PENSIONS

1. What is a pension?

Pension is that amount of disposable income saved up over working years that will cater for life after retirement.

2. Why do I need a pension?

Pension is important because it helps to maintain the standard of living after retirement by catering for basic needs like housing, food and medical needs. It also provides a safety net because once you retire you no longer have access to employment salary or insurance benefits that you would normally get when working or running a business.

3. What are some of the misconceptions about pension?

One of the biggest misconceptions surrounding pension is that it is not an urgent matter and it is only for the elderly to think about. However, this is not true. Thinking about pension should begin when one first starts working because the average working life takes most people about 30 years and with the current life expectancy being at 75-80 years there is a need to start planning for retirement way in advance.

The belief that family will take care of you when you retire. The dependency rate in Kenya is currently at an all-time high which is increasing the poverty rate among the elderly. It is therefore wrong to assume that your family members are working and saving to take care of you upon retirement.

Pension is only meant for people who are employed. A constant fact is that retirement will happen whether one is in self-employment, formally employed or in the informal sector. It is then wrong to perceive that it is only meant for the formally employed.

Saving for a pension is complex. The Retirement Benefits Authority, the regulatory body of the pension industry in Kenya, has a list of about 35 accredited pension providers who have convenient and flexible ways of starting to save for pension.

Pension is not an investment vehicle. Most people assume that pension is a new concept outside the traditional investments like purchasing of property and buying shares. However, pension is an arrangement that fits under the traditional investments but is designed for retirement.

4. Who can save up for a pension?

Anyone above the age of 18 that is employed, running a business or has disposable income is eligible to save for retirement. It does not matter whether one is permanently employed or in the informal sector, everyone is open to saving for retirement.

5. Do I have to be employed to save up for my pension?

No, you do not have to be formally employed to save for retirement. Currently in the market there are schemes called the occupational schemes that are registered purposely for the staff of particular employers.

There are also the Individual or Personal Pension Schemes which are set aside for those in the informal sector. Therefore, being employed is not a determinant to saving up for pension.

6. How do I set up a pension plan?

If you are not formally employed, you can set up a personal pension plan with one of the pension administrators accredited and listed on the R.B.(Retirement Benefits Authority) website. For the formally employed, there are two options.

One is to seek advice from your employer whether they have an already existing scheme which you can enrol in or the employer can recommend a scheme that other members of staff are contributing to. If your employer does not have an existing scheme it is advisable to set your own personal pension plan.

7. How do I access my pension?

There are different options to accessing pension funds depending on the arrangement that one has subscribed to.

For the employed persons, who are enrolled in the employers' scheme, one can access the funds when they either retire, resign, get terminated, declared redundant, permanently migrate to a different country or when rendered unable to work based on medical grounds.

For the personal pension plan, funds can be accessed at any given time either as a partial or full withdrawal as stipulated by the scheme rules.

8. Where do the funds saved up go?

Within the structure of the Retirement Benefits Schemes, there are different service providers who regulate and play key roles. There is a fund manager

who invests the savings, a custodian who receives all the contributions, in this case a bank/fund administrator who keeps all the member records, issues member statements and computes benefits for payments.
Therefore, funds saved up go into a scheme through the custodian then the fund manager who invests the funds and the returns from these various investments are computed by the fund administrator to each saving member.

9. Is there a risk of losing my pension savings?

The risks of losing pension savings are very minimal. Pension savings are well structured and established under irrevocable trusts meaning that the R.B.A Act and the regulations surrounding the pension industry are stringent enough to ensure there are little to no losses of pension funds. More importantly pension assets are invested separately from the assets of the contributing employers or sponsors.

10. How much does one get once they retire?

This is dependent on the design of the scheme that one is enrolled into. There are defined benefits, common with civil servants, where the amount accrued is a promise based on the number of years worked and the final salary before retirement.

There is also the saving element referred to as defined contribution which is the most common to formal and informal sector that is based on the accumulation of how much money is contributed over the working years together with interest accrued.

11. Can I withdraw my pension before my retirement age?

Yes, you can withdraw funds either as a full or partial withdrawal if you are in a personal pension plan. If you are in an employer set up arrangement, you can withdraw your funds but not in full before retirement.
The law only allows employed individuals to withdraw the total amount of individual contributions plus the interest and 50 per cent of the employer contributions in cases of resignation, redundancy or dismissal. The rest of the 50 per cent can only be accessed upon retirement. Other exceptional and discretional cases of full access before retirement are on medical grounds and in case of death.

12. Upon maturity, is pension paid in a lump sum or on a monthly basis?

There are two different types of arrangements that determine how pension funds are paid up. There is a provident fund that provides members with a cash lump sum of the pension savings plus interest. The other arrangement is a pension scheme that allows members to access a third of the funds as a cash lump sum while the other two thirds is paid up as a monthly income.

13. What happens to my pension in the case of death before retirement age?

When enrolling into any pension scheme, one is advised to indicate details of the nominated beneficiaries or next of kin. Therefore, in the unfortunate event of death, the amounts accrued will be paid to the nominated beneficiaries or the next of kin. In the event that they are absent, the trustees of the scheme will make a discretionary decision on how the benefits will be settled as per the rules of the scheme.