Retirement Benefits Authority

Safeguarding your retirement benefits

RESEARCH PAPER PAPER

IMPACT OF ACCESSING BENEFITS BEFORE RETIREMENT AGE

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DEFINITIONS

Preserved benefits/ locked in benefits- Retirement benefits that have not been withdrawn or accessed during working life of a member of a scheme.

Additional Voluntary Contribution- Any contribution above what has been prescribed by the scheme.

ABSTRACT

The recent amendment allowing members of retirement schemes to access 50% of employer's benefits on changing jobs was met with mixed reactions. Previously, Retirement Benefits Act and Regulations allowed members to access only employee's portion upon changing jobs or leaving employment. Employer's portion was locked in until retirement age. The law has now been opened up to allow members to further access 50% of the employer's portion. This study has established that over Ksh. 2 Billion has been accessed in a period of 6 months (From 1st October, 2010 to 31st March, 2011) by over 6, 400 deferred members. Although this paper has looked at the short term impact, great measures need to be taken by the Government of Kenya to reduce the long term effects of early withdrawal on members of schemes in order to avoid pensioner crisis in years to come.

1 INTRODUCTION

The decision to enable 'early access' to employers' locked in pension saving is now in the feature of Retirement Benefits Authority pension policy discussion. In 2005, there was an amendment to Retirement benefits Act, through (Legal Notice Number 56, 2005) requiring members of schemes to preserve the whole of the employer's portion of a member's accumulated benefits after three year of membership in a scheme but before attainment of the retirement age except under the following limiting circumstances affecting a member: ill health, death and where a member withdrew from the scheme before (3) years of membership. This created uproar among members of schemes and generated a lot of discussion on the basis for locking up employer's pension benefits.

There has been views suggesting that pension rules, and the inaccessibility of pension saving until the age of 60 (previously 55), deters individuals from saving for retirement, reflective of the longstanding problem of under-saving in the country. Other views suggest that in some situations, pension rules may prevent individuals from smoothing their income (and consumption) across the life course in response to unexpected changes in income and expenditure, with associated perverse consequences; an example commonly cited is of an individual unable to access pension savings whose home is threatened with repossession. Properties and businesses are normally sighted as additional source of income during retirement. We observe the similar trend as evidenced in RBA pensioner survey conducted in 2009.

More often than not, in countries where there are no jurisdictions on preservation of retirement funds, benefits are withdrawn before retirement age. In the UK however, discussion of enabling early access to pension savings has been a feature of UK pension policy debate. In December, 2010 the government of United Kingdom invited organizations to offer evidence or research on the prospects of whether early unlocking of benefits could be used to boost pension saving, the risks involved and whether there were models of providing early access. (HM treasury, 2010). The Government of UK wanted know whether enabling early access would improve pension take up by individuals (London Stock Exchange). After four months of consultation, the Government of UK would not be considered until further research was conducted on the same (Devere group).

In Kenya, the discussion has taken a different turn. It is not about whether or not early access can be introduced but the effect of this on retirement benefits. Prior to 2005, members could access all their contributions upon changing jobs. There was a need to safeguard retirement benefits, hence the change of regulations in 2005, requiring members to defer employer's benefit until retirement age. According to (RBA Pensioner Survey, 2004) only 34.5% of retirees felt that the amount they and had contributed to their retirement was adequate. Further, it was established that 40.9% of retirees changed jobs during working life but only 24.4% of those transferred their benefits to the scheme of the new employer and only 7.1% deferred their benefits in the original scheme. This raised a serious concern to the regulator, RBA. The Government thus came up with initiatives to encourage long term savings by ensuring that members of schemes preserved their retirement benefits to cater for retirement rather than accessing their benefits upon changing jobs. There was an amendment to Retirement benefits Act, through (Legal Notice Number 56, 2005) requiring members of schemes to preserve the whole of the employer's portion of a member's accumulated benefits after three year of membership in a scheme but before attainment of the retirement age except under the following limiting circumstances affecting a member: ill health, death and where a member withdrew from the scheme before (3) years of membership. Further, members could also transfer their preserved ("employer's portion) to other occupational schemes on leaving employment with the sponsor before retirement age.

The first amendment to the preservation rule through (Legal Notice Number 61 & 62, 2006) was introduced to allow for members emigrating from Kenya to other countries without any intention of returning to reside in Kenya to access their employer's portion of their accumulated benefits. The second amendment of the preservation rule came effective through (Legal Notice Number 93 & 95, 2007) which reduced the period of scheme service after which the employer's preservation of benefits from three years (3) to one year (1). It also allowed members who became incapacitated on grounds of ill-health during the period of deferment could apply to have the preserved benefit paid to them. Lastly, the amendment also allowed for preserved benefits in occupational schemes to be transferred to individual schemes.

In July 2009, a private member bill was introduced in parliament seeking to reverse the change which was effected in 2005. The objective of the bill was to alleviate the agony of the retrenched members. This bill was passed and the Minister of Finance amended Regulation 19(5) of Occupational Regulations to allow the following members to access up to 50% of the employers' locked in benefits (Legal Notice Number 165, 2010). Under this amendment, members of defined contribution schemes on leaving the scheme after three years of membership and prior to attaining retirement age were allowed to access 100% of their own accumulated contributions plus 50% of the employer's accumulated contributions made on their behalf. For defined benefit schemes, the amendment increased the amount of benefit that could be accessed by members that left after three years of membership but before attaining retirement age from 33% to 50% of their accrued benefits as determined by the scheme actuary. The fourth amendment through (Legal Notice Number 10, 2011) provided that scheme members with less than 3 years(3) of membership in the scheme to access 50% of the employer's portion of their accumulated benefit provided it was fully vested. The series of amendments imply that members of schemes can now access up to 50% of the employers preserved pension.

A sample of 2395 employees was drawn from the members of the 1308 pension schemes across Kenya in the RBA register on 31 May 2010. The results indicate that the pension scheme members have knowledge on pension scheme practices than general financial literacy issues and identify the lack of forum for involvement and lack of understanding of pension fund matters as the major hindrances to participation in scheme affairs, both of which could be addressed through appropriate finance and pension literacy programs. (United States International University, 2011).

1.1 Statement of the problem

Pensioner survey conducted by RBA showed that 57.2% pensioners attributed pension as the most important source of income during retirement. A further 32.9% of pensioner admitted that pension was their only source of income. In addition, the survey indicated that most members had changed jobs either twice or thrice. (Pensioners Survey, 2008).This implied that members of schemes would withdraw their benefits upon changing jobs. This informed the decision by the Government of Kenya to introduce preservation of benefit rules in the year 2005 (Legal Notice Number 56, 2005).

Several amendments were made on preservation rule; with the recent change allowing members to withdraw a further 50% of the employer's locked in benefits. This paper seeks to investigate the impact of this change on retirement benefits. More specifically examine the impact of early access to the members, the scheme and to the economy Kenya. According to Schlettwein, most individuals are tempted to withdraw their benefits early as opposed to saving for retirement (Schlettwein, www.mof.gov.na, 2010).

The most common method of estimating the level of retirement need is to specify the percentage of pre-retirement income needed to maintain the pre-retirement consumption level during the years spent in retirement (Palmer, 1989,1994). Members of schemes who preserve their benefits upon changing jobs are likely to retire with higher replacement ratio that is considerably higher replacement ratios than those who do not (Schlettwein, www.mof.gov.na, 2010). In Kenya, the replacement rate falls below the ILO recommended rate of 40% per couple (Chirchir, 2009).

1.2 Research Objectives

The main objective of the paper is to assess the impact the new change, which allows members to access up to 50% of the employers contribution, will have in the pension industry. More specifically, the paper will look at the following objectives:

1. To establish the reasons why members choose to unlock their benefits before attaining retirement age.
2. To investigate whether variables like amount of income, no of years to retirement, size of pension benefit, household income, household size and conservativeness of investment preference affect the decision by members to unlock or not to unlock their pension benefits
3. To establish the impact of unlocking of benefits to the members
4. To establish the impact of unlocking of benefits to the scheme
5. To establish the economic impact of accessing benefits before retirement age.

1.3 Importance of the Study

This study will enable us to better understand the reasons why member opt for early access to pension benefits and the role played by each of the identified variables. This will be very beneficial to the pension regulatory body on Kenya, Retirement Benefits Authority (RBA). One of RBA's roles is to make policy recommendation to the Government of Kenya. This paper will enable the RBA steer strategic policy with regards to saving for retirement. The paper will also be very beneficial to service providers namely; pension scheme administrators, fund managers and custodian; pension scheme members, financial sector regulators and most importantly the Government of Kenya.

2 LITERATURE REVIEW

2.1 Life cycle theory

Retirement benefits are intended to safeguard pensioners against shocks during their sunset years. The amount of benefits at retirement depends on many factors such as income, composition of households and age (Paralta, 2010) . Modigliani considers savings as one of the most important pillars of the economic system (Modigliani F. , MD interview, 1999).

More often than not, in countries where there are no jurisdictions on preservation of retirement funds, benefits are withdrawn before retirement age. Research shows that lower to medium income group and younger persons have the tendency to withdraw early. (Schlettwein, www.mof.gov.na, 2010). According to Jappelli, the main drive for saving is to build up resources to be used during retirement (Jappelli, 2005). According to Paralta, there is no certainty that the income after the retirement age will be sufficient to maintain the desired level of consumption, individuals save a portion of that income in order to increase the allocation of wealth available when they reach retirement (Paralta, 2010).

According to Modigliani, the life cycle model is the most useful framework of studying the link between ageing, consumption and saving. (Modigliani and Bromberg, 1954; Friedman, 1957). The main result obtained from this framework is that the consumption is smoothed: the individuals will save in order to transfer purchasing power to the period of the retirement (Freidan & Martin, 2009).While main predictions of the life cycle theory tend to be supported by empirical evidence. The life cycle approach in its simplest version implies that financial life of individuals occurs in three phases after starting a professional activity. In the first phase, each person earns a wage from his or her labor supply and has insufficient income to cover their needs; therefore they become indebted in order to finance their needs of durable goods (furniture, car, etc.), the purchase of a home and the education of their children. In a second phase, they pay off their debts run up in the previous phase and begin a process of accumulation of wealth to be able to finance their retirement period. In a third phase, they use up what they had saved during retirement.

Work on precautionary saving, particularly by Caroll and Kimball has shown that people with uncertain future earnings who are sufficiently prudent will never borrow, if there is the possibility, however remote, that they will not earn enough to be able to repay their debts (Caroll & Kimball, 2006). According to Ando et al, wealth is build up during working years in order to finance, consumption during retirement in the life cycle theory (Ando & Modigliani, 1963; Kotlikoff, Speak & Summers, 1982; Hogarth, 1991). They suggested that precautionary, bequest, and other motives must be taken into consideration.

Taking into consideration other motives that may impact the life cycle theory, there are the risks of accidents during the active life (illness, unemployment, death, etc.), which require precautionary savings or specific insurance policies, including unemployment benefits of public welfare. In this scenario the bequests usually are involuntary assuming a finite life cycle horizon. Secondly, longevity risk associated with the number of years in retirement can result in an undesired level of consumption. Last but not the least; political risk related to changes in the regulations regarding pensions, for instance, early access of retirement funds may cause uncertainty.

2.2 Models of early access to pension benefits

Early access to pension benefits in Kenya allows for members to access up to 75% of their pension benefits upon changing jobs. This is different in United States of America where the 401(K) plans apply and in New Zealand (Kiwi Saver Model). We examine various models that have been used for early access of pension funds in the some countries. The Government of UK has proposed four potential methods[1]of early access to pension savings as follows:

[1] Pension Policy Institute: Early access to pension

1. Loans and withdrawal model

This model allows members to access loans from the pension funds. The loans have to be repaid with interest. The model is based on the 401(k) model used in the United States of America (Daniela Silcock, 2008).

2. Permanent withdrawal model

This model allows members to withdraw permanently. Unlike the loan model where interest is charged on repayment, members can access all their benefits and are not obliged to pay. The model is based on the Kiwi Saver used in New Zealand (Daniela Silcock, 2008).

3. Feeder Funds model

This model allows members to have a pension fund and an individual savings account to enable members to access a determined amount of liquid savings (Daniela Silcock, 2008).

4. Early access to lump sums

The model permits early access to 25% of members' pension benefits at any age if the size of benefits is above the set minimum amount and below the set maximum amount (Daniela Silcock, 2008).

3 IMPACT OF EARLY ACCESS TO THE RETIREMENT BENEFITS INDUSTRY

In this chapter, we look at the impact of early access to members of schemes, the scheme and the economy.

3.1 Impact of early access to members

Pension industry assets as at December 2010 amounted to Kshs. 451 billion (Industry Investment Report, 2010). Membership of retirement benefits arrangement as at 31st December, 2008 was 1,505,833 members. This is inclusive of 1,115,241 members covered under NSSF. The change on the amount that could be accessed affected only occupational scheme members and those who had transferred the locked in benefit to individual pension scheme.

Retirement Benefits Membership (Retirement Benefits Authority, 2009)

Table 1

ITEM	OCC. NUMBER	PERCENTAGE	NSSF	Total Coverage
PENSIONERS	32,079	8%	Not Provided	
NEW ENTRANTS	32,991	8%	Not Provided	
LEAVERS	17,895	5%	Not Provided	
DEFERRED	8,885	2%	Not Provided	
CONTRIBUTING MEMBERS	298,742	76%	1,115,241	
TOTAL NUMBER	**390,592**	**100%**	**1,115,241**	**1,505,833**
Coverage Ratio				
Total Population of Employees	1,505,833	15.9%		
Recorded Employment	9,450,300			

Source: RBA 2009 statistical digest

Statistics from registered scheme administrators shows that as at 31st March, 2011, over 6,400members had withdrawn their benefits. This represents 72% of the deferred members. This may look like a drop in the ocean, however when we analyze it based on the amount accessed, it amounts to over Ksh. 2 billion**.** Based on the data received from administrators, we observe that there are some schemes which were severely hit. Members of schemes are also highly affected by early withdrawal.103 schemes had at least 10 members withdrawing from each scheme with the highest recorded to be 163 members exiting from one scheme. The amounts withdrawn from these schemes amounted to Ksh. 716 Million, an average of 7 million per scheme. A drastic withdrawal of this amount from schemes implies that these particular schemes made lower returns since the opportunity cost of saving has been inhibited. This will further affect active members who have not withdrawn from their schemes.

The table below shows scenario of five individuals in the same scheme, assuming the date of joining is at age 25 and retirement at is at 55. Further we assume that the rate of return from the scheme is 10% and that the salary will increase at a rate of 1% p.a. The starting salary is Ksh. 30,000

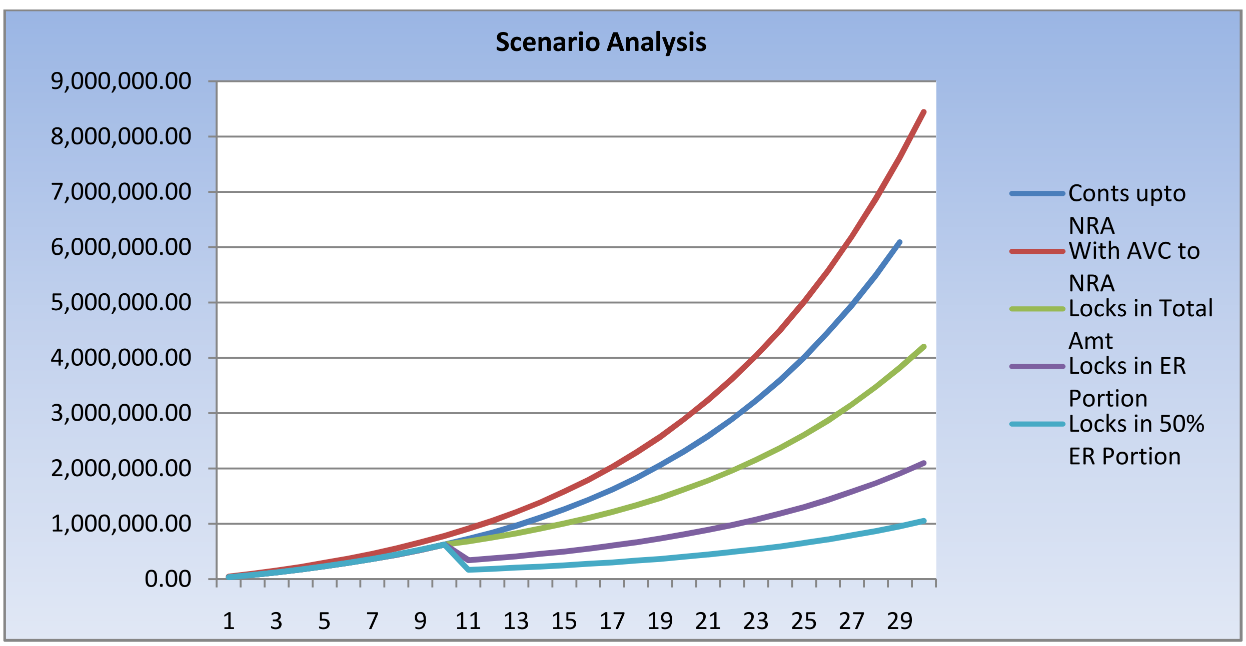
Table 2

Details	**X- contributes to NRA**	**Y- Contributes to NRA plus AVC**	**Z Locks all portion(ER +EY)**	**A Locks 100% ER**	**B Locks 50% ER**
Age of joining	25	25	25	25	25
Retirement age	55	55	55	55	55
Leaves service	No	No	yes	yes	yes
No. of yrs of service	30	30	10	10	10
Additional voluntary contribution (AVC)	no	yes	no	no	no
Employer contribution	5%	5%	5%	5%	5%
Employee contribution	5%	7.5%	5%	5%	5%

Details	X-contributes to NRA	Y-Contributes to NRA plus AVC	Z Locks all portion(ER +EY)	A Locks 100% ER	B Locks 50% ER
Salary per month (Ksh)	30,000	30,000	30,000	30,000	30,000
Interest pa	10%	10%	10%	10%	10%
Salary increment pa	1%	1%	1%	1%	1%
***Total benefits at age 55 (Ksh) Million**	6.75	8.44	4.20	2.1	1.05

*Total benefits at age 55 are benefits that are payable to the member at age 55. If the scheme is a provident fund, then the member is entitled to the whole lump sum. If the scheme is a pension fund, the member is entitled to a third of the benefits as a lump sum and the remaining two thirds as pension.

Graph 1 Scenario analysis



3.1.1 Taxation of benefits

Retirement benefits are subject to the income tax act provisions. Members of schemes who leave earlier before their retirement age are taxed at PAYE rates. From the table below, it is clear that a member, who exists early, ends up paying so much tax as compared to a member who has stayed in the scheme for 15 yrs and above.

Table 3:TAXATION OF RETIREMENT BENEFITS

	Member A		Member B	
Period in the scheme	15yrs		5yrs	**Balance net of tax**
Lump sum payment	2,120,000		2,120,000	
Tax exempt amount	600,000		300,000	
Taxable amount	1,520,000		1,820,000	-
1st 400,000 @10%	40,000	1st Shs.121968 @10%	12,196.8	121,968
Next 400,000 @15%	60,000	Next 121968 @ 15%	18,295.2	1,807,803
Next 400,000 @20%	80,000	Next 121968 @ 20%	24,394	1,789,508
Balance 320,000 @25%	80,000	Next 121968 @ 25%	30,492	1,765,114
Tax payable	260,000	Balance @30%	520,387	1,734,622
		Tax payable	605,764	
FINAL BENEFITS RECEIVED	1,860,000	Final Benefits received	1,514,236	

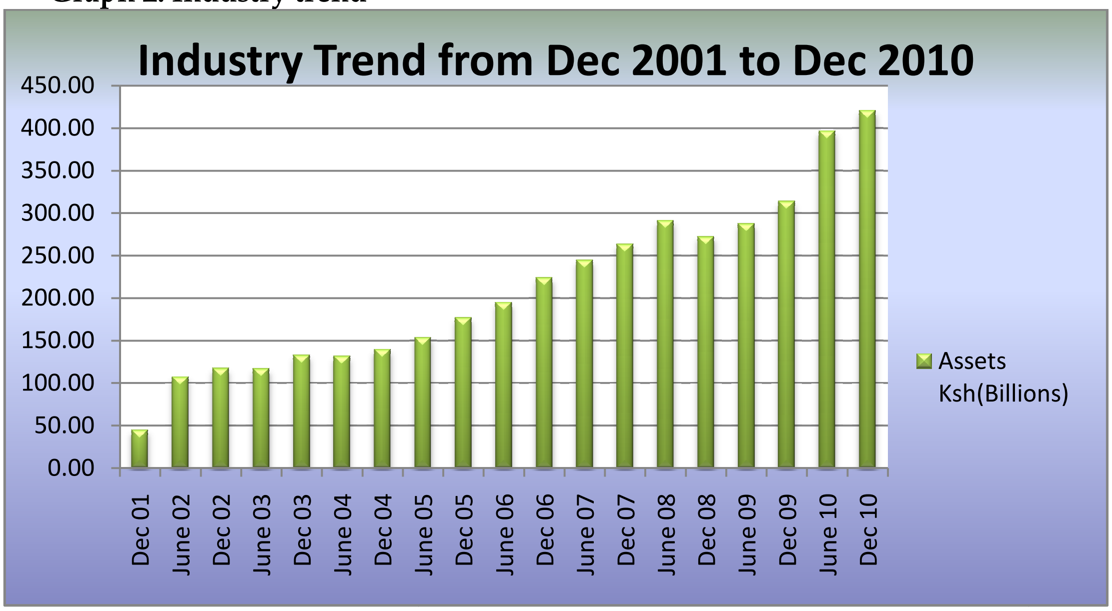
3.2 Impact of early access to schemes

Early access to pension lowers the amount of the fund by the initial withdrawal. Secondly, from the schemes' perspective, the of the scheme looses out on the amount of investment return that the withdrawn money would have generated (Daniela Silcock, 2008). In addition, constant withdrawal by members may result to higher administration, fund management and custodial fees. The costs could be borne by the member who is withdrawing or could be borne by the scheme or both.

3.3 Impact of early access to the economy

The pension industry has continued to grow at an exponential rate. In 2002, the industry was at Ksh40 Million, this grew to Ksh. 450 Billion as at 31st December, 2010 as shown in graph 2. This represents 17.7% of the [2]Gross Domestic Product (GDP). The effects of early access to the economy can effectively be assessed once a trend is established on the number and the amounts withdrawn annually.

Graph 2: Industry trend

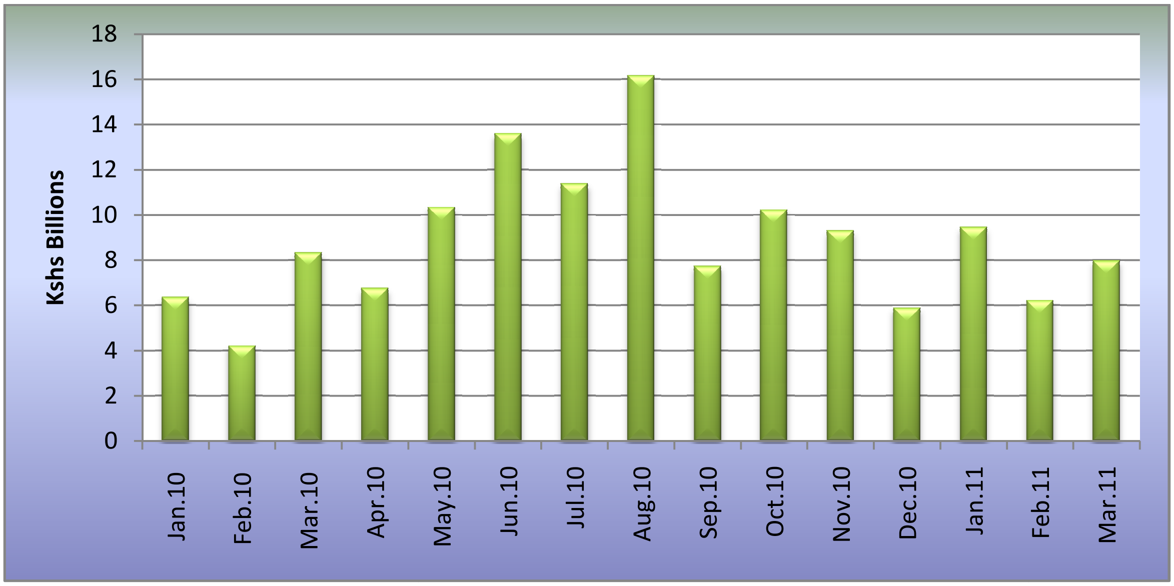


a) Pension Holding on Government Securities

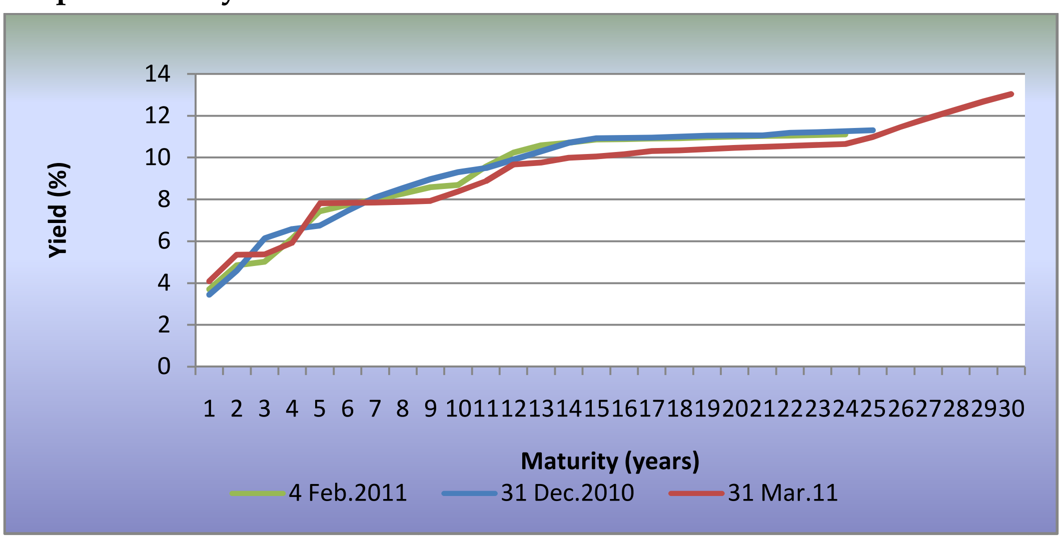
The industry total holding of Government Securities stood at Kshs 143.6 billion or 20.5 % of total outstanding Government Securities as at December 2010. Retirement Benefits schemes have played an important role in assisting the Government to lengthen the maturity structure of its debt by being majority holders of longer dated bonds. Bond interest rates have also been on the rise, resulting in a decline in bond valuations as shown in graph 3 and 4.

[2] Economic survey 2011

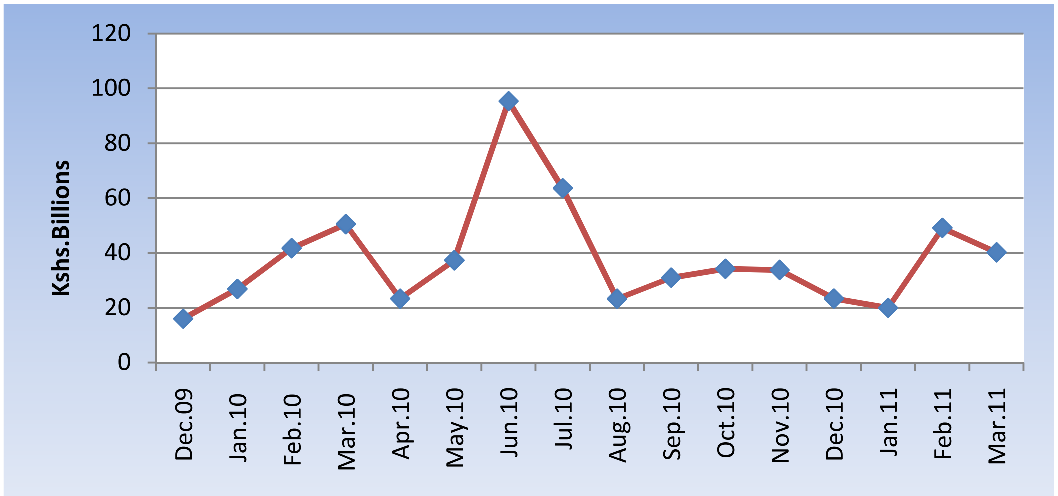
Graph 3: Bond Yields



Graph 4: Bond yields

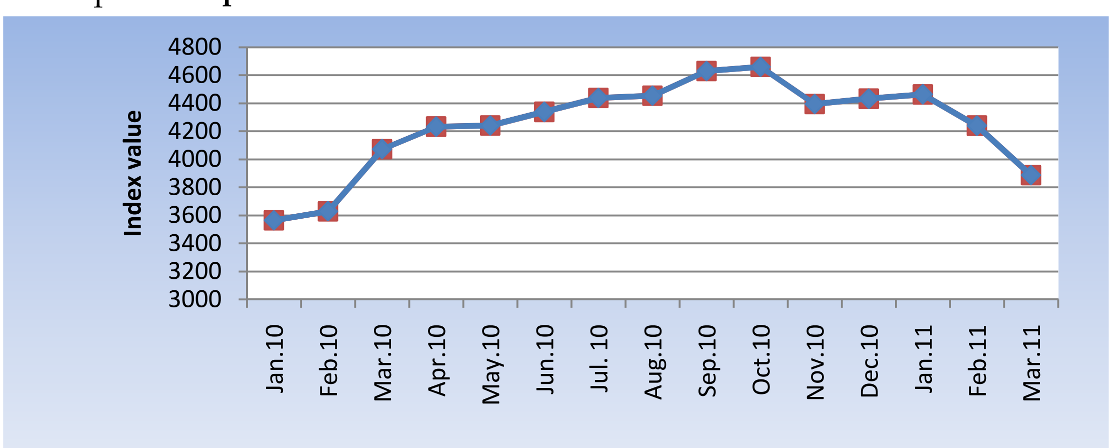


Graph 5: Bond turnover Ksh. (Billions)



b) Pension holding on quoted equity

Total retirement benefit industry investment in stock markets in the East African Community amounted to Kshs. 130.4 billion almost all of which was in the Nairobi Stock Exchange. The portfolio was well diversified with the Industry and Allied, Commercial and Finance and Investment Segments all having significant investment from retirement benefits assets. The following graph shows NSE 20 share index. We can see the decline in the NSE 20 share index from October, 2010. This decline was caused by many factors such as reduced activity by foreign investors, escalating inflationary pressures, a weakening currency, increasing interest rates among others. The impact of accessing benefits is a long term impact and could not be measured in a short span. **Graph 6: NSE 20 Share Index**



4 RESEARCH METHODOLOGY AND DATA COLLECTION

4.1 Population and Sampling Design

The population of the study comprised of members of occupational pension schemes and individual schemes. RBA regulates over 1300 registered schemes with a membership of 1.5 Million, of which 1.1million are active members of NSSF. Only members of occupational scheme and individual schemes were affected by the recent changes in regulations. Therefore, the population under study was 358,513 exclusive of 32,079 pensioners.

For this study, we took a sample size of **384** schemes based on chi-square and population proportion formula by Robert V. Krejce (Krejce). The participating schemes were then randomly drawn from the sample. In addition, administrators were also given questionnaires to administer to the members opting for early withdrawal. Proportionate stratification was used to select the number of members to participate in the survey from each scheme. The participating members were then randomly selected at the data collection. Data was collected between April 2011 and June 2011. The eventual sample comprised 300 members, representing a 78% response rate.

4.2 Measuring Instruments

Questionnaires were used to collect data. The first section of the questionnaire targeted to get general information about the respondent. The number of years they had stayed in their scheme, the contribution rates, income group of the respondents and finally, if there were any additional voluntary contribution by the members. The second section was on withdrawal of benefits. The questions targeted the number of times the employees had changed jobs, the amount withdrawn and reasons for withdrawing. For the respondent who did not withdraw, there were some questions which targeted their reasons for not withdrawing. Section three was on retirement planning. The responses to the questions informed me of the number of years to retirement that the respondents had, their perception of retirement and whether they were prepared for it. Finally, section four had questions targeted to get reactions from members of scheme on the recent change allowing for employer's portion to be unlocked and policy recommendations on the same.

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4.3 Validity and Reliability of the Questionnaire

The questionnaire's questions were drawn from two objectives of the paper. To establish the reasons why members choose to unlock their benefits before attaining retirement age and to investigate whether variables like amount of income, no of years to retirement, size of pension benefit, household income, household size and conservativeness of investment preference affect the decision by members to unlock or not to unlock their pension benefits. Some of the views collected from the questionnaire formed part of the policy alternatives recommended.

4.4 Data analysis

The data was captured and analyzed using SPPS. Cross tabulation was applied to establish relationship in the various variables. Scenario analysis was used to determine various scenarios of withdrawal and the effect on retirement benefit.

5 RESEARCH FINDINGS

5.1 Reasons why members choose to unlock their benefits.

This research established out of the members who had previously changed jobs, 55.2 admitted that they had accessed their benefits before attaining retirement age. The reasons they gave for accessing their benefits were as follows:

1. 37.5% said they withdrew for reinvestments.
2. 16.7% said it was a statutory requirement
3. 45.8% gave other reasons like retrenchment, personal reasons; RBA rules of locking in were not in place, to settle loans, available cash, among others.

We then asked all members whether they would consider withdrawing their benefits upon changing current jobs.48.5% of the respondents say they would while 51. 5% said they would not consider withdrawing their benefits. When asked to give reasons for their answer, the following:

Those who said they would not withdraw gave the following reasons:

1. They would rather leave their benefits to accumulate in order to have a reasonable and secure retirement package.
2. Other said they would transfer their benefits to the new employer in order to have a consolidated benefit upon retirement.
3. Other reasons given included: members feared to misuse their benefits, long term saving.

Those who said they would rather withdraw their money today gave the following reasons: to avoid misusing their benefits,

1. For reinvestment purposes in order to get higher returns
2. Statutory requirement.

3. Other reasons given: risk of inflation" a shilling is worth more today than tomorrow", to transfer to personal pension plan of his choice, current low income.

In addition, the research established that the amount of income affected the decision of members to withdraw their benefits upon changing jobs. When we did crosstabs to establish which income group they belonged to, a majority, 57% were in income group ranging from Ksh.50, 000 to 250,000.

Members who had not withdrawn their benefits previously said that the number of years to retirement affected their decision not to withdraw. When we did crosstabs of the number of years to retirement, most of them had 15 yrs and above to retirement.

5.2 Impact of unlocking of benefits to members

- 40% of the sample size had previously changed jobs while 60% had not previously changed jobs. When asked the number of time they had changed jobs, a majority, 80% of those who had changed jobs previously did so less than 3 times. Further, 55% accessed their contribution upon changing jobs.
- Out of those who withdrew their benefits upon changing jobs, 47.8 % admitted that they would not consider withdrawing their benefits a majority stating that they preferred a reasonable retirement package upon retirement.
- Members who had previously accessed their benefits wished they had not done so, most of them wished they had left the money in order to have a better retirement package. While others realized that the pension benefit would come in handy during retirement as opposed to when they are still working. This is consistent our scenario analysis finding which showed that a member who does not access their benefits upon changing jobs leaves with a higher retirement benefit as opposed to a member who accesses their benefits early and doesn't reinvest the proceeds.

- We also note that members who withdrew early are subject to punitive P.A.YE rates thus they end up with a smaller benefit in comparison to those who stay or leave their benefits for at least 10 years and above in the a scheme.
- In addition, 70% of all the respondents in the sample admitted their pension would not be sufficient upon retirement. A majority of the members said they need to increase their contribution rates in order to have sufficient income upon retirement. The scenario analysis also revealed that a member who is making additional voluntary contributions gets a higher retirement package in comparison to a member who is not making any additional contributions.
- Early access to pension benefits has reduces members' retirement benefit. Once the funds have been accessed, it lowers the cumulative amount that the individual would access during retirement.

5.3 Economic impact of accessing benefits before retirement age

- Retirement industry has over Ksh. 450 Billion in assets. In a span of six months, over Ksh. 2 billion was accessed by deferred members. This may seem like a drop in the ocean in comparison to the industry size. However, over the long term period, it will be indeed a catastrophe.

5.4 Impact of unlocking benefits to the scheme

- From the data presented to us by administrators, 103 schemes at least 10 members withdrawing from each scheme. The amounts withdrawn from this scheme amounted to Ksh 716 Million, an average of 7 million per scheme. A drastic withdrawal of this amount from schemes implies that these particular schemes made lower returns since the opportunity cost of saving has been withdrawn. This will further affect active members who have not withdrawn from their schemes.

- Higher management charges as a result of early access may reduce the size of an individual's retirement benefits.

5.5 Limitation of the study

Employer's portion of benefits were previously preservation, however, the law was amended in September, 2010 to allow members of occupational schemes to access their benefits. In February, 2011, the law was further amended to allow access of benefits by members who had transferred their preserved amounts to individual pension plans. The study was measuring the impact between October, 2010 to March, 2011, a six months period. This is a short period to analyze the impact of this change on pension scheme, members and the economy. It would have been ideal to compare data of individuals who had deferred employers' benefits with the amount that had been unlocked during the same period. It will be important to monitor the number of people unlocking their benefits every year, and the amount that have been unlocked in order to come up with a more conclusive trend. Secondly, data on the number of withdrawals was only received from external administrators; therefore, the Ksh. 2 billion may be understated, since there are some schemes with internal administrators.

5.6 Areas of further research

A similar study ought to be conducted for pensioners to establish the impact of early access to pension benefits. This paper has shown that a majority of those who withdraw their benefits do so for reinvestment purposes. Research needs to be conducted to establish the effectiveness of those reinvestment projects. Secondly, further research needs to be done to explore for a model that allows for early access and also that encourages individuals to save more. Thirdly it will be important to do a study on the effect on early access on the fund management fees.

6 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

The change of legislation in 2005 was based on research conducted by Retirement Benefits Authority which revealed that a majority of pensioners who had previously changed jobs and accessed their benefits had meager pension to rely on upon retirement. However, the recent change was not backed by research. This will be detrimental to members of schemes in a few years to come. Policymakers must address the efficacy of savings policy and step up education programs to enable Kenyan workers to be aware on the importance of saving for retirement.

6.2 Recommendations

1. The Government of Kenya needs to reverse recent change of allowing members to access up to 50% of employers' portion. This research has established that early access of benefits impacts on the adequacy of retirement benefits to pensioner. A majority of members who had accessed their benefits on changing jobs regretted the decision they made. Most of them admitted that they had misused their money and would prefer to have left it with their employer or transferred the money to their new employer upon changing jobs. The research also revealed that over Ksh. 2 Billion had been accessed by over 6,400 members in a span of six months.

2. Retirement benefits schemes should have at least one member education program annually to train members on investments, taxation of retirement benefits and the implications of early withdrawal of pension benefits. A majority, 74.8% of the respondents understood the effect of early withdrawal on benefits, however, 55.2 % of those respondents admitted that additional information/education on the merits and demerits of early withdrawal may influence their decision to withdraw their benefits early.

3. Members need to be encouraged to make additional voluntary contributions into the schemes. The scenario analysis showed that members, who made additional voluntary contributions into the fund, retire with a higher benefit in comparison to members who do not make any additional voluntary contribution. In addition, the research established 70% of all the respondents in were certain that their pension would not be sufficient upon retirement. When asked what they would do differently, a majority of the members said they would increase their contribution rates in order to have sufficient income upon retirement.

7 APPENDIX

7.1 Appendix 1: Results of the questionnaire

1. length in scheme

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-4yrs	104	34.0	34.4	34.4
	5-10yrs	81	26.5	26.8	61.3
	10-15yrs	54	17.6	17.9	79.1
	15yrs and above	63	20.6	20.9	100.0
	Total	302	98.7	100.0	
Missing		4	1.3		
Total		306	100.0		

2. %contribution in scheme

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5%	89	29.1	30.3	30.3
	5-10%	162	52.9	55.1	85.4
	10-15%	29	9.5	9.9	95.2
	15-30%	14	4.6	4.8	100.0
	Total	294	96.1	100.0	
Missing		12	3.9		
Total		306	100.0		

3. employer %contribution in scheme

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5%	51	16.7	18.5	18.5
	5-10%	113	36.9	40.9	59.4
	10-15%	52	17.0	18.8	78.3
	15-30%	60	19.6	21.7	100.0
	Total	276	90.2	100.0	
Missing		30	9.8		
Total		306	100.0		

4. Do you make additional Contributions into the scheme?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	46	15.0	15.4	15.4
	no	252	82.4	84.6	100.0
	Total	298	97.4	100.0	
Missing		8	2.6		
Total		306	100.0		

5. If yes, what percent?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5%	20	6.5	41.7	41.7
	5-10%	23	7.5	47.9	89.6
	10-15%	3	1.0	6.3	95.8
	15-30%	2	.7	4.2	100.0
	Total	48	15.7	100.0	
Missing		258	84.3		
Total		306	100.0		

6. Which Income group do you belong to? (Gross Income)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below ksh.5000	107	35.0	37.0	37.0
	kshs 50100-kshs 150000	121	39.5	41.9	78.9
	kshs 150100-kshs 250000	32	10.5	11.1	90.0
	kshs 250100-kshs 500000	22	7.2	7.6	97.6
	kshs 500100 and above	7	2.3	2.4	100.0
	Total	289	94.4	100.0	
Missing		17	5.6		
Total		306	100.0		

7. Have you previously changed jobs before? If No, go to question 17

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	114	37.3	40.1	40.1
	no	170	55.6	59.9	100.0
	Total	284	92.8	100.0	
Missing		22	7.2		
Total		306	100.0		

8. If yes, how many times?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 3 times	92	30.1	80.0	80.0
	3-6 times	22	7.2	19.1	99.1
	more than 6 times	1	.3	.9	100.0
	Total	115	37.6	100.0	
Missing		191	62.4		
Total		306	100.0		

9. Did your former employer have a pension scheme?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	all had pension schemes	49	16.0	41.9	41.9
	some had pension schemes	29	9.5	24.8	66.7
	none had pension schemes	39	12.7	33.3	100.0
	Total	117	38.2	100.0	
Missing		189	61.8		
Total		306	100.0		

10. Did you withdraw your own contribution upon changing jobs? If No , go to question 16

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	48	15.7	55.2	55.2
	no	39	12.7	44.8	100.0
	Total	87	28.4	100.0	
Missing		219	71.6		
Total		306	100.0		

11. If Yes, what were the reasons for withdrawing?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	investment purposes	3	1.0	12.5	12.5
	statutory regulation	4	1.3	16.7	29.2
	lack of alternative investment	6	2.0	25.0	54.2
	others	11	3.6	45.8	100.0
	Total	24	7.8	100.0	
Missing	99	91	29.7		
	System	191	62.4		
	Total	282	92.2		
Total		306	100.0		

12. What is the Cumulative benefit received from past withdrawal?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below kshs 100000	18	5.9	36.0	36.0
	kshs 110000-kshs 500000	21	6.9	42.0	78.0
	kshs 500100-kshs 1000000	6	2.0	12.0	90.0
	above kshs 1000000	5	1.6	10.0	100.0
	Total	50	16.3	100.0	

Missing		256	83.7		
Total		306	100.0		

13.a. Did the following variables affect our decision to withdraw? Amount of Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	29	9.5	61.7	61.7
	no	18	5.9	38.3	100.0
	Total	47	15.4	100.0	
Missing		259	84.6		
Total		306	100.0		

13. B. Did the following variables affect our decision to withdraw? Number of years to retirement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	9	2.9	21.4	21.4
	no	33	10.8	78.6	100.0
	Total	42	13.7	100.0	
Missing		264	86.3		
Total		306	100.0		

13. c. Did the following variables affect our decision to withdraw? Size of pension benefit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	12	3.9	27.9	27.9
	no	31	10.1	72.1	100.0
	Total	43	14.1	100.0	
Missing		263	85.9		
Total		306	100.0		

13. d. Did the following variables affect our decision to withdraw? Household income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	19	6.2	45.2	45.2
	no	23	7.5	54.8	100.0
	Total	42	13.7	100.0	
Missing		264	86.3		
Total		306	100.0		

13. e. Did the following variables affect our decision to withdraw? Investment Preference

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	20	6.5	47.6	47.6
	no	22	7.2	52.4	100.0
	Total	42	13.7	100.0	
Missing		264	86.3		
Total		306	100.0		

14. Looking back, would you make the same decision of withdrawing your benefits before retirement age?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	25	8.2	51.0	51.0
	no	24	7.8	49.0	100.0
	Total	49	16.0	100.0	
Missing		257	84.0		
Total		306	100.0		

15. If your answer above is no, kindly give reasons, Go to question 17

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	lack of financial and investment management skills	4	1.3	17.4	17.4
	preference to lump sum retirement package	11	3.6	47.8	65.2
	personal reasons	6	2.0	26.1	91.3
	others	2	.7	8.7	100.0
	Total	23	7.5	100.0	
Missing	99	103	33.7		
	System	180	58.8		
	Total	283	92.5		
Total		306	100.0		

16. a. Did the following variables affect your decision of withdrawing your benefits before retirement age? Amount of Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	10	3.3	43.5	43.5
	no	13	4.2	56.5	100.0
	Total	23	7.5	100.0	
Missing		283	92.5		
Total		306	100.0		

16. b. Did the following variables affect your decision of withdrawing your benefits before retirement age? Number of years to retirement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	12	3.9	52.2	52.2
	no	11	3.6	47.8	100.0
	Total	23	7.5	100.0	
Missing		283	92.5		
Total		306	100.0		

16. c. Did the following variables affect your decision of withdrawing your benefits before retirement age? Size of pension benefit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	11	3.6	45.8	45.8
	no	13	4.2	54.2	100.0
	Total	24	7.8	100.0	
Missing		282	92.2		
Total		306	100.0		

16. d. Did the following variables affect your decision of withdrawing your benefits before retirement age? Household income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	6	2.0	28.6	28.6
	no	15	4.9	71.4	100.0
	Total	21	6.9	100.0	
Missing		285	93.1		
Total		306	100.0		

16. e. Did the following variables affect your decision of withdrawing your benefits before retirement age? Investment preference

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	6	2.0	30.0	30.0
	no	14	4.6	70.0	100.0
	Total	20	6.5	100.0	
Missing		286	93.5		
Total		306	100.0		

16. f Other reasons for not withdrawing your pension benefits.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	employers both in public sector	1	.3	20.0	20.0
	government regulations	1	.3	20.0	40.0

	not well informed	1	.3	20.0	60.0
	riskiness to change fund managers	1	.3	20.0	80.0
	the company was winding up	1	.3	20.0	100.0
	Total	5	1.6	100.0	
Missing		301	98.4		
Total		306	100.0		

17. Would you consider withdrawing your benefits upon leaving your current employer before attaining the retirement age of your scheme?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	128	41.8	48.5	48.5
	no	136	44.4	51.5	100.0
	Total	264	86.3	100.0	
Missing		42	13.7		
Total		306	100.0		

17. Would you consider withdrawing your benefits upon leaving your current employer before attaining the retirement age of your scheme?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		96	31.4	31.4	31.4
	investment purposes	71	23.2	23.2	54.6
	accumulate lump sum retirement package	77	25.2	25.2	79.7
	consolidate benefits with new employer	13	4.2	4.2	84.0
	take advantage of statutory regulations	1	.3	.3	84.3
	others	48	15.7	15.7	100.0
	Total	306	100.0	100.0	

19. How many years do you have to retirement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-5yrs	22	7.2	7.8	7.8
	5-10yrs	48	15.7	17.1	24.9
	10-15yrs	59	19.3	21.0	45.9
	15yrs and above	152	49.7	54.1	100.0
	Total	281	91.8	100.0	
Missing		25	8.2		
Total		306	100.0		

20. Will your pension benefit be sufficient upon retirement?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	81	26.5	29.3	29.3
	no	195	63.7	70.7	100.0
	Total	276	90.2	100.0	
Missing		30	9.8		
Total		306	100.0		

21. a. If No, what would you do differently to ensure you have sufficient benefits? Tick where appropriate? Increase contribution rate

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	88	28.8	100.0	100.0
Missing		218	71.2		
Total		306	100.0		

21. b. If No, what would you do differently to ensure you have sufficient benefits? Tick where appropriate? Avoid early withdrawal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	43	14.1	100.0	100.0
Missing		263	85.9		
Total		306	100.0		

21. c. If No, what would you do differently to ensure you have sufficient benefits? Tick where appropriate? Venture into other investments

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	112	36.6	100.0	100.0
Missing		194	63.4		
Total		306	100.0		

21. d. If No, what would you do differently to ensure you have sufficient benefits? Tick where appropriate? Proper financial planning

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	71	23.2	100.0	100.0
Missing		235	76.8		
Total		306	100.0		

21. e. If No, what would you do differently to ensure you have sufficient benefits? Tick where appropriate? Other, please specify

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Get the benefit as lump sum	1	.3	25.0	25.0
	Ask the employer to increase contribution	1	.3	25.0	50.0
	Start business early	1	.3	25.0	75.0
	save with Sacco's	1	.3	25.0	100.0
	Total	4	1.3	100.0	
Missing		302	98.7		
Total		306	100.0		

22. Do you have any other investments that you can rely on upon retirement other than your pension benefits?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	188	61.4	68.6	68.6
	no	86	28.1	31.4	100.0
	Total	274	89.5	100.0	
Missing		32	10.5		
Total		306	100.0		

23. A. If yes, Kindly tick where appropriate. Properties

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	82	26.8	100.0	100.0
Missing		224	73.2		
Total		306	100.0		

23.b. If yes, kindly tick where appropriate.Investmetn clubs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	28	9.2	100.0	100.0
Missing		278	90.8		
Total		306	100.0		

23. c. If yes, kindly tick where appropriate. Shares

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	81	26.5	100.0	100.0
Missing		225	73.5		
Total		306	100.0		

23. d. If yes, kindly tick where appropriate. Farming

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	56	18.3	100.0	100.0
Missing		250	81.7		
Total		306	100.0		

23. e. If yes, kindly tick where appropriate. Government Bonds

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	5	1.6	100.0	100.0
Missing		301	98.4		
Total		306	100.0		

23. f. If yes, kindly tick where appropriate.SACCOS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	106	34.6	100.0	100.0
Missing		200	65.4		
Total		306	100.0		

23. e. If yes, kindly tick where appropriate. Cash/Deposits

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	24	7.8	100.0	100.0
Missing		282	92.2		
Total		306	100.0		

23. h. If yes, kindly tick where appropriate. Land

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	76	24.8	100.0	100.0
Missing		230	75.2		
Total		306	100.0		

23. i. If yes, kindly tick where appropriate.SMEs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	16	5.2	100.0	100.0
Missing		290	94.8		
Total		306	100.0		

23. J. If yes, kindly tick where appropriate. Other

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	19	6.2	100.0	100.0
Missing		287	93.8		
Total		306	100.0		

24. Do you support the recent change to allow access of up to 50% of employer's benefits upon leaving service before attaining retirement age?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	216	70.6	81.8	81.8
	no	48	15.7	18.2	100.0
	Total	264	86.3	100.0	
Missing		42	13.7		
Total		306	100.0		

25. Do you understand the effects of early withdrawal of benefits to your old age income?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	229	74.8	87.7	87.7
	no	32	10.5	12.3	100.0
	Total	261	85.3	100.0	
Missing		45	14.7		
Total		306	100.0		

26. Would additional information/education on the merits/demerits of early withdrawal influence your decision to withdraw you benefits before attaining retirement age?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	163	53.3	64.4	64.4
	no	90	29.4	35.6	100.0
	Total	253	82.7	100.0	
Missing		53	17.3		
Total		306	100.0		

27. a. Do you agree with the following policy recommendation on preservation of benefits? Maintain status quo (Members to unlock their own benefits and 50% of employers benefits upon changing jobs)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	141	46.1	61.8	61.8
	disagree	63	20.6	27.6	89.5
	indifferent	24	7.8	10.5	100.0
	Total	228	74.5	100.0	

		Frequency	Percent	Valid Percent	Cumulative Percent
Missing		78	25.5		
Total		306	100.0		

27.b. Repeal the existing law on preservation of benefits (No restrictions on access of benefits upon changing jobs or resignation)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	105	34.3	49.1	49.1
	disagree	86	28.1	40.2	89.3
	indifferent	23	7.5	10.7	100.0
	Total	214	69.9	100.0	
Missing		92	30.1		
Total		306	100.0		

27. c. Introduction of 100% locking of both employer and employee benefits until retirement age.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	55	18.0	25.7	25.7
	disagree	137	44.8	64.0	89.7
	indifferent	22	7.2	10.3	100.0
	Total	214	69.9	100.0	
Missing		92	30.1		
Total		306	100.0		

27. d. other policy recommendation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	none	246	80.4	80.7	80.7
	100% withdrawal of employer/employee contribution at 50	17	5.6	5.6	86.2
	partial withdrawal of benefits	8	2.6	2.6	88.9
	improve investment returns of all schemes	4	1.3	1.3	90.2
	educate members on financial and investment options	5	1.6	1.6	91.8
	others	25	8.2	8.2	100.0
	Total	305	99.7	100.0	
Missing		1	.3		
Total		306	100.0		

7.2 Appendix 2. Cross tabulations

1. **Whether pension would be enough upon retirement * any other investment to rely on Cross tabulation**

			any other investment to rely on		Total
			yes	no	
Is your pension enough upon retirement	yes	Count	54	22	76
		% within pension enough upon retirement	71.1%	28.9%	100.0%
		% of Total	20.3%	8.3%	28.6%
	no	Count	131	59	190
		% within pension enough upon retirement	68.9%	31.1%	100.0%
		% of Total	49.2%	22.2%	71.4%
Total		Count	185	81	266
		% within pension enough upon retirement	69.5%	30.5%	100.0%
		% of Total	69.5%	30.5%	100.0%

2. Do you understand effects of early withdrawal * education influence withdrawal before age Cross tabulation

			Education influence withdrawal b4 age		Total
			yes	no	
understand effects of early withdrawal	yes	Count	138	82	220
		% within understand effects of early withdrawal	62.7%	37.3%	100.0%
		% of Total	55.2%	32.8%	88.0%
	no	Count	23	7	30
		% within understand effects of early withdrawal	76.7%	23.3%	100.0%
		% of Total	9.2%	2.8%	12.0%
Total		Count	161	89	250
		% within understand effects of early withdrawal	64.4%	35.6%	100.0%
		% of Total	64.4%	35.6%	100.0%

3. length in scheme * withdraw your contributions upon changing jobs Cross tabulation

			Withdraw your contribution upon changing jobs		
			yes	no	Total
length in scheme	0-4yrs	Count	28	12	40
		% within length in scheme	70.0%	30.0%	100.0%
		% Withdraw your contribution upon changing jobs	58.3%	30.8%	46.0%
		% of Total	32.2%	13.8%	46.0%
	5-10yrs	Count	8	14	22
		% within length in scheme	36.4%	63.6%	100.0%
		% Withdraw your contribution upon changing jobs	16.7%	35.9%	25.3%
		% of Total	9.2%	16.1%	25.3%
	10-15yrs	Count	9	7	16
		% within length in scheme	56.3%	43.8%	100.0%
		% Withdraw your contribution upon changing jobs	18.8%	17.9%	18.4%
		% of Total	10.3%	8.0%	18.4%
	15yrs and above	Count	3	6	9
		% within length in scheme	33.3%	66.7%	100.0%
		% Withdraw your contribution upon changing jobs	6.3%	15.4%	10.3%
		% of Total	3.4%	6.9%	10.3%

7.4 Appendix 3: Research Questionnaire

Retirement Benefits Authority

QUESTIONNAIRE ON THE IMPACT OF ACCESSING BENEFITS BEFORE RETIEREMENT AGE

SECTION ONE: GENERAL INFORMATION

1. How long have you been a member of your scheme?

a) **0**-4 yrs ☐ b) 5-10 yrs ☐ c) 10-15 yrs ☐ d) 15yrs and above ☐

2. What is the percentage of your own contribution into the scheme?

a) 1-5% ☐ b) 5-10% ☐ c) 10-15% ☐ d) 15-30% ☐

3. What is the percentage of your employer's contribution into the scheme?

a) 1-5% ☐ b) 5-10% ☐ c) 10-15% ☐ d) 15-30% ☐

4. Do you make any additional voluntary contribution into the scheme?

a) Yes ☐ b) No ☐

5. If yes, what is the percentage?

a) 1-5% ☐ b) 5-10% ☐ c) 10-15% d) 15-30%

6. Which income group do you belong to?(Gross Income)

a) Below Ksh. 50,000 ☐ b) Ksh.50,100 – Ksh. 150,000 ☐

c) Ksh. 150,100 – Ksh. 250,000 ☐ d) Ksh. 250,000 – Ksh. 500,000 ☐

e) Ksh. 500,100 and above ☐

SECTION TWO: WITHDRAWAL OF BENEFITS

7. Have you previously changed jobs?

a) Yes ☐ b) No ☐ **If No, go to question 17**

8. If yes, how many times?

a) Less than 3 times ☐ b) 3 - 6 times ☐ c) More than 6 times ☐

9. Did your former employers have pension schemes?

a) All had pension schemes ☐ b) Some had pension schemes ☐

c) None had pension schemes ☐

10. Did you withdraw your own contributions upon changing jobs?

a) Yes ☐ b) No ☐ **If No, Go to question 16**

11. If yes, what were the reasons for withdrawing?

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12. What is the cumulative benefit received from past withdrawals?

a) Below Ksh. 100,000 ☐ b) Ksh.110,000 – Ksh. 500,000 ☐

c) Ksh. 500,100 – Ksh. 1000,000 ☐ d) Above Ksh. 1000,000 ☐

13. Did the following variables affect your decision to withdraw you pension benefits?

a) Amount of Income a) Yes ☐ b) No ☐

b) Number of years to retirement a) Yes ☐ b) No ☐

c) Size of pension benefit a) Yes ☐ b) No ☐

d) Household Income a) Yes ☐ b) No ☐

e) Investment Preference a) Yes ☐ d) No ☐

14. Looking back, would you make the same decision of withdrawing your benefits before retirement age?

a) Yes ☐ b) No ☐

15. If your answer is No, Kindly give reasons:

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Go to question 17

16. Did the following variables affect your decision not to withdraw you pension benefits?

a) Amount of Income a) Yes ☐ b) No ☐

b) Number of years to retirement a) Yes ☐ b) No ☐

c) Size of pension benefit. a) Yes ☐ b) No ☐

d) Household Income a) Yes ☐ b) No ☐

e) Investment Preference a) Yes ☐ d) No ☐

f) **Other reasons for not withdrawing your pension benefits.**

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17. **Would you consider withdrawing your benefits upon leaving your current employer before attaining the retirement age of your scheme?**

a) Yes ☐ b) No ☐

18. **Kindly give reasons for your answer.**

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SECTION THREE: RETIREMENT PLANNING

19. **How many years do you have to retirement?**

a) 0-5 yrs ☐ b) 5-10 yrs ☐ c) 10-15 yrs ☐ d) 15yrs and above ☐

20. **Will your pension benefit be sufficient upon retirement**

a) Yes ☐ b) No ☐

21. **If No, what would you do differently to ensure you have sufficient benefit? Tick where appropriate.**

a)Increase contribution rate		**c)Venture into other investments**	
b)Avoid early withdrawal		**d)Proper Financial planning**	
e)Other(please specify)			

22. **Do you have any other investments that you can rely on upon retirement other than your pension benefits?**

a) Yes ☐ b) No ☐

23. If yes, kindly tick where appropriate.

a)Properties		**b)Investment Clubs**	
c)Shares		**d)Farming**	
e)Government Bonds		**f)SACCOS**	
g)Cash/Deposits		**h)Land**	
i)SMEs		**j)Other**	

SECTION FOUR: POLICY ALTERNATIVE ON UNLOCKING

24. Do you support the recent move by the Government of Kenya to allow members of schemes to access up to 50% of the employers' benefits upon leaving service before attaining retirement age?

a) Yes ☐ b) No ☐

25. Do you understand the effects of early withdrawal of benefits to your old age income?

a) Yes ☐ b) No ☐

26. Would additional information/education on the merits/demerits of early withdrawal influence your decision to withdraw your benefits before attaining retirement age?

a) Yes ☐ b) No ☐

27. Do you agree with the following policy recommendation on preservation of benefits?

	POLICY ALTERNATIVE	AGREE	INDIFFERENT	DISAGREE
a)	Maintain status quo (Members to unlock their own benefits and 50% of employers benefits upon			

	changing jobs)			
	POLICY ALTERNATIVE	**AGREE**	**INDIFFERENT**	**DISAGREE**
b)	**Repeal the existing law on preservation of benefits (No restrictions on access of benefits upon changing jobs or resignation)**			
c)	**Introduction 100% locking of both employer and employee benefit until retirement age**			
d) Other policy recommendations (Kindly suggest) …….				

Thank you for taking your time to fill in this questionnaire.

7.5 Scenario analysis

Scenario one: Member contributes till retirement age

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
1	360,000.00	36,000.00	0	1,757.12	37,757.12
2	363,600.00	36,360.00	37,757.12	5,550.40	79,667.52
3	367,236.00	36,723.60	79,667.52	9,759.19	126,150.31
4	370,908.36	37,090.84	126,150.31	14,425.39	177,666.54
5	374,617.44	37,461.74	177,666.54	19,595.12	234,723.40
6	378,363.62	37,836.36	234,723.40	25,319.09	297,878.85
7	382,147.25	38,214.73	297,878.85	31,653.10	367,746.68
8	385,968.73	38,596.87	367,746.68	38,658.54	445,002.09
9	389,828.41	38,982.84	445,002.09	46,402.92	530,387.84
10	393,726.70	39,372.67	530,387.84	54,960.52	624,721.03
11	397,663.97	39,766.40	624,721.03	64,413.06	728,900.49
12	401,640.60	40,164.06	728,900.49	74,850.41	843,914.96
13	405,657.01	40,565.70	843,914.96	86,371.46	970,852.12
14	409,713.58	40,971.36	970,852.12	99,084.98	1,110,908.45
15	413,810.72	41,381.07	1,110,908.45	113,110.61	1,265,400.13
16	417,948.82	41,794.88	1,265,400.13	128,579.97	1,435,774.99
17	422,128.31	42,212.83	1,435,774.99	145,637.86	1,623,625.68
18	426,349.60	42,634.96	1,623,625.68	164,443.53	1,830,704.17
19	430,613.09	43,061.31	1,830,704.17	185,172.19	2,058,937.67
20	434,919.22	43,491.92	2,058,937.67	208,016.56	2,310,446.15

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
21	439,268.41	43,926.84	2,310,446.15	233,188.63	2,587,561.62
22	443,661.10	44,366.11	2,587,561.62	260,921.62	2,892,849.35
23	448,097.71	44,809.77	2,892,849.35	291,472.05	3,229,131.17
24	452,578.69	45,257.87	3,229,131.17	325,122.10	3,599,511.14
25	457,104.47	45,710.45	3,599,511.14	362,182.19	4,007,403.77
26	461,675.52	46,167.55	4,007,403.77	402,993.76	4,456,565.09
27	466,292.27	46,629.23	4,456,565.09	447,932.43	4,951,126.74
28	470,955.20	47,095.52	4,951,126.74	497,411.35	5,495,633.62
29	475,664.75	47,566.47	5,495,633.62	551,885.03	6,095,085.12
30	480,421.40	48,042.14	6,095,085.12	611,853.39	6,754,980.65

Scenario two: member leaves service after 10 yrs but does not access

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
1	360,000.00	36,000.00	0	1,757.12	37,757.12
2	363600	36,360.00	37,757.12	5,550.40	79,667.52
3	367236	36,723.60	79,667.52	9,759.19	126,150.31
4	370908.36	37,090.84	126,150.31	14,425.39	177,666.54
5	374617.444	37,461.74	177,666.54	19,595.12	234,723.40
6	378363.618	37,836.36	234,723.40	25,319.09	297,878.85
7	382147.254	38,214.73	297,878.85	31,653.10	367,746.68
8	385968.727	38,596.87	367,746.68	38,658.54	445,002.09
9	389828.414	38,982.84	445,002.09	46,402.92	530,387.84

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
10	393726.698	39,372.67	530,387.84	54,960.52	624,721.03
11	397663.965	39,766.40	624,721.03	64,413.06	728,900.49
12	401640.605	40,164.06	728,900.49	74,850.41	843,914.96
13	405657.011	40,565.70	843,914.96	86,371.46	970,852.12
14	409713.581	40,971.36	970,852.12	99,084.98	1,110,908.45
15	413810.717	41,381.07	1,110,908.45	113,110.61	1,265,400.13
16	417948.824	41,794.88	1,265,400.13	128,579.97	1,435,774.99
17	422128.312	42,212.83	1,435,774.99	145,637.86	1,623,625.68
18	426349.595	42,634.96	1,623,625.68	164,443.53	1,830,704.17
19	430613.091	43,061.31	1,830,704.17	185,172.19	2,058,937.67
20	434919.222	43,491.92	2,058,937.67	208,016.56	2,310,446.15
21	439268.414	43,926.84	2,310,446.15	233,188.63	2,587,561.62
22	443661.099	44,366.11	2,587,561.62	260,921.62	2,892,849.35
23	448097.71	44,809.77	2,892,849.35	291,472.05	3,229,131.17
24	452578.687	45,257.87	3,229,131.17	325,122.10	3,599,511.14
25	457104.473	45,710.45	3,599,511.14	362,182.19	4,007,403.77
26	461675.518	46,167.55	4,007,403.77	402,993.76	4,456,565.09
27	466292.273	46,629.23	4,456,565.09	447,932.43	4,951,126.74
28	470955.196	47,095.52	4,951,126.74	497,411.35	5,495,633.62
29	475664.748	47,566.47	5,495,633.62	551,885.03	6,095,085.12
30	480421.396	48,042.14	6,095,085.12	611,853.39	6,754,980.65

Scenario 3: Members leaves service and access only employee portion

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
1	360000	36,000.00	0	1,757.12	37,757.12
2	363600	36,360.00	37,757.12	5,550.40	79,667.52
3	367236	36,723.60	79,667.52	9,759.19	126,150.31
4	370908.36	37,090.84	126,150.31	14,425.39	177,666.54
5	374617.4436	37,461.74	177,666.54	19,595.12	234,723.40
6	378363.618	37,836.36	234,723.40	25,319.09	297,878.85
7	382147.2542	38,214.73	297,878.85	31,653.10	367,746.68
8	385968.7268	38,596.87	367,746.68	38,658.54	445,002.09
9	389828.414	38,982.84	445,002.09	46,402.92	530,387.84
10	393,726.70	39,372.67	530,387.84	54,960.52	624,721.03
11	397663.9651	-	312,360.52	31,236.05	343,596.57
12	401640.6048	-	343,596.57	34,359.66	377,956.23
13	405657.0108	-	377,956.23	37,795.62	415,751.85
14	409713.581	-	415,751.85	41,575.18	457,327.03
15	413810.7168	-	457,327.03	45,732.70	503,059.74
16	417948.8239	-	503,059.74	50,305.97	553,365.71
17	422128.3122	-	553,365.71	55,336.57	608,702.28
18	426349.5953	-	608,702.28	60,870.23	669,572.51
19	430613.0912	-	669,572.51	66,957.25	736,529.76
20	434919.2222	-	736,529.76	73,652.98	810,182.73
21	439268.4144	-			

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
			810,182.73	81,018.27	891,201.01
22	443661.0985	-	891,201.01	89,120.10	980,321.11
23	448097.7095	-	980,321.11	98,032.11	1,078,353.22
24	452578.6866	-	1,078,353.22	107,835.32	1,186,188.54
25	457104.4735	-	1,186,188.54	118,618.85	1,304,807.40
26	461675.5182	-	1,304,807.40	130,480.74	1,435,288.14
27	466292.2734	-	1,435,288.14	143,528.81	1,578,816.95
28	470955.1961	-	1,578,816.95	157,881.69	1,736,698.64
29	475664.7481	-	1,736,698.64	173,669.86	1,910,368.51
30	480421.3956	-	1,910,368.51	191,036.85	2,101,405.36

Scenario 4: Member leaves service and access 50% of employers' portion

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
1	360000	36,000.00	0	1,757.12	37,757.12
2	363600	36,360.00	37,757.12	5,550.40	79,667.52
3	367236	36,723.60	79,667.52	9,759.19	126,150.31
4	370908.4	37,090.84	126,150.31	14,425.39	177,666.54
5	374617.4	37,461.74	177,666.54	19,595.12	234,723.40
6	378363.6	37,836.36	234,723.40	25,319.09	297,878.85
7	382147.3	38,214.73	297,878.85	31,653.10	367,746.68
8	385968.7	38,596.87	367,746.68	38,658.54	445,002.09
9	389828.4	38,982.84	445,002.09	46,402.92	530,387.84
10	393726.7	39,372.67	530,387.84	54,960.52	624,721.03

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
11	397664	-	156,180.26	15,618.03	171,798.28
12	401640.6	-	171,798.28	17,179.83	188,978.11
13	405657	-	188,978.11	18,897.81	207,875.92
14	409713.6	-	207,875.92	20,787.59	228,663.52
15	413810.7	-	228,663.52	22,866.35	251,529.87
16	417948.8	-	251,529.87	25,152.99	276,682.85
17	422128.3	-	276,682.85	27,668.29	304,351.14
18	426349.6	-	304,351.14	30,435.11	334,786.25
19	430613.1	-	334,786.25	33,478.63	368,264.88
20	434919.2	-	368,264.88	36,826.49	405,091.37
21	439268.4	-	405,091.37	40,509.14	445,600.50
22	443661.1	-	445,600.50	44,560.05	490,160.55
23	448097.7	-	490,160.55	49,016.06	539,176.61
24	452578.7	-	539,176.61	53,917.66	593,094.27
25	457104.5	-	593,094.27	59,309.43	652,403.70
26	461675.5	-	652,403.70	65,240.37	717,644.07
27	466292.3	-	717,644.07	71,764.41	789,408.47
28	470955.2	-	789,408.47	78,940.85	868,349.32
29	475664.7	-	868,349.32	86,834.93	955,184.25
30	480421.4	-	955,184.25	95,518.43	1,050,702.68

Scenario 5: Member stays in a scheme till retirement age with addition contribution of 2.5%

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
1	360000	45,000.00	0	2,196.40	47,196.40
2	363600	45,450.00	47,196.40	6,938.00	99,584.40
3	367236	45,904.50	99,584.40	12,198.99	157,687.89
4	370908.4	46,363.55	157,687.89	18,031.74	222,083.17
5	374617.4	46,827.18	222,083.17	24,493.90	293,404.25
6	378363.6	47,295.45	293,404.25	31,648.86	372,348.56
7	382147.3	47,768.41	372,348.56	39,566.38	459,683.35
8	385968.7	48,246.09	459,683.35	48,323.17	556,252.61
9	389828.4	48,728.55	556,252.61	58,003.65	662,984.81
10	393726.7	49,215.84	662,984.81	68,700.65	780,901.29
11	397664	49,708.00	780,901.29	80,516.32	911,125.61
12	401640.6	50,205.08	911,125.61	93,563.01	1,054,893.69
13	405657	50,707.13	1,054,893.69	107,964.33	1,213,565.15
14	409713.6	51,214.20	1,213,565.15	123,856.22	1,388,635.56
15	413810.7	51,726.34	1,388,635.56	141,388.26	1,581,750.16
16	417948.8	52,243.60	1,581,750.16	160,724.97	1,794,718.73
17	422128.3	52,766.04	1,794,718.73	182,047.32	2,029,532.10
18	426349.6	53,293.70	2,029,532.10	205,554.41	2,288,380.21
19	430613.1	53,826.64	2,288,380.21	231,465.24	2,573,672.08
20	434919.2	54,364.90	2,573,672.08	260,020.70	2,888,057.68
21	439268.4	54,908.55	2,888,057.68	291,485.79	3,234,452.02

Years of service	Annual Salary	Contributions	Opening Balance	Interest	Closing Balance
22	443661.1	55,457.64	3,234,452.02	326,152.03	3,616,061.69
23	448097.7	56,012.21	3,616,061.69	364,340.06	4,036,413.96
24	452578.7	56,572.34	4,036,413.96	406,402.63	4,499,388.92
25	457104.5	57,138.06	4,499,388.92	452,727.74	5,009,254.72
26	461675.5	57,709.44	5,009,254.72	503,742.20	5,570,706.36
27	466292.3	58,286.53	5,570,706.36	559,915.53	6,188,908.43
28	470955.2	58,869.40	6,188,908.43	621,764.19	6,869,542.02
29	475664.7	59,458.09	6,869,542.02	689,856.28	7,618,856.40
30	480421.4	60,052.67	7,618,856.40	764,816.74	8,443,725.81

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