing the employee satisfaction index to 75% and increase productivity by 5% by 2029	<i>Institutional Capacity</i>
3	To enhance financial resource mobilization by 25% by 2025 and fully absorb those resources every year	<i>Financial Resources</i>
4	To enhance consumer protection by 8% by 2029;	<i>Consumer Protection</i>
5	To improve the retirement benefits sector compliance by reducing the overall risk score to 2.50 by 2029	<i>Industry Risk</i>
6	To promote saving for retirement by increasing the total pension assets to Kshs. 3.2 trillion and the pension coverage to 34% by 2029	<i>Promote Savings</i>

BOND VALUATION GUIDELINES

Legislative changes to permit retirement benefit schemes to **value investments in debt instruments** based on their objectives and ensure that any **unrealized gains or losses** resulting from this valuation are **not distributed to members**.

Amendments

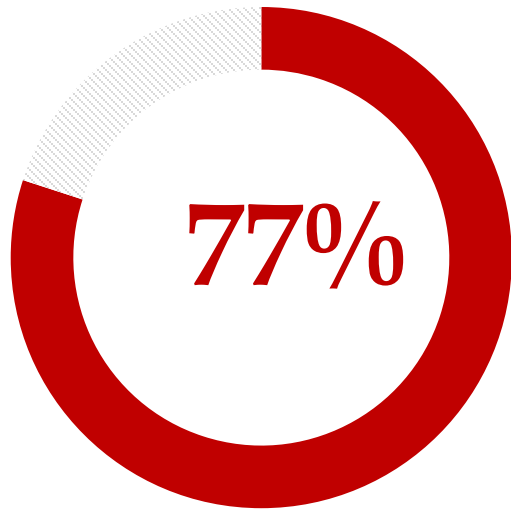
1

Valuation of financial assets on **fair value approach** (for assets available for sale) or **amortized cost approach** (for assets held to maturity).

2

As part of the **minimum disclosure** in the financial statements, trustees are required to disclose that any **unrealized gains** and **losses** resulting from the valuation of financial assets using the fair value approach **shall not** form part of the **distributable income**.

POST-RETIREMENT MEDICAL FUND GUIDELINES



According to the 2024 Pensioners Survey, **77%** of Retirees are paying for their medical covers(mostly NHIF) out of Pocket.

RBA has issued guidelines to the effect that:-

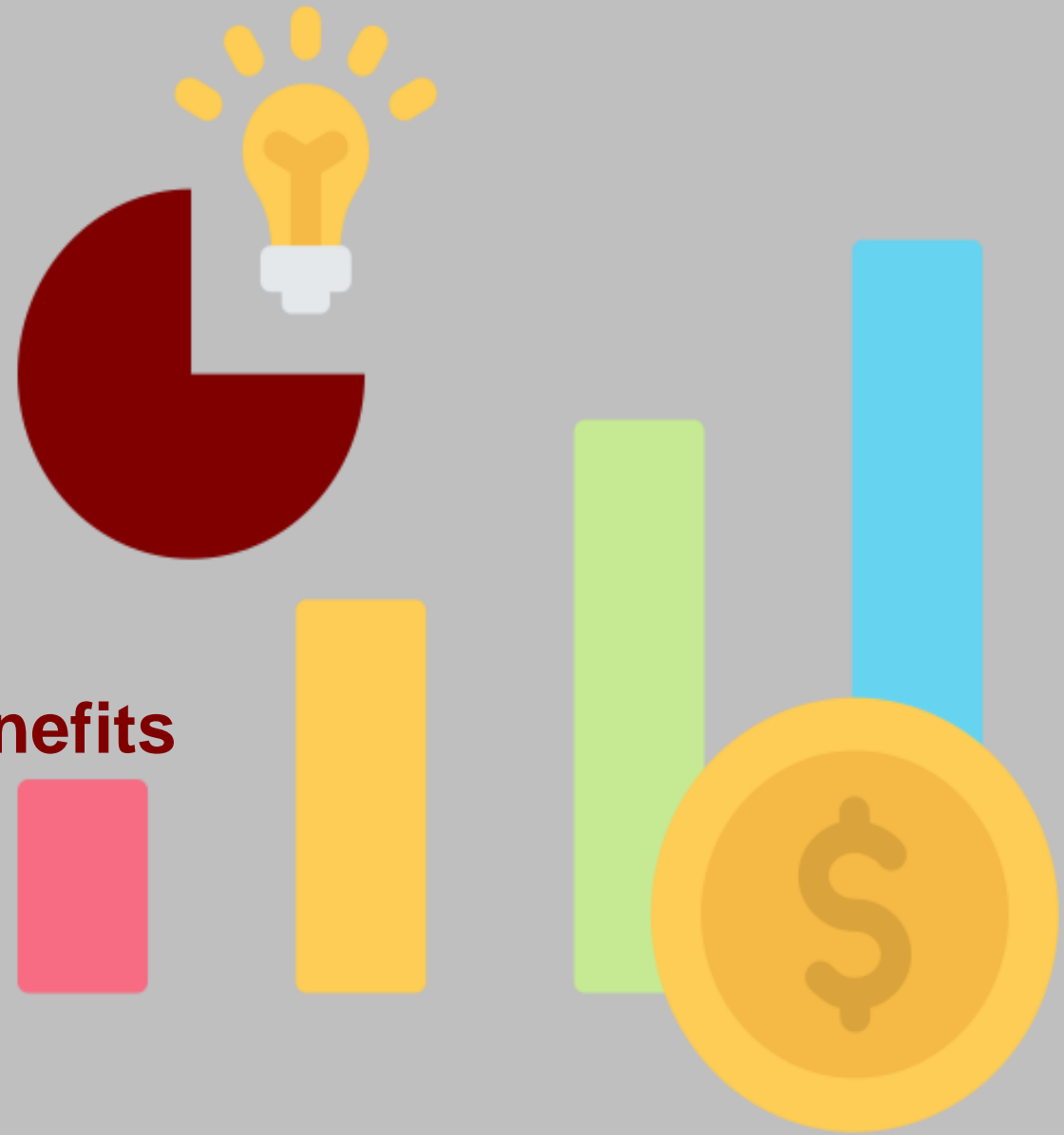
1. All schemes **shall** make **provisions** in the scheme rules to allow its members to contribute towards funding a post-retirement medical fund
2. However, uptake of PRMF is still **low** among schemes.

TREASURY CIRCULAR 2024

- i) Contractual employees can voluntarily join and contribute to retirement benefits schemes set up by their employers.**
- ii) The employer gratuity can be remitted to the scheme monthly and enjoy tax deductible incentives.**
- iii) Schemes are required to make the necessary amendments to their rules to accommodate employees employed on contractual terms.**
- iv) Gratuity benefits transferred to a retirement benefits scheme shall be payable according to the scheme rules and upon expiry of the contract.**

Industry Opportunities:

1. Technology and AI: Key Industry Benefits
2. Sustainable Pension Growth
3. Informal Sector Coverage
4. Incentives: - Tax Benefits



TECHNOLOGY AND AI: INDUSTRY BENEFITS



Industry growth

Digital platforms extend pension services to remote areas where physical access is scarce. This inclusion benefits members who previously had limited access.



Cost Savings

Schemes and service providers can cut costs through use of Integrated or Shared ICT platforms. These savings can be passed on to members through lower fees or improved returns.



Real-Time Information

AI-driven chatbots can address member queries promptly. Personalized communication enhances member satisfaction and engagement. Members can also receive real-time updates on their pension.



Pension Education

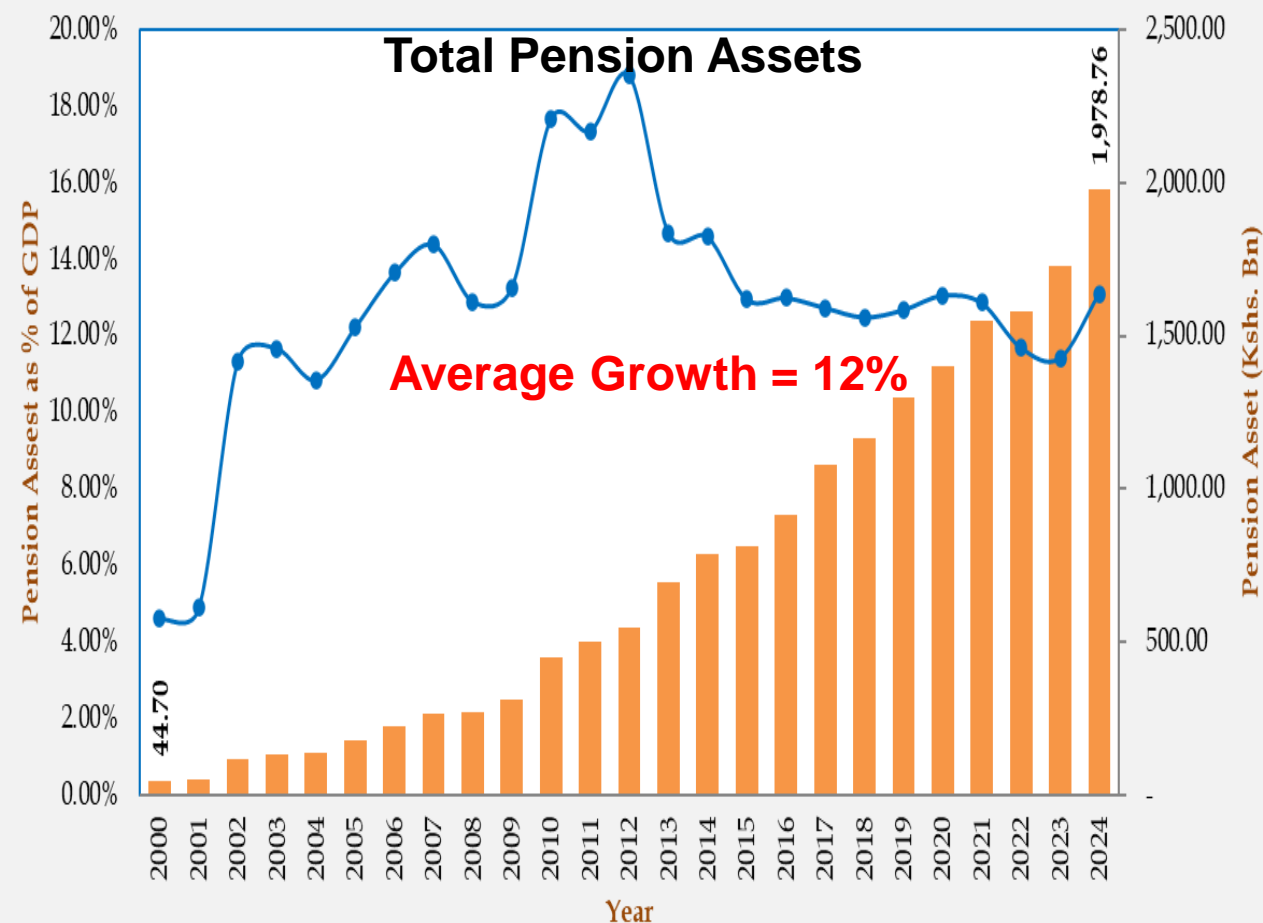
Technology can help retirement planning, investment options, and pension regulations. Financially literate members are better equipped to make informed choices.



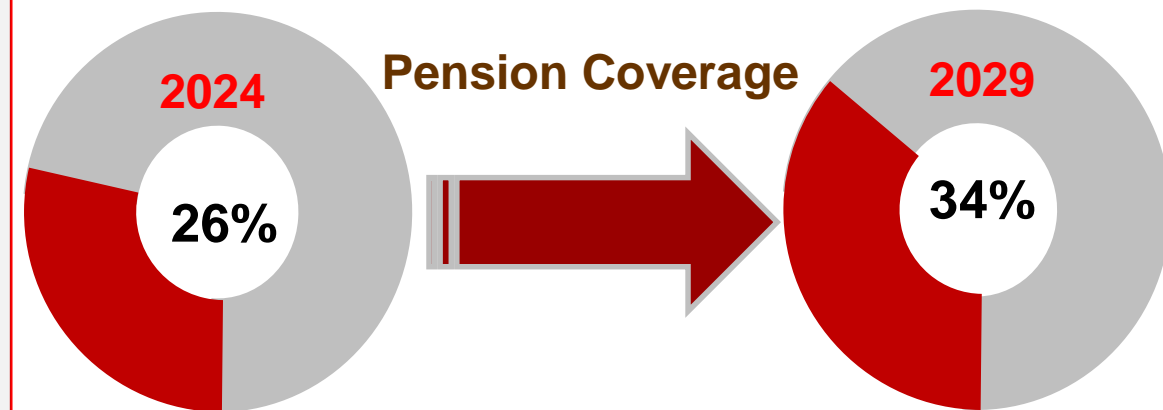
Regulatory Compliance

Technology can make it easier for schemes to meet their regulatory obligations. It also makes it easier for RBA to supervise the industry, thus building a more secure and robust pensions sector.

SUSTAINABLE PENSION GROWTH



Total Assets = 1.99 Trillion



RBA aims to grow coverage by 9% by 2029 through :-

- Pension Education & Awareness Programs**
- Implementation of the NRBP which has an increased focus on the informal sector which is majorly uncovered**
- Recent amendments to the Retirement Benefits Act have expanded coverage by making it easier for fixed contract employees to join retirement schemes**
- Promotion of Innovative, Flexible & Affordable products – This is by developing of a flexible Legal framework that favors informal sector schemes**

INFORMAL SECTOR COVERAGE



83% of Kenya's workforce are in the **informal sector**, however, coverage is still very low. This presents a **huge potential** to expand pension coverage through initiatives such as: -

Lower Administration costs

Informal sector schemes administrative costs should be low by leveraging on **technology**— The government can also avail a technology platform which market players setting up informal sector schemes can use

Role of Micro-pensions

Promote the development of **small-scale** schemes designed to cater to individuals with **low** and **irregular incomes**, e.g. those in the informal sector and those excluded by traditional schemes.

Pension Education

Aim for more **targeted** and **structured** training programmes to create **awareness** on the importance of savings for retirement for workers in the informal sector

INCENTIVES - TAX BENEFITS

Currently



Contributions to registered retirement benefit schemes are tax-deductible up to a maximum of KES **20,000** per month or KES **240,000** per annum

Tax Relief on Contributions



The first KES **600,000** of a lump sum withdrawal is tax-free. Additionally, the first KES **300,000 per annum** (or KES **25,000 per month**) of monthly pension is also tax-free

Tax-Free Lump Sum



Employer contributions to registered retirement schemes are **tax deductible**, reducing the employer's taxable income.

Other

Envisioned

Increasing the limit of tax-deductible pension contributions to KES **30,000** per month or KES **360,000** per annum. This aims to encourage higher savings for retirement

Proposals to **exempt** pension benefits from income tax for individuals **upon reaching the retirement age** specified by their respective pension schemes. This exemption also extends to early retirement due to ill health or withdrawal after **20 years of membership**.

Tax relief on contributions towards post-retirement medical savings to encourage scheme members to enrol [Proposed in the Defunct Finance Act 2024]

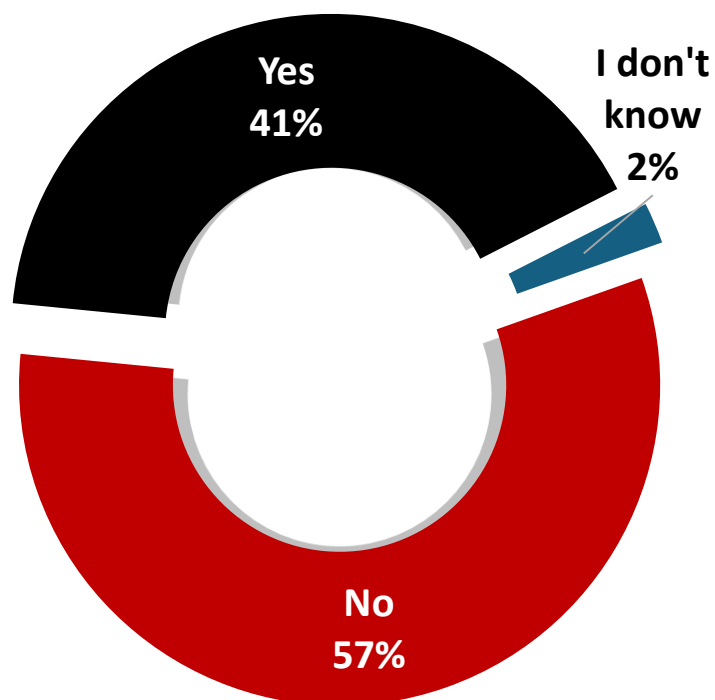
Industry Challenges:

1. Adequacy of Benefits
2. Unremitted Contributions
3. Asset Allocation: Diversification
4. Other Emerging Issues

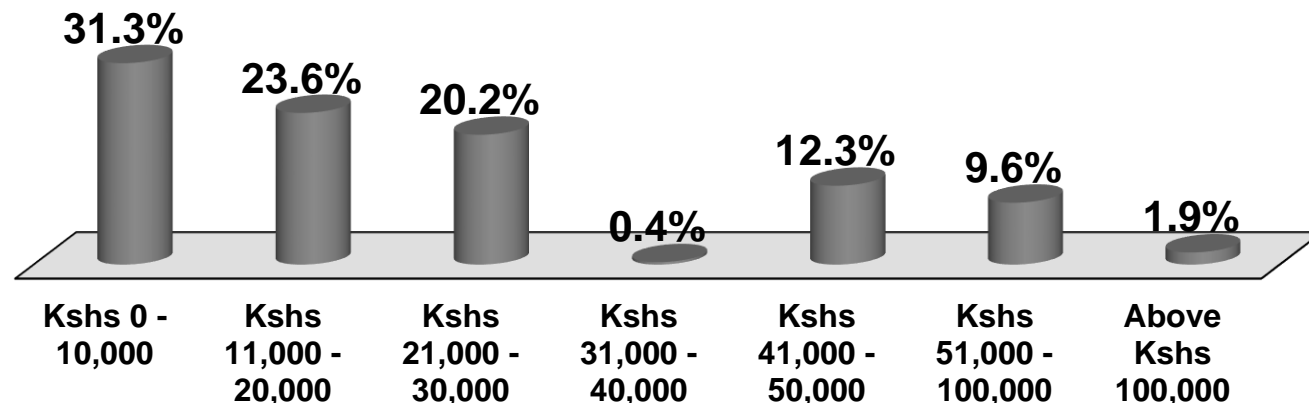


ADEQUACY OF BENEFITS

Savings Sufficiency



Monthly Pension Received



According to the 2024 Pensioners Survey:-

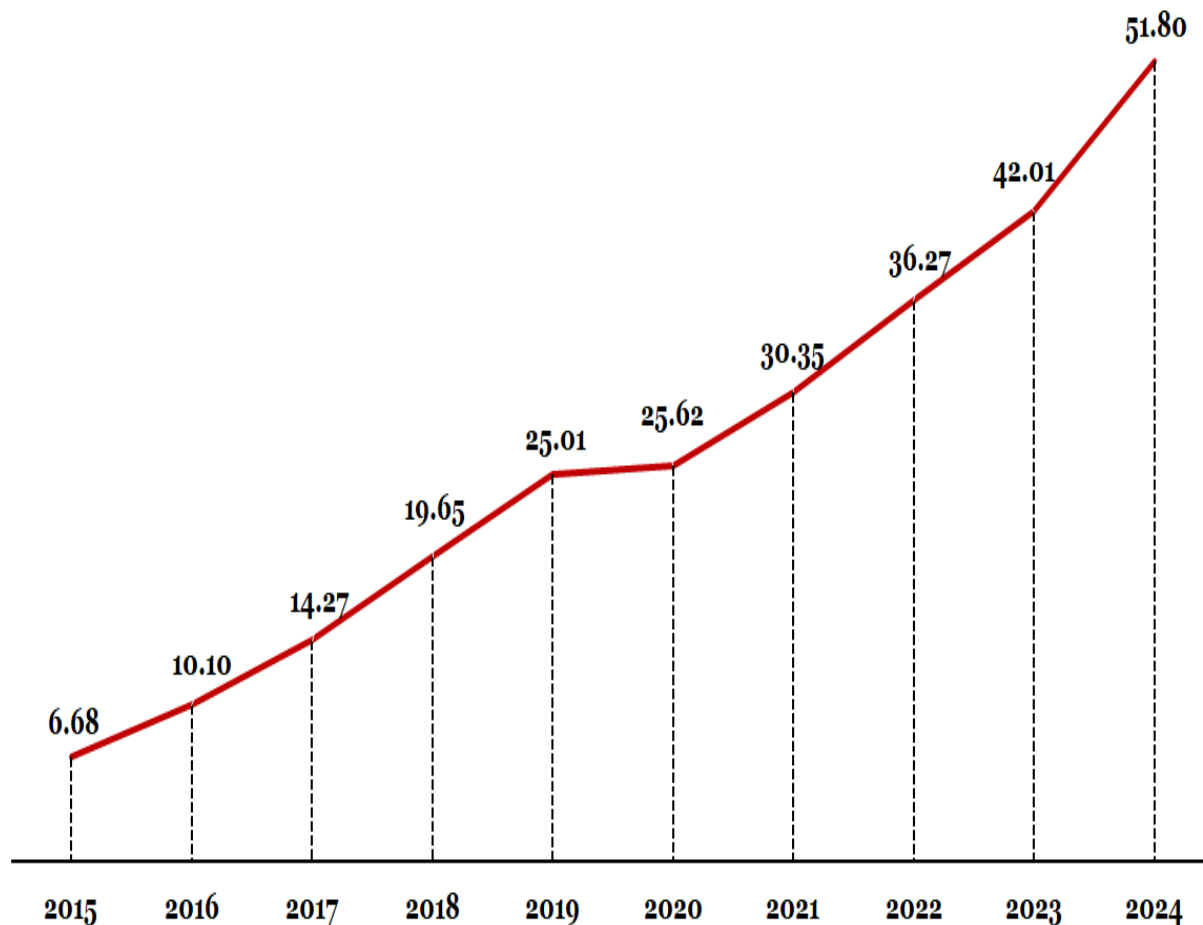
59% Of pensioners receive less than 20,000 shillings monthly pension

57% Of pensioners feel that their retirement savings are not sufficient

- Income replacement rate in retirement is generally **Low**, Largely occasioned by **Early Access** and **Short-term Savings** culture.

UNREMITTED CONTRIBUTIONS

UNREMITTED CONTRIBUTIONS (KSHS. Billion)

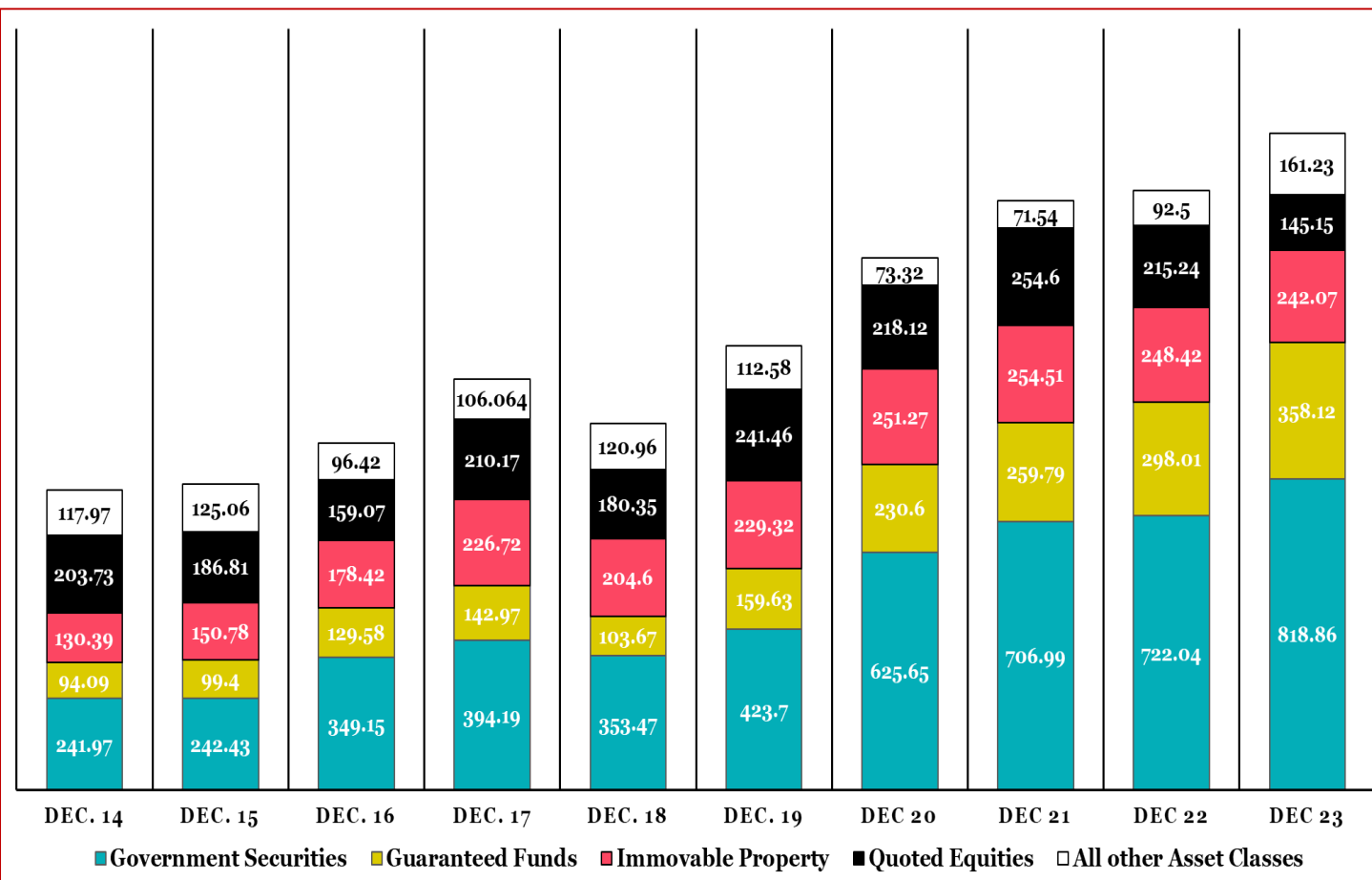


Currently, Unremitted Contributions stand at **KES 51.8** Billion with public sector schemes accounting for **98%** of the total arrears amounting.

Key Interventions: -

- **Sponsors & Trustees**: Develop, submit, and oversee the implementation of approved remedial action plans.
- **National Treasury**: Report progress, identified regulatory gaps, and seek government support for recovery efforts.
- **National Assembly**: Advocate for better recovery measures and propose legal amendments to strengthen recovery mechanisms.

ASSET ALLOCATION: DIVERSIFICATION



As of June 2024, over **50%** or investments were in government securities. Schemes should consider Alternative investments due to the following reasons.



Increased **sovereign risks**



An **enabling** regulatory environment with over 15 asset classes



Growth in the size of pension assets calls for investment in additional asset classes.



Inflation protection from investments in **assets** such as infrastructure projects

The investment trend tends to shift towards fixed income or less volatile assets such as government securities, guaranteed funds and fixed deposits.

OTHER EMERGING ISSUES AND WAY FORWARD

Longevity Risk:

life expectancy after retirement is rising hence the danger of **outliving retirement savings**. What should be done to ensure people do not outlive their savings?

Dependency Burden among retirees:

Most workers are retiring while still having **dependents** further putting **pressure** on their pensions. What should be done to prepare them for this fact and promote savings?

ESG Considerations:

Globally, there is an increasing focus on ESG issues, and Kenya is gradually aligning with these trends. How can the industry ensure incorporation of ESG standards in investments?



Thank You

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