Safeguarding your retirement benefits

CONVERSION OF DEFINED BENEFITS SCHEMES TO DEFINED CONTRIBUTIONS SCHEMES

Salome Chirchir, Research & Development Department

JUNE 2010

TABLE OF CONTENTS

Introduction 3
Outline of Defined Benefits Schemes and Defined Contributions Schemes 7
Reasons For Conversion From Defined Benefits Scheme To Defined Contribution Scheme 9
Conversion Challenges 12
The Process of Conversion 14
Conclusions and Recommendations 20
REFERENCES 21

Introduction

The rational for setting up retirement benefits arrangement are similar to both the government and private sector employers. Governments set up schemes to secure the independence of public servants; make career in public service attractive against the back drop that the private sector pay higher renumeration; shift the cost of remunerating public servants into the future; and retiring older civil servants in a politically and socially acceptable way (Robert Palacios et al, 2006).

Similarly the intention of the sponsors of occupational private sector schemes even to the current time is to attract and retain talent and skilled workers. In a survey conducted in the UK where 251 executives were interviewed showed that by establishing retirement benefits plans made them remain competitive with other companies in their sector. "A generous, well-run pension scheme is a source of differentiation and a tool for recruitment and retention. Companies do also recognise that they have a duty to provide for their employees in retirement" *The future of corporate pensions, 2010*.

Retirement Benefits schemes are designed as Defined Benefits Schemes (DBS) of Defined Contributions Schemes (DBS) or more recently Hybrid Schemes (HS) which have both features of DB and DC schemes in varying degrees. However more often than not, Hybrid schemes are classified as DBS because of the guarantee component. The main differentiator is that a DBS sponsor shoulders all the risks associated with the scheme and in the DCS it the individual employees who bear all the risks.

The choice on the scheme design vests with the sponsors of retirement benefits schemes in many instances with the professional advice of actuaries. Sponsors include employers, government, institutions such as insurance companies and associations or organized groups. Generally a sponsor is the legal entity that sets up a scheme. The focus of this desk research is limited to employers in the private sector as sponsors of occupational schemes. In the private sector, employers voluntarily sponsor the establishment of occupational retirement benefits schemes for their employees.

Traditionally in the industrial age and into the 1980's, a retirement plan was designed as a defined benefit scheme (DBS). The origin of Defined Benefit Schemes (DBS) can be traced way back when the US government promised to provide retirement benefits to veterans who had served in the Revolutionary War (Investopedia). The military was typically the first to receive pension coverage, especially with regard to disability and survivor benefits. Governments extended pension coverage to other government workers through the establishment of government sponsored Civil Service Pension schemes which were designed as DBS. Government's choice of scheme at that time influenced the scheme design in the private sector.

Later in the 1980's to the present, for the reason that not all employers established own schemes for their employees, governments gave more recognition through tax incentives favored the establishment of DCS. Governments encouraged the establishment of Individual Pension Plans designed as defined contribution schemes (DCS) such as 401K in the United States, Stakeholder Pension Plans in the United Kingdom and Superannuation Schemes in Australia where employers with no schemes were mandated to enjoin their employees. Employers with DBS started DCS as supplementary channels for their employees to save additional income for retirement. Over time, new and particularly small scale employers joining the market began establishing DCS schemes for their employees as the primary scheme as opposed to the DBS.

The growth of DCS escalated with closures and conversions of DBS to DCS. Among the first conversions of DBS to DCS were in the United States of American and Australia. Conversion spread to the rest of the European countries and now in Africa- South African and Kenya among others. In the United States for example, it is estimated that the DCS grew 600 percent between 1987 and 2002 (Ross et all, 2002). The United Kingdom (UK) is known to have experienced significant conversion from DBS to DCS in the 2000's. The Association of Consulting Actuaries ACA Pension trends survey 2009, for the United Kingdom, concluded that 87 per cent of defined benefits schemes had closed to new members an increase of 6 percent two years back and that the trend of closures was expected to continue. Of the 87, 18 per cent was closed to future accruals.

33 percent were under review some of which would result to closures and the rest 39 per cent were considering changes to future accrual.

From the 1990's and to the present governments too began converting their sponsored DBS to DCS. In the mid 1990's conversions from DBS to DCS occurred across government units at the state and local levels. (Clerk et al). India succeeded in introducing a new DCS pension scheme for new employees joining the Central Government in 2004 closing the Public Scheme to new employees. Kenya unsuccessfully attempted to have its Civil Service Pension Scheme convert to DCS from DBS in 2008. The government is still pursuing the matter. In Britain, employees and pensioners in the private sector are petulant about the Public Schemes funded by the tax payers' money being more generous than the private sector based schemes which threatens the very existence of the Public DBS. Combining all these together, there is notable decline of DBS in favour of DCS world over.

Upon setting up the scheme, an employer is not prohibited from changing the design or terminating the scheme. The point of concern is the rate at which employers are shifting from DBS to DCS particularly in Kenya which is worth exploring. There exist wealth of literature on this subject but very little on Kenya.

This desk top research seeks to understand the changing landscape in the retirement benefits sector from previously preferred defined benefits schemes that guarantee members their benefits and whose intention is to encourage workers to stay in one job for long is now less preferred to defined contribution schemes. The paper attempts to direct its focus on Kenya.

The main objective of this research is to document a comprehensive research finding on best practice of conversion of schemes from Defined Benefits to Defined Contributions. Specifically, the research will:

- What are the differences between Defined Benefits Schemes and Defined Contributions that make it attractive for schemes to convert the DBS to DCS?
- What is the Genesis and Motive for conversions
- The Process and Challenges of Conversion of DB to DC scheme
- Guidelines on Conversion of Schemes

- Experiences and Lessons from various Schemes Conversions locally and internationally

This research is a pure desk top research and collects information from internet and RBA scheme files. The paper would have been more enriched if interviews were conducted with administrators and members of pension schemes which the research failed to explore.

This research paper is arranged in the following order section 2 gives an outline of defined benefits schemes and defined contribution schemes; section 3 is the literature review on reasons for retirement benefits scheme conversions; have occurred discusses the reasons; which is followed by outline of conversion challenges and section 6 is on process of conversion. Section 7 gives an outline of Kenya and section 8 concludes.

Outline of Defined Benefits Schemes and Defined Contributions Schemes

This section puts into perspective the distinct characteristics of DBS and DCS which will shade more understanding on the spirited conversions of from DBS to DCS by employers. The origin of Defined Benefit Schemes (DBS) can be traced way back when the US government promised to provide retirement benefits to veterans who had served in the Revolutionary War (Investopedia). The government's choice of scheme heavily influenced the designs and nature of schemes in the industrial age and into the 1970's. Traditionally then, a retirement plan was designed as a defined benefit scheme (DBS).

The concept of DCS schemes emerged in the 1980's and whose growth into the 2000 was escalated by numerous closures and conversion of DBS to DCS as well as new DCS establishment. At the start, DCS were established by employers purely as a supplementary channel for their employees to save additional income for retirement.

Employers established retirement benefit plans primarily as a recruiting instrument for attracting and retaining talent and skilled workforce. This motive is upheld even today. In a survey titled "*The future of corporate pensions"2010* conducted in the UK interviewed 251 executives who mentioned that by establishing a retirement benefits plan made them remain competitive with other companies in their sector. "A generous, well-run pension scheme is a source of differentiation and a tool for recruitment and retention. Companies do also recognise that they have a duty to provide for their employees in retirement".

An employer establishing a DBS also referred as a final salary scheme commits to pay predefined future amount of benefits to enrolled members for years of rendered service bearing all risks of such promise. Benefits are determined using a formula that takes into account the employee earnings commonly the final salary representing the highest earnings; years of service and; a pension factor that represents the portion of earnings the employer offers to compensate every year. The risks which include the unknown costs and investment risks are borne by the employer. Whereas the employers enjoy limited surplus because the surplus are shared out with the members, the employer becomes fully liable in the event of loss and have to make good the loss by increasing

employer contributions or through other arrangements that will remedy loss position. Sponsors are not permitted to reduce members' benefits when faced with financial challenges. It is only in the very extreme of cases, has it been possible to reduce members' benefits but even in such cases only future benefits may be reduced and not already accumulated benefits. In this regard Employers are generally exposed to unpredictable cash liabilities.

In DBS arrangement contributions are not earmarked to the individuals members of the scheme (Exley et al 1997).

In the DBS are back loaded. The nature of DBS better rewards employees the longer the employees remain in one employment disadvantaging members who leave at short period of service. In Kenya, a member of the Retirement Benefits Authority Retirement Benefits DB scheme is guaranteed 60 percent income replacement rate after working for a period of 30 years. A less than 30 years of service replaces yields a much less than return.

In the case of defined contributions schemes also referred to as money purchase schemes, benefits are limited to cash balances in members' accounts at any one point of time and the all risks borne by the employees. The balances depend on contribution period and amount; and the investment returns. Contributions amounts are known to the members upfront but the final benefits due to investment risks remain unknown. The employer does not take liability for losses employers' risks are limited to making contributions at the required time. Employer expenses are in essence predictable. Better understanding of the risks associated with DBS and DCS continue to influence employers' choice of schemes as evident in the shift away from DBS.

Reasons for Conversion From Defined Benefits Scheme To Defined Contribution Scheme

Save from making contributions to mandatory first pillar schemes, employers in many parts of the world are not mandated to establish occupational retirement benefits schemes for their employees. Employers therefore voluntarily choose to establish occupational retirement benefits schemes for their employees. An employer who starts an occupational scheme has an upper hand first and foremost to choose the design of the scheme.

Upon setting up the scheme, an employer is not prohibited from changing the design or terminating the scheme. The sponsor may choose to convert a scheme from one design to another; introduce parallel scheme; or all close down existing scheme. It is through this window of opportunity that sponsors may convert DBS to DCS. In converting from DBS to DCS, employers may opt to fully close the DBS to new employees while allowing existing members to continue accruing future benefits until retirement; close the DBS and freeze future accrual of benefits; or all together close the DBS to existing members and transfer benefits to new DCS benefits or individual retirement fund arrangement. The worst case scenarios are cases where employers after converting stop participating in any retirement benefits saving arrangement to the disadvantage of employees.

Ross et al, 2002 grouped all varying reasons into three broad categories as paraphrased by Ostaszewski;

1) The Risk Averse Employer theory
2) The Excessive Regulation theory
3) The new economic theory

The Risk Averse Theory points out how the employers with better understanding of the risks associated with the running of retirement benefits schemes given an opportunity transfer the risks to other entities or avoid all together. As mentioned earlier, the risks and associated costs of DBS are fully shouldered by employers. Employers have to make good the promise to pay accrued benefits regardless of the prevailing business and investment environments which are inversely related. DBS

thrive well under favorable investment and business conditions. A study by Bikker et al, showed that asset allocation by pension funds in equity followed the performance of the stock market. During the 1990s pension funds in Dutch invested heavily in the equity market to tap abundant equity returns of the stock market. This led to premium reductions and even contribution holidays for pension plan sponsors. However, the risks of equity holdings surfaced after the collapse of the stock market in 2000–02, which resulted in large losses for pension funds. In reaction, pension benefits were curtailed and contributions steeply increased. The impact of investment risks during volatile capital markets and especially the equity market in the late 1990's into 2000 accelerated conversion from DBS to DCS. (Ross et al).

Mercer, the pension and investment experts, at their annual Defined Benefit Conference launched their 2010 survey which revealed that 80% of defined benefit pension plans fail to meet the statutory funding standard and half of them must submit a recovery plan to the Pensions Board by 30th June.

The Excessive Regulation theory addresses the issues of regulations that schemes must comply with: Once employers establish schemes, the schemes must achieve full compliance with existing regulations. The more recent regulations following the Maxwell Scandal where members' benefits were misappropriated, regulations introduced have largely been to protect members' benefits. Regulations frequently undergo changes. Whereas both DCS and DBS are equally affected by frequent changes in legal requirements, increased reporting requirements and compliance costs, DBS unlike DCS must conduct actuarial valuation periodically and maintain a minimum funding status.

According to Turner et al (2008), introduction of the minimum funding level for DBS through the Ireland Pension Act 1990, increased the costs of operating the DBS and as attributed to the shift away from DBS to DCS as was evident by the steady decline in the number of DBS and increase in DCS. Tuner et al also mention that regulations were designed to limit the loss in tax revenue to the government treasury by restricting the amount of funding allowed in DBS. DBS were not able to keep sufficient reserves for the future and maintain required minimum funding level making it even costly for the

DBS. In the UK, DBS with below minimum funding level are regarded as risky and are required to make higher levy payment to the Pension Protection Fund.

The introduction of regulations in Australia mandating employers to establish retirement benefits schemes contributed to the popularity of DCS. Employers opted to establish DCS to comply with the Law and where DBS existed, employers induced employees to transfer to the new DCS schemes.

In the United Kingdom, the financial reporting requirements provided by FRS 17 require schemes to report the funding status at fair value in the sponsor's income statement and disallows smoothening of schemes' assets and liabilities. In the DBS contributions are often adjusted from time to time to make sure that the correct amount is being accumulated to provide for the promised benefits (Green Paper on Pensions). Losses adversely affected sponsoring companies' reported profitability and financial performance which did not go well with stakeholders. In addition, employers were required to increase their contributions amounts to offset losses. Employers who opted for DCS were more advantaged than those operating DBS. Periodic contributions made up the only expenses for DCS and had the advantage of being predictable. Employers were not required to increase their contributions at any one time to meet promised benefits. Contributions to DCS are lower than in DBS.

In South Africa, prior to the 1980's occupational schemes were largely DBS covering 80 percent of the population. DCS were preferred by small employers. Significant growth in DCS has been through conversions of DBS to DCS. The Trade Unions and the average income employees played a central role in the conversion of schemes from DBS to DCS. The low income employees believed that they were subsidizing the higher income employees because were more likely to be retrenched than be given an opportunity to work until retirement and that they had higher mortality rate than their highly skilled counterparts. The low skilled workers lacked good understanding of the DBS and were also interested in evading earning pension from the DBS. Retirees earning pension were automatically disqualified from earning the social pension at age 65. Because many DCS members paid lump-sums amounts of both employer and employee DCS were the more preferred.

Under the DBS employer portion of contributions were inaccessible and interest applied were less than the market competitive rates. Trade unions had found ground to fight for negotiated funds for the benefit of the people they represented. Besides advocating for DCS they also advocated provident schemes.

New Economy theory takes into consideration the changes in the economic order such as growth in the service sector which employ small scale workforce unlike the manufacturing companies that employed large workforce where the per unit cost is low. DBS work well with large workforce. The young workforce is perceived to be more mobile and in need of a new kind of pension plans that suit them. The nature of DCS allow for easy mobility.

Other reasons cited include peer pressure as a result of wide publicity on scheme conversions; increased longevity of pensioners that have resulted in increased costs of funding pensioners.

Age increases in retirement said to be dramatic. Joyce Brennan of Mercer International said: “In the 1970s when many defined benefit pension schemes were established, the expectation was that a pension would be paid for 13 years for a man who retired at age 65. The expectation now for a man in his 20s is that he will receive pension for double that period of time.” increases i

Conversion Challenges

Converting DBS to DCS have not happened without challenges. Many countries do not have specific regulations to govern conversion of schemes are rare. Conversion from DBS to DCS is recognized as an amendment to the scheme. In such instances, a converting scheme must ensure that members’ accrued benefits are not reduced or miscalculated. Regulations prohibit conversion of schemes from DBS to DCS to be done without prior notification to and approval of the regulator.

In the absence of comprehensive legislated rules on conversion of DBS to DCS, countries such as Canada have developed comprehensive guidelines and policies for converting plans from Defined Benefit Schemes to Defined Contribution Scheme. Total

absence of regulations or guidelines creates challenges. In such cases employers or scheme sponsors have the discretion to dictate the conversion process to suit them with little protection to the employees as happened in South Africa. Court cases related to scheme conversions from DBS to DCS are not unheard of.

In South Africa, conversions occurred without set out guidelines which gave employers discretionary powers in the whole matter. Treatment of surplus funds arising from the difference between the fair value of assets and actuarial valuation were rarely shared out with the members. At the start, transfer values were meager constituting of the equivalent of member contributions and low interest rates only. In later years, accrued liabilities for the members were actuarially determined which however did not include any surpluses. Calculation of these transfer values are being challenged to date.

Since conversion of schemes was driven by the employers, all members were expected to transfer their funds to new arrangements forcing even the few members who would otherwise have opted to stay in the DBS. Such move is considered a breach of trust under the trust rules.

In the 2009 case of IMG Pension, despite the fact that the conversion of the IMG Pension Plan from DBS to DCS happened 1992, IMG was accused of amending its 1977 trust deed in 1981 in such a way that it less protected the value of accrued benefits already secured by the members; and that even though the employees returned their signed forms accepting transfer, the consent of members to transfer to their benefits from IMG DBS to the new DCS was not based on informed consent. "members had been unaware of the 1997 fetter; they had received no advice; the effects of the proposal were not "clearly explained" to them; they were not given any real choice to as to whether or not to consent; and they 'received the impression that they would not adversely affected by the changes". IMG Pension Plan was also accused of backdating the effective date of conversion from March 1992 to January 1992 because it made some of the benefits accrue as DBS benefits as if they were DCS benefits., (Freshfields Bruckhause Deringer, LLP, 2010).

The Process of Conversion

Since membership to an employer sponsored occupational scheme is based on employment contract, changes to the existing retirement arrangement are done with the consent of employees. Employees are educated and comprehensively informed of the benefits and reasons for conversion. Success transfers in most cases are usually coated with "sweeteners" or "inducements" as an incentive for members to transfer or withdraw from the DBS. In South African, the sweeteners were an additional 15 percent of accrued liability.

During conversion is that the members past accrued benefit entitlements until the day of conversion must be fully preserved and not reduced in value. Changes to future benefits are allowed. Guidelines are therefore established to safeguard employee benefits arising from contributions, expected salary increases, investment income including scheme surplus.

1) Since conversion of is essence a plan amendment, the first step of action is a notification to the regulator on intention to convert which must be supported by a resolution of board of the sponsor. The regulator to give a go ahead response for the conversion to proceed.
2) Information on the conversion to be cascaded to the members. The Sponsor must ensure that all information and implications of the changes is fully explained to the members as a basis for them to make informed choices. Revision of member booklets with new information. Ideally members need be given the option to elect to remain in the DBS or move to the DCS. This option is particularly important for the members who are close to early retirement since their time horizon does not afford them to recover from market failures. Usually a form is issued as an election document where members complete by consenting to the change or otherwise. Interests of existing vested deferred members and pensioners must be taken care at the time of conversion. Usually the DBS remain in existing for their good.
3) Where members opt to remain in the DBS scheme the sponsors must ensure that the DBS scheme remains compliant with the regulations. However, should the employer choose to contract out the DBS, members entitlements must be upheld as promised. In the case of closure for future accrual, the sponsors must purchase

a deferred annuity to guarantee the accrued benefits. "The annuities purchased must provide substantially the same benefits as were provided under the terms of the plan, including death benefits

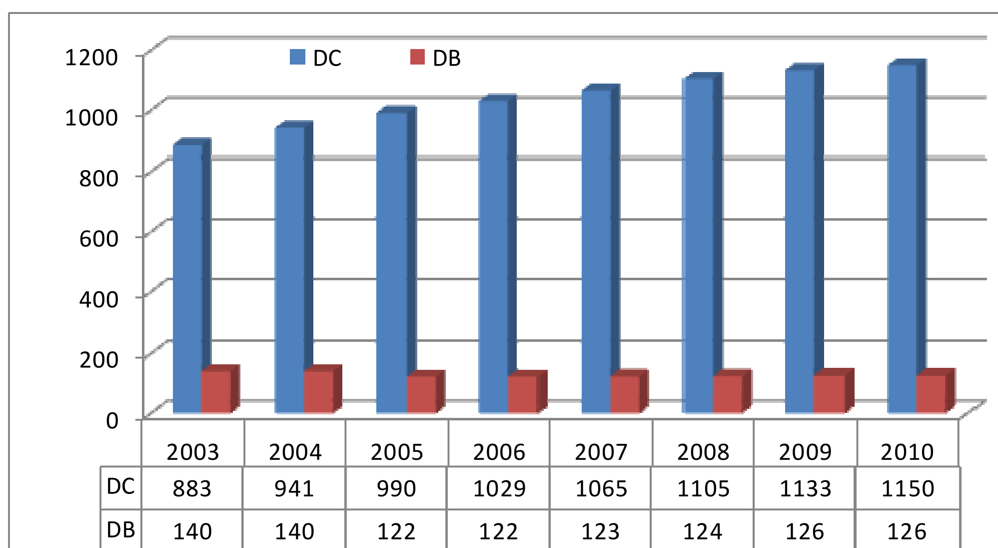
4) Actuarial valuation must be conducted to calculate members accrued lump sums entitlements to be commuted to the DCS. The actuarial valuation must make known the basis of determination of the benefits. The basis must include any special features of the DBS. In Canada, "*the basis may not result in the value of any member's benefit being less than that which would be determined pursuant to the Canadian Institute of Actuaries, "Standard of Practice for Determining Pension Commuted Values". (Pension Commission –Update # 18, March 2005).*

5) Regarding surpluses, in many cases regulations directly addressing treatment of surplus usually exist and apply as such. Where members are entitled to the surplus, the method of allocation must be known and must be equitable.

6) In the event that a converting scheme has a deficit, the sponsor is liable to make good the deficit by either making a onetime lumpsum payment to the scheme or commit to pay deficit within defined period of time. In such a circumstance the sponsor has to prepare and submit a remedial plan covering a limited period. In Kenya a period not exceeding six years is given. Compliance to the remedial plan is monitored closely.

Conversion of Defined Benefits Scheme to Defined Contribution Scheme in Kenya

In Kenya like in many other countries has experienced noted increase of DCS over the years. This is attributed to both conversions of existing DBS to DCS and the new preference for DCS by sponsors of newly registered schemes. Majority of schemes conversions have been happened among Parastatals based schemes. Newly registered occupational schemes are commonly designed as DCS because of the small scaled nature of the sponsors' businesses and the highly mobile youthful workforce. A sponsor is not limited to converting an operational DBS to DCS. It is advantageous to the members when the sponsor opts to replace the DBS with a DCS or enjoining members to an individual retirement benefits scheme as opposed to closing down the DBS and failing to start another.



	2003	2004	2005	2006	2007	2008	2009	2010
DC	883	941	990	1029	1065	1105	1133	1150
DB	140	140	122	122	123	124	126	126

Specifically, the highest reduction of DBS and consequently the highest increase in DCS happened in 2005. DBS dropped by 18 and DCS increased by 49. Scheme conversions combined with preference for DCS over DBS of sponsors of newly registered schemes has contributed to the increase in number of DCS. Majority of schemes conversions have been across Parastatals based schemes whereas the small scaled nature of the sponsors' businesses and the highly mobile youthful workforce makes DCS more tenable.

Like other jurisdiction, Kenya does not have legitimately documented legislation that governs the conversion of schemes from DBS to DCS. Scheme conversion is regarded as an amendment to the scheme rules. Any amendment by schemes must not in any way have the effect of reducing the accrued vested and accumulated benefits of members.

In 2004, the Authority developed regulations on Scheme Conversion for legislation by Parliament which however have not been passed to date. Despite the absence of these legislation all conversions must be approved by the Authority. Converting schemes must begin by notifying the Authority of the intention. In response to an application, the Authority provides the conditions for which applying schemes must comply with for the conversion to occur.

At the time of application for conversion to the Authority, scheme trustees are expected to attach minutes to show the sponsors' resolution to convert the scheme. The trustees are then expected to conduct an actuarial valuation to determine and ascertain the actuarial value of the scheme, funding level and members accrued benefits which will be the applicable amount for transfer. The scheme must be fully funded to convert. Schemes whose funding status fall below 100 percent mark will be expected to normalize the deficit position appropriately. This is not however strictly followed. Trustees may have scheme conversion approved even with pending deficit. However, in such cases the affected sponsors must demonstrate the ability to fund the liability through an effective remedial plan within a period of six years. In such instances, the DBS will not be allowed to close down the DBS. The DBS will continue to exist until all unpaid dues are met by the sponsor.

Trustees are expected to implement a comprehensive communication strategy that will inform the members on all that appertains to the conversion. Members must be properly educated on the impact of the change on their benefits as well as on the process of conversion. Members must be given due time to query the conversion. Members must given the choice of whether to transfer to the new DCS or otherwise. Members are expected to consent by way of signing of conversion forms. Trustees must furnish the members with revised benefit statement showing the actuarially accrued benefits due for transfer to the new DCS or frozen in the DCS. Should ninety days

elapse before the conversion is complete, the trustees will be required to carry out a new valuation of the benefits. In the event that not all members transfer their benefits, the trustees must disclose how such members and their benefits will be treated. Members who choose not transfer must be guaranteed protection and continuity of the accumulation of their benefits. Trustees must review and develop a Trust Deed and Rules to capture all the accompanying changes to scheme rules to reflect the conversion.

The Retirement Benefits Authority Staff Retirement Benefits Schemes (DB) is among the recent schemes to convert. The first attempt to convert the scheme happened in 2008. The second which eventually resulted in actual conversion was done in 2009. The Authority cited 7 reasons for the conversion however two are relevant for this per. Increased costs of funding schemes due to increased staff salaries and the embracing of DCS by staff of the Authority.

Similar to other Parastals, increase in pension liabilities was caused by increase in salaries over the years. The sponsor could only commit to contributing a limited amount which fell below the required contributions to meet accumulated and projected obligations of the scheme even though the scheme had enjoyed a surplus regime for many years. At the time of conversion, the liability was further aggravated by the fall in fund value due to the financial crisis in the previous two years. This prompted the sponsor to take a risk averse position by converting to DCS. The DCS would enable the sponsor achieve the twin objective of operating a scheme with known and predictable costs and to mitigate the constraints of adjusting future staff remuneration.

With a background of the workforce clearly understanding the proponents and constraints of DBS earned by virtue of overseeing the retirement benefits industry, staff significantly motivated the conversion of DBS scheme to DCS as early as three years back when the workforce was even younger. Staff desired to have a more flexible scheme that would favour their mobility. One of the overriding strength's of the Authority is that the workforce age averages 40 years. Considering a retirement age of 60 years this is considered medium aged scheme and therefore favorable for conversion. The Sponsor was careful to apply a competitive transfer package to retain its workforce.

The process of conversion of Retirement Benefits Authority Staff Retirement DB Scheme started with a resolution from the sponsor. The sponsor's intent was to close and transfer the member benefits to the new scheme. To achieve this, the sponsor did use some form of "sweeteners". First, members' accrued benefit which amounted to the transfer value was based on current salary which has risen over the years. Secondly, the sponsor promised to match 1.5 per cent for every 1 per cent additional contributions made by staff who transfer to the DCS. However, the employer match would be limited to a maximum of members increasing their contribution to 10% from the 7.5% scheme rate.

Members were educated on the conversion process, effects and period. Revised member booklet and transfer forms were circulated to the members. Based on this, members were expected to make up the decision to transfer or not within a period of three months by completing and signing the forms. In the two months staff had the opportunity to inquire and obtain more information and have any issues of concern tackled regarding the conversion by the scheme trustees and administrators through face to face discussions or by on-line interaction. With added "sweeteners" all staff members consented to transfer their accrued benefits to the new scheme. The employer made good the debt.

Some issues can be raised regarding the transfer. While majority of the staff were attended the education forum, no recognition and alternative forum was considered for those who were not in attendance. The two months period was rather brief more so because it coincided with the festive December holidays. No communication was cascaded to the members after submission of the forms to the Administrators.

Conclusions and Recommendations

Unless mandated by legislation, conversion of schemes from one design to another is sure and definite to occur into the future. Currently conversions are from Defined Benefits Schemes (DBS) to Defined Contribution Schemes (DCS). With innovation and upcoming of new types of hybrid schemes, different kinds of conversions are bound to happen in the future.

There are many reasons behind scheme conversion from DBS to DCS. Risk averse attitude among sponsors; evolving markets "new economy" and regulations have been among the major reasons for conversions. Regulators need to be prepared for these dynamics. Specifically for Kenya:

1) Provide legislation and in the absence of legislation guidelines and standards of scheme conversion to be provided. The legislation need to detail prudent time duration members must be given to convert and protections of members who so wish to remain in the DBS schemes in particular those about to retire.
2) Keep and maintain proper industry data on scheme conversions
3) Provide alternative options for converting schemes conversion such as enjoing members to individual schemes and by cost sharing model to have the members' benefits continue accruing with sponsor and employee contributions.

REFERENCES

http://www.investopedia.com/

2010, IMG Pension Plan Case: Scheme Changes Ineffective Freshfields Bruckhaus Deringer, LLP, February http://www.freshfields.com/publications/pdfs/2010/Feb10/27610

2005, Guideline for Converting Defined Benefit Plans to Defined Contributions, Office of Superintendent of Financial Institutions,

2005 April, Guideline for Converting Defined Benefit Plans to Defined Contributions, Office of Superintendent of Financial Institutions, http://www.rrq.gouv.qc.ca/en/employeur/regime_cotisation_prestations_determinees/Pages/role_droit_responsabilite_rrt.aspx

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=917795

http://www.lexology.com/library/detail.aspx?g=57e305f0-97e0-4a75-a749-f1ecdbb9a497

http://www.humanresourcesiq.com/article.cfm?externalid=1423

http://www.mercer.ie/summary.htm?siteLanguage=100&idContent=1375155

http://www.charitycommission.gov.uk/Charity_requirements_guidance/Charity_governance/Managing_resources/dbps.aspx

(Robert Palacios et al, 2006)

http://www.charitycommission.gov.uk/Charity_requirements_guidance/Charity_governance/Managing_resources/dbps.aspx

http://www.gov.mb.ca/labour/pension/updates/update18.pdf

http://www.investopedia.com/articles/retirement/10/demise-defined-benefit-plan.asp

http://www.eiuresources.com/mediadir/default.asp?PR=2010021901

http://www.sharingpensions.co.uk/privatepen2.htm#text4

http://www.sharingpensions.co.uk/employpen.htm

http://www.charitycommission.gov.uk/Charity_requirements_guidance/Charity_governance/Managing_resources/dbps.aspx (Version June 2010)

Deadline looms for defined benefit schemes overhaul
http://www.mercer.ie/summary.htm?siteLanguage=100&idContent=1375155

"*Standard of Practice for Determining Pension Commuted Values*". *(Pension Commission – Update # 18, March 2005).*