

# A GUIDE TO PENSION PLANS



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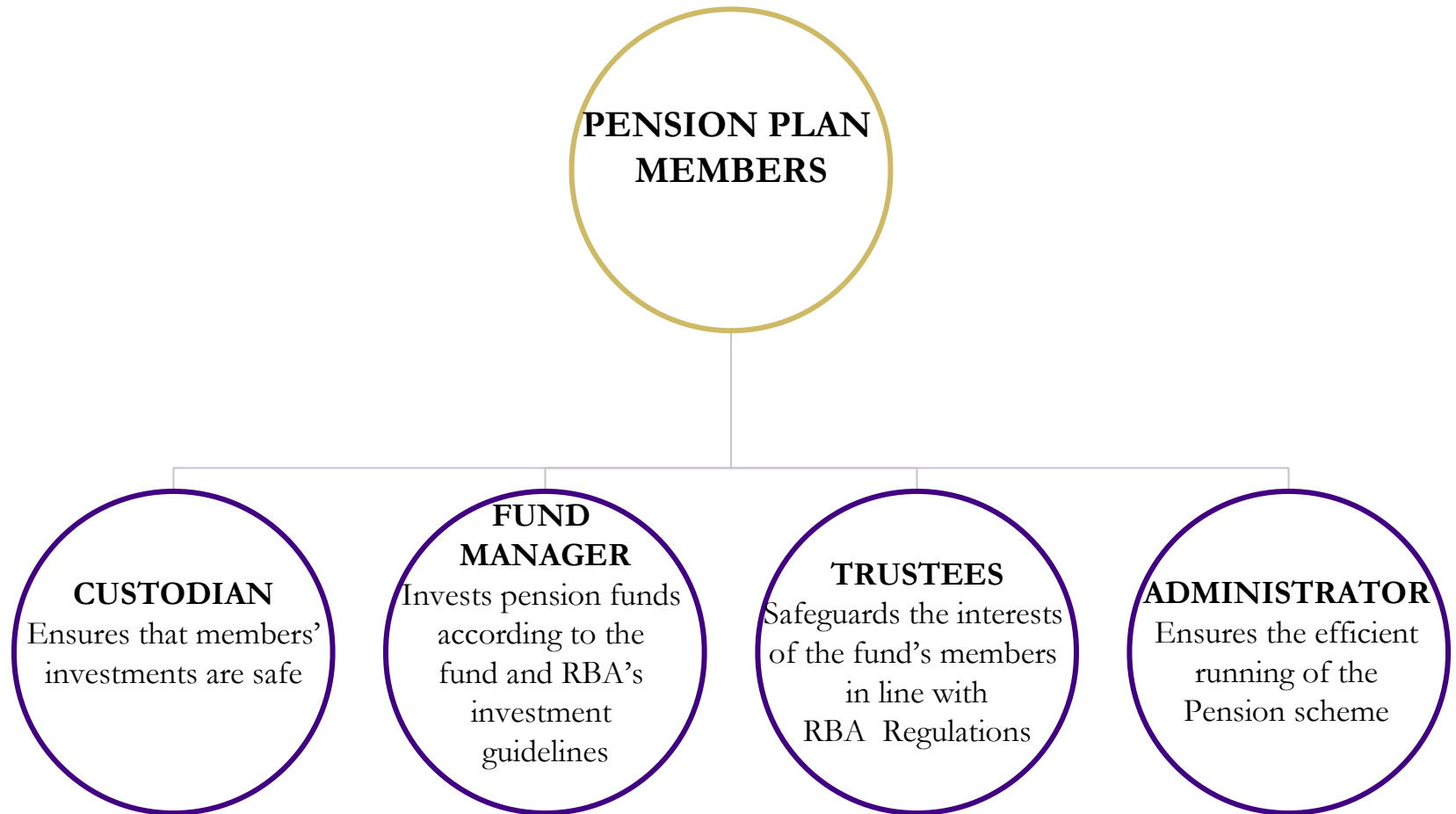


# INTRODUCTION TO PENSION PLANS

- Pension is the income one receives after attaining retirement age.
- A Pension Plan, also known as a Retirement Benefits Scheme, is defined under the Retirement Benefits Act (1997) as a scheme or arrangement under which persons are entitled to benefits in the form of payments upon retirement, death or termination of service.
- As an investment vehicle, it seeks to provide individuals with a sufficient and consistent source of income after retirement when they are no longer earning a regular income from employment.
- A Pension Fund, therefore, is the pool of assets purchased using the contributions of its members with the aim of financing their retirement benefits.
- In Kenya, the pension industry is regulated by the Retirement Benefits Authority ([www.rba.go.ke](http://www.rba.go.ke)), a body established by an Act of Parliament to regulate, supervise and promote retirement benefits schemes, to develop the retirement benefits sector and for connected purposes.
- Any individual above the age of 18 years is eligible to join a pension plan. For most pension schemes, the maximum age above which one cannot join is 50 years, though it is often specified for every retirement benefits scheme.

# STRUCTURE OF A PENSION PLAN

- Under the requirements of the RBA Regulations, pension schemes are required to have the following structure:



# THE SAFETY OF PENSION FUNDS

- The safety of a pension fund is enhanced by its structure.
- The **Trustees** of the pension fund play a key role of safeguarding the interests of the fund's members at all times.
- They are required to appoint an independent professional company known as the **Fund Manager** to invest the scheme funds and an independent bank known as the **Custodian** to look after the pension assets such as cash and other investments .
- In addition, a **Fund Administrator** is appointed to maintain accurate records of all contributions made by the members and all benefits paid to the members.
- This separation of roles ensures good governance, transparency and accountability for the decisions made on behalf of the members.
- The Fund Manager for each retirement benefits scheme operates under specified investment guidelines developed in line with the objectives of the scheme to ensure that the manager acts in the interest of scheme members.

# TYPES OF PENSION PLANS IN KENYA

- **Public Pension Fund:** This is a fund regulated by public law, such as the National Social Security Fund (NSSF). Under this fund, both an employer and employees make statutory contributions as stipulated by law.
- **Occupational Pension Scheme:** This is a scheme sponsored by an employer, hence it is only open to the employees of that specific organization.
- **Individual Pension Plan:** This scheme is operated by an independent entity, and is therefore open to all individuals. The Zimele Pension Plan falls in this category.
- **Defined Contribution Plan:** Under this plan, the amount that a member shall receive upon retirement depends on the total amount of money contributed and the performance of the fund's investments over time.
- **Defined Benefits Plan:** Under this plan, the amount that a member shall receive upon retirement is based on a set formula. No money is contributed to a pooled fund for investing, the defined benefit is treated as a liability by the employer to be paid when an employee retires.



# TAX BENEFITS ON PENSION CONTRIBUTIONS

Contributions of up to Ksh.20,000 a month, Ksh.240,000 a year or 30% of an individual's salary (whichever is less) to a registered retirement benefits scheme result in tax savings. The table below illustrates the tax-saving for Jack, a pension plan member who contributes Ksh.10,000 to a registered pension plan, against Joseph, who only makes the minimum statutory contributions to NSSF.

Kshs.	Jack	Joseph	Jack's Savings
Gross Salary	50,000	50,000	
Less: NSSF Contribution	(400)	(400)	
Pension Contribution	(10,000)	-	10,000
<b>Taxable Salary</b>	<b>39,600</b>	<b>49,600</b>	
Less: Tax (Pay as you earn)	(6,974)	(9,974)	3,000
Personal Relief	(1,168)	(1,168)	
NHIF Contribution	(320)	(320)	
<b>Net Salary</b>	<b>31,138</b>	<b>38,138</b>	
		<b>Savings</b>	<b>13,000</b>

From the illustration above, Jack gains more than Joseph, since while the latter appears to have a bigger net salary, Jack manages to save Kshs.3,000 in taxes after putting away Kshs.10,000 for his life in retirement. This demonstrates the essence of planning for retirement, which is saving now in order to enjoy later.



# OTHER BENEFITS OF BEING A PENSION PLAN MEMBER

1. **Tax exemptions on investment income:** Investment income earned by a registered pension scheme is tax-free, that is, withholding tax is not charged on both interest received or dividends received on these savings.
2. **Tax exemptions on retirement benefits:** Monthly pension income of up to Ksh.25,000, or lump sum payments of up to Ksh.600,000 is exempt from income tax. The same applies to any sum on monthly pension dues to retirees above 65 years.
3. **Economies of scale:** The principle of pooling of funds means that total costs are spread across many members resulting in a lower cost per member, compared to the costs incurred if an individual was investing alone.
4. **Professional management:** The activities of a registered pension scheme are managed by professionals including Trustees, Fund Managers, Custodians and Fund Administrators, who have expertise in managing pension funds.
5. **Exclusion of retirement benefits from one's estate:** Pension benefits due to a member's beneficiaries are only payable to the beneficiaries nominated by the deceased.
6. **Acquisition of mortgage loan :** A member can use 60% of their accrued benefits to secure a mortgage loan from a bank or non-banking financial institution.

# RIGHTS OF A PENSION PLAN MEMBER

- a) On attaining retirement age, a pension plan member is entitled to receive benefits due to them within 60 days.
- b) Benefits arising from the contributions by the member's employer fully vest in the member within one year.
- c) On leaving one employer either by resigning, retrenchment or even being sacked, an individual is entitled to their own contributions to the scheme as well as any investment income in full.
- d) A member may transfer the retained benefits (arising from their former employer's contributions) to the scheme of their new employer on changing jobs.
- e) In case of ill-health or subsequent incapacitation due to ill-health prior to attaining retirement age, a member may access their full benefits, including all the benefits arising from employer contributions.
- f) Every member is entitled to a statement of their pension benefits every year.
- g) The Pension scheme must hold an Annual General Meeting every year and give members an opportunity to ask questions regarding the management of their pension benefits.
- h) Every member is entitled to receive a summary of the annual audited accounts of the pension scheme free of charge.

# ASSESSING YOUR RETIREMENT NEEDS

- Any individual above the age of 18 should begin to consider their retirement plans early in life, regardless of whether you are employed with a stable source of income or not. Also, it does not matter if you are 25 or 50 years old; it is never too early or too late to start focusing on your retirement plans.
- Some of the factors that you might need to consider in assessing your retirement needs include:
  - I. At what **age** you would like to retire?
  - II. How many **years** you have until your preferred retirement age?
  - III. What is your main source of **income**, and its nature (constant/irregular)?
  - IV. How much do your **expenses** add up to based on your current lifestyle?
  - V. Would you like your **lifestyle** to change upon retirement, and how much, then, shall you need to sustain your preferred lifestyle after retiring?
  - VI. How much **risk** are you willing to take with the funds you put away for your retirement, and what minimum return should you earn to retire in comfort?



# CHOOSING A SUITABLE PENSION PLAN

- Having determined roughly how much you might need for your life after retirement and for how long you shall save towards this, you should choose a pension plan that suits your needs and is in line with the level of risk you want to take.
- As is the case in investing, time is an important factor in retirement planning and to optimize your gains, you should select your pension plan based on how much time you have until your preferred retirement age.

TIME TO RETIREMENT	RECOMMENDED PENSION PLAN	
	MODEST RISK (ZIMELE PERSONAL PENSION PLAN)	ZERO RISK (ZIMELE GUARANTEED PENSION PLAN)
More than 30 years	100%	-
More than 25 years	90%	10%
More than 20 years	70%	30%
Less than 10 years	-	

- The table above shows how an individual may allocate their retirement savings by tying them to the number of years they have until retirement. Those with more than 20 years should take advantage of time and save in assets giving higher returns, at moderate risk levels. Conversely, those with less than 10 years to retire should seek schemes with little or no investments in shares.



# FEATURES OF THE ZIMELE PENSION PLANS

- Both the Zimele Pension Plan and the Zimele Guaranteed Pension Plan are individual pension plans registered with RBA. They are authorized under the Income Tax Act, and as such, are entitled to the tax benefits that make them tax-efficient vehicles through which individuals can save for retirement.
- The plans targets individuals who want to save for their retirement but who are not members of any other retirement benefits scheme, such as self-employed people or those who do not have an employer-based pension plan.
- However, members of another pension scheme can also join either plan if they want to increase their savings towards retirement, provided that they are below the age of 65.
- For the Zimele Personal Pension Plan, scheme funds are invested in shares of listed companies as well as in interest-earning assets such as bonds and commercial paper, as is deemed appropriate in consideration of the age and risk tolerance levels of the members. It is therefore appropriate for individuals with long periods to retirement, where contributions can grow and benefit from potentially high returns in the stock market.
- As for the Zimele Guaranteed Pension Plan, scheme funds are invested in fixed-income assets, such as government securities and money market investments, to preserve the value of members' contributions. It is therefore better suited to members with very few years to retirement, as it ensures that they maintain the value of their money.



# BENEFITS OF SAVING WITH THE ZIMELE PENSION PLANS

- A. You may contribute a minimum amount of Ksh.250, and the amount and frequency thereafter is flexible, although regular monthly contributions are encouraged.
- B. Your contributions will be entitled to tax-saving on your basic pay if deducted directly from your income.
- C. Your money will be pooled together with other members' contributions and spread across a wide range of investments, thereby increasing your chances of obtaining good returns at lower risk.
- D. You will only be charged 2.5% per annum for management fees, with no hidden charges or fees.
- E. Your money will be professionally managed by qualified fund managers who are trained to make investments that can deliver good investment returns.
- F. You may conveniently send your contributions through M-PESA Business Number 501100.
- G. You will have free access to an online statement through which you can view details of your retirement benefits.
- H. Your money is secure, and in the event of death, your benefits will be passed on to your nominated beneficiaries.



# FREQUENTLY ASKED QUESTIONS

1. Can I contribute to both two schemes at the same time?

Yes, you may choose to boost your retirement savings by making payments (known as Additional Voluntary Contributions) into a personal pension plan such as Zimele, in addition to those made to your employer's retirement benefits scheme. You may also contribute above the limit to which tax benefits apply.
2. Upon attaining retirement age, what are the ways in which I can access my funds?

There are two ways in which you can access your retirement benefits. Firstly, you may receive payments on a monthly basis (tax-free for any amount up to Kshs.36,000 if you are below 65 years and tax on any amount if you are 65 years or older) as regular income until the amount is exhausted. Secondly, you may access a lump sum payment, which is tax-free for any amount of up to Kshs.600,000, with the balance paid monthly thereafter.
3. Should I fail to make monthly contributions, what are the penalties?

Any surcharges on missed payments will depend on the rules of the particular retirement benefits scheme. For instance, the Zimele Pension Plans do not require that a member makes regular contributions every month.
4. What are the chances of experiencing loss in investments?

For some retirement benefits schemes, pension contributions are invested in long-term securities. This includes stocks and fixed-income, interest-earning assets. Thus, the element of risk or loss in modest-risk funds is lower because of the time period of investments.
5. What happens when I want to transfer to another retirement benefits scheme?

In the event of changing jobs, or for other reasons, in which case you will have to write a letter to the Trustees of the scheme, requesting that your retirement benefits be transferred to a registered pension plan. Should your application comply with the RBA Act and regulations, the scheme Trustees should be able to effect the transfer within 60 days.





Thank you

The information contained in this Guide is provided in good faith and is derived from sources believed to be accurate and reliable at the time of its publication. It is, however, only provided on a general basis only and does not constitute a recommendation. For specific information and advice about your investments, please visit, call or email us.



Zimele Asset Management Company Ltd  
7th Floor, Ecobank Towers  
P. O. Box 76528-00508 Yaya, Nairobi.  
Tel: 254-2-2246273  
e-mail: [info@zimele.net](mailto:info@zimele.net)  
website: [www.zimele.co.ke](http://www.zimele.co.ke)