

RETIREMENT BENEFITS AUTHORITY
RESEARCH & POLICY ANALYSIS DEPARTMENT

PENSIONERS SURVEY 2003
FINAL REPORT

March, 2004

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INTRODUCTION

As part of fulfilling its mandate of developing the retirement benefits industry and providing relevant policy advice to the Government on the industry, the Retirement Benefits Authority carried out its second pensioners and retirees survey in late 2003. As in the previous survey the underlying objective was to establish the circumstance of retirees in this country and their experiences as members of retirement benefits schemes.

The survey targeted recently retired members of retirement benefits schemes. The survey was primarily carried out by administering a research questionnaire to a randomly selected sample of retirees located in different parts of the country.

OBJECTIVES

The specific objectives of the pensioners and retirees survey 2003 were:

1. To establish the relative importance and contribution of retirement benefits to the income stream of retirees.
2. To establish how retirees applied their lump-sum benefits.
3. To establish the difficulties and challenges faced by retirees and pensioners in securing their retirement benefits.
4. To compare the situation of retirees and pensioners in externally administered schemes as compared to those in the self administered schemes.
5. To draw policy recommendations to improve the situation of current and future pensioners and retirees in Kenya.

METHODOLOGY

1. The population of active retirement benefits schemes in Kenya was established as 1248 from the Authority's Central Database.
2. Out of the total number of 1248 schemes, 141 schemes were identified as self-administered while the remaining 1107 schemes were administered by total of 42 different external administration companies.
3. All 141 self-administered schemes and all 42 external administration companies were written to and requested to provide details of all scheme members in their schemes who had retired in the years 1999, 2000, 2001 and 2002.
4. From the responses received a population of 2510 retirees was established from the different schemes.
5. A stratified random sample of 500 retirees was selected from the population. The sample was stratified to ensure that all schemes represented in the population were also represented in the sample.
6. All 500 retirees were written to and requested to voluntarily participate in the survey.
7. By the cut-off date, 107 retirees had responded and agreed to participate in the survey. Other retirees either did not respond at all or responded after the deadline or responded but declined to participate in the survey.
8. Trained enumerators were sent out to administer the research questionnaire to the retirees at the time and place that the retirees themselves had specified.
9. The completed questionnaires were coded and entered into a Microsoft Access 2002 database.

SAMPLING ISSUES

The following were identified as potential source of bias in the population and sample:

- Schemes/administrators that provided data may be biased towards the better managed schemes/administrators. Poorly managed schemes/administrators may have opted not to participate to avoid exposure by dissatisfied members.
- Many schemes that pay final lump sum benefits do not keep records of retirees who have been paid final dues. The sample may be biased to schemes paying monthly pensions.
- Communication difficulties may have prevented retirees in very remote areas from receiving the invitation to participate or from being able to contact the Authority.

SUMMARY OF FINDINGS

SECTION A: SAMPLE DATA

1. Overall

Sample Size: 107

2. Sex

Male: 74.8%

Female: 25.2%

3. Age

Average Age:	54.7 years
Male:	60.3 years
Female:	49.1 years

Low average age for females is as a result of widows who were surviving spouses of members of schemes who had passed away resulting in a spouse pension being paid to the widow.

4. Location

Region	Number	Percent
Nairobi	37	34.6
Central	22	20.6
Nyanza	12	11.2
Western	11	10.3
Coast	9	8.4
Eastern	9	8.4
Rift	7	6.5
Total	107	100.00

5. Marital status

Married:	72.09%
Single:	6.5%
Widow/er:	20.6%

6. Dependents cared for by retiree

	Average Number of Dependants	Maximum Number of Dependants
Male	4.0	15
Female	4.1	10
Overall	4.0	15

A

7. Did retiree change jobs during working life?

Stayed with one employer:	54.2%
Changed Jobs:	45.8%
Private to private sector	17.8%
Private to public sector	0.0%
Public to public sector	12.1%
Public to private sector	12.1%
No details	3.8%

How benefits were treated on change of job (data for 49 respondents who changed jobs:

Lump sum withdrawal:	38.7%
Transferred to new employers scheme:	18.4%
Deferred benefits to retirement age:	8.2%
No response/ don't know	34.7%

8. Number of years since retirement

Less than six months:	0.9%
Six months to one year:	5.6%
One year to three years:	21.5%
Three years to six years:	16.8%

More than six years: 43.0%
 No response/don't know 12.2%

SECTION B: BENEFITS

9. Type of scheme

Pension Scheme: 80.4%
 Provident Fund: 10.3%
 No response/don't know: 9.3%

Type of scheme preferred by respondent

Pension Scheme: 67.3%
 Provident Fund: 17.8%
 No response/don't know: 15.0%

Was member of:	Prefers:	Percent
Pension	Pension	59.8%
Pension	Provident	13.1%
Pension	Don't know	7.5%
Provident	Pension	5.6%
Provident	Provident	3.7%
Provident	Don't know	0.9%
Don't know	Pension	1.9%
Don't know	Provident	0.9%
Don't know	Don't know	6.5%

Reasons why pension scheme preferred

Ability to invest: 2 responses
 Possibility of Squandering Lump sum: 14 responses

Reasons why provident fund preferred

Lump sum for investment, settling debts etc: 14 responses
 Control over benefits 1 response

10. Sources of income

Ranking of pension income

(82 respondents)

Pension is the most important source of income	68.3%
Pension is 2nd most important source of income	22.0%
Pension is 3rd most important source of income	8.5%
Pension is 4th most important source of income	1.2%

Other sources of income

(some respondents with multiple sources)

Source	Number of Responses	%
Farming	58	42.6
Business	30	22.1
Rent	27	19.9
New Job	9	6.6
Investments	7	5.1
Family	5	3.7
	136	100.0

Average, minimum and maximum amount of monthly income by income source

Source	Average, Shs	Maximum, shs	Minimum, shs
Pension	12,844.70	81,175.00	220.00
2 nd source	26,186.80	700,000.00	300.00
3 rd source	19,736.50	300,000.00	160.00
4 th source	4,327.30	10,000.00	100.00

11. Years saved for retirement

	Average number of years of saving	Minimum number of years of saving	Maximum number of years of saving
Males	24	8	40
Females	20	4	36
Members of Externally Administered Schemes	24	8	40
Members of Internally Administered Schemes	23	4	35

12. Proportion of monthly salary contributed to retirement scheme by employee

	Average contribution	Minimum contribution	Maximum contribution
Males	7%	3%	27%
Females	3.5%	2%	5%
Members of Externally Administered Schemes	5.7%	2%	15%
Members of Internally Administered Schemes	10.2%	5%	27%

13. Proportion of monthly salary contributed to retirement scheme by employer

	Average contribution	Minimum contribution	Maximum contribution
Males	12.3%	3%	50%
Females	4.0%	3%	5%
Members of Externally Administered Schemes	12.4%	3%	50%
Members of Internally Administered Schemes	10.4%	5%	15%

14. Monthly salary before retirement

Amount (Kenya Shillings)	Percent
1-500	0
501- 1000	0.9
1001- 5000	6.5
5001- 10000	19.6
10001-20000	24.3
20001-50000	22.4
50001-100000	13.1
100001-200000	6.5
200001-4000000	2.8
>400001	0
No response/don't know	3.7

15 Was contribution made to scheme ideal?

Yes: 37.4%

No: 62.6%

	Yes	No
Males	38.8%	61.2%
Females	33.3%	66.7%
Members of Externally Administered Schemes	37.3%	62.7%
Members of Internally Administered Schemes	37.5%	62.5%

16 Did respondent know amount of benefits due at retirement?

Yes: 39.2%

No: 60.8%

	Yes	No
Members of Externally Administered Schemes	41.0%	59.0%
Members of Internally Administered Schemes	33.0%	67%

Source of information on benefits

(some respondents have multiple sources)

	Employee Guide	Benefits Newsletter	Benefits Statements	Personnel Dept.	Other	No. Information
Members of Externally Administered Schemes	10.8%	2.4%	13.3%	12.0%	3.6%	59.0%
Members of Internally Administered Schemes	8.3%	8.3%	12.5%	12.5 %	8.3%	67%

17 Lump sum benefits

Yes: 89.7%

No: 10.3%

Amount of lump sum benefits

	Average amount	Minimum amount	Maximum amount
Males	919,589.90	14,000.00	8,000,000.00
Females	330,614.85	30,000.00	1,000,000.00
Members of Externally Administered Schemes	715,028.70	14,000.00	8,000,000.00
Members of Internally Administered Schemes	1,022,195.70	43,600.00	5,219,368.00
Members of Pension Schemes	859,353.00	14,000.00	8,000,000.00
Members of Provident funds	665,102.90	43,600.00	2,400,000.00
Members who don't know type of scheme	295,701.00	30,000.00	440,000.00

Was respondent advised on how to spend retirement benefits?

Yes: 11.2%

No: 88.8%

	Yes	No
Members of Externally Administered Schemes	10.8%	89.2%
Members of Internally Administered Schemes	12.5%	87.5%

How was lump sum benefit used? (respondents have multiple answers)

Usage	Percent of responses	Percent of responses 2002 Survey
Paid School Fees	21.9	25.7
Started a Business	19.2	12.8
Built Residential Property	13.7	3.9
Bought Land	11.4	8.9
Bought Household goods	8.7	25.1
Invested in Capital Markets	5.9	7.8
Built Commercial Property	5.5	0.0
Paid Debts	5.0	7.3
Paid Medical Expenses	3.2	1.1
Other	3.2	1.1
Boosted Existing Business	2.3	4.5

If Started business, how has business performed?

Running Profitably:	50.9%
Running but not profitably:	29.8%
Collapsed:	19.3%

18: Receiving monthly pension

Was member of:	Receiving pension	Not receiving
Pension	96.6%	3.4%
Provident	0.0%	100%
Don't know	55.5%	45.5%

Mode of payment of pension
(respondent may have multiple modes)

	Cheque	Cash	Direct Credit	Other	Not receiving pension
Members of Externally Administered Schemes	13.2%	1.2%	81.9%%	0.0%	4.8%
Members of Internally Administered Schemes	4.1%	4.1%	33.3%	0.0%	58.3%

19 Does respondent feel it was worthwhile to save for retirement?

Yes: 95.3%

No: 4.7%

Why was it worthwhile?
(respondents have multiple answers)

Why worthwhile	Percent of responses
Income for General Upkeep	27.1
Financial Security	17.5
Guaranteed Monthly Income	14.7
Investment	13.6
Capital	13.0
Educate children	12.4
Other	1.1
Access to Loans	0.6

Why was it not worthwhile?
(respondents have multiple answers)

Why not worthwhile	Percent of responses
Inadequate Income in retirement	80.0
Absence of increments in pensions	20.0

20. Problems and difficulties encountered in obtaining benefits
(respondents have multiple answers)

Why worthwhile	Externally Administered Schemes Percent of responses	Internally Administered Schemes Percent of responses
No Problems	75.9	65.3
Delays in Receiving Benefits	11.6	18.1
Expenses Incurred in Following up Benefits	4.8	8.3
Uncooperative or Corrupt Trustees	3.2	6.9
Poor Communication	2.0	0.0
Difficulties in Obtaining Spouse Benefits upon Death of Member	0.4	1.4
Others	2.0	0.0

21. Role played in retirement benefits scheme
(respondent may have played multiple roles)

	Attended AGM	Scheme Official	No role at all	Other
Members of Externally Administered Schemes	14.5%	3.6%	77.2%	6.0%
Members of Internally Administered Schemes	16.6%	0.0%	79.2%	4.2%

22. Did respondent's scheme have member nominated trustees?

Yes: 30.8%

No: 35.5%

Don't Know: 33.6%

	Yes	No	Don't Know
Members of Externally Administered Schemes	38.3%	32.1%	29.6%
Members of Internally Administered Schemes	8.7%	52.2%	39.1%

23. Does respondents scheme provide to the member the following?

Summary of accounts report

	Yes	No
Members of Externally Administered Schemes	8.4%	91.6%
Members of Internally Administered Schemes	12.5%	87.5%

Detailed accounts report

	Yes	No
Members of Externally Administered Schemes	3.6%	96.4%
Members of Internally Administered Schemes	4.1%	95.9%

Annual benefits statements

	Yes	No
Members of Externally Administered Schemes	18.0%	82.0%
Members of Internally Administered Schemes	16.6%	83.4%

Actuarial valuation report

	Yes	No
Members of Externally Administered Schemes	4.8%	95.2%
Members of Internally Administered Schemes	4.1%	95.9%

Investment portfolio report

	Yes	No
Members of Externally Administered Schemes	4.8%	95.2%
Members of Internally Administered Schemes	4.1%	95.9%

Membership certificate

	Yes	No
Members of Externally Administered Schemes	24.1%	75.9%
Members of Internally Administered Schemes	12.5%	87.5%

Scheme newsletter

	Yes	No
Members of Externally Administered Schemes	8.4%	91.6%
Members of Internally Administered Schemes	12.5%	87.5%

None of the above

	Yes	No
Members of Externally Administered Schemes	48.2%	51.8%
Members of Internally Administered Schemes	62.5%	37.5%

24. What are challenges faced by respondents scheme?
(respondents have multiple answers)

A.

Challenge	Percent of responses
Poor Governance	34.4
Corruption /Irregularities in benefits	26.2
Poor Record Keeping	18.0
Mismanagement of Funds	11.5
Rules on Death Benefits	1.6
Other	8.2

B.

Challenge	Percent of responses
Lack of communication from Schemes	31.0
Lack of representation of Pensioners	16.7
Delays in paying Benefits	11.9
Pensioners not Informed on Investment	4.8
Centralization of scheme offices	4.8
Other	31.0

25. What did respondent like in his or her scheme?
(respondents have multiple answers)

What respondent liked	Externally Administered Schemes Percent of responses	Internally Administered Schemes Percent of responses
Prompt Payment	61.2	43.5
Cooperative and efficient Trustees	14.1	21.7
Financial Security of Scheme	9.4	4.3
Pensioners have a say in the scheme	5.9	0.0
Annual increase of Pension Pay	5.9	8.7
Inheritance of Spouse Benefits upon death	1.2	4.3
Other	2.4	17.4

26. What did respondent dislike in his or her scheme?
(respondents have multiple answers)

What respondent disliked	Externally Administered Schemes Percent of responses	Internally Administered Schemes Percent of responses
Lack of Information for Pensioners	20.3	5.4
Inadequate Income	13.0	13.5
Inflation not catered for	13.0	10.8
Members not involved in running Scheme	10.1	5.4
Delays and irregularities in releasing Benefits	8.7	16.2
Lack of Medical for pensioners	6.5	2.7
Taxation/Bank Charges	5.1	8.1
Lack of Advice on Investment	2.9	5.4
Insufficient Interest paid	2.2	2.7
Reduced Benefits on early Retirement	1.4	2.7
Scheme Design	0.7	2.7
Centralized Scheme Offices	0.0	5.4
Other	15.9	18.9

**27. Proposed changes in retirement benefits industry
(respondents have multiple answers)**

Proposed change	Percent of responses
Increase pensions to match inflation	13.4
Pensions schemes should provide insurance/loans/sacco facilities for pensioners	10.6
Advise Pensioners on how to invest their benefits	9.8
Enhance communication flow from scheme	8.5
Pay benefits on time	8.5
Members should be allowed to choose type of scheme and contribution amounts	7.3
Inform more Kenyans on the retirement benefits industry	6.5
Involve Pensioners in running of schemes	4.9
Convert Provident funds to Pension Schemes	3.7
Disclose expected benefits to members	3.7
Decentralize scheme offices	3.7
Make saving for retirement compulsory	3.7
Educate or Employ dependants	2.4
Pensions should continue being paid after main member's death	1.2
Convert Pension Funds to Provident Funds	1.2
Other	11.0

28. Had respondent heard of RBA before this exercise?

	2003	2002
Yes:	48.6%	41.3%
No:	51.4 %	58.7%

	Yes	No
Members of Externally Administered Schemes	48.2%	51.8%
Members of Internally Administered Schemes	50.0%	50.0%

How respondent heard of RBA

How heard	Percent of respondents	2002 percent
Newspaper	35.5	31.3
TV	27.1	12.5
Radio	22.4	16.3
Friend	5.6	7.5
Other	3.7	0.0
Colleague	2.8	3.8
Trustees	2.8	1.3
Seminar	0.9	1.3

CONCLUSIONS

1. To establish the relative importance and contribution of retirement benefits to the income stream of retirees

- For 68.3% of those earning pensions, the pension income was the most important source of income for the retiree. For another 22.0% pension income was the second most important source of income.
- The range of pensions received by retirees is shs 220.00 to shs 81,175.00 with an average of shs 12,844.70.
- The range of lump sums received at retirement was shs 14,000.00 to shs 8,000,000.00 with an average of shs 789,395.00.
- 89.7% of retirees received some sort of lump sum benefit while 83.2 percent were receiving a pension.
- These benefits were based on average of 23 years of saving for retirement.
- The next most important source of income was farming, followed by business, rent and new jobs. Only 5.1% of retirees were receiving regular investment income from financial market instruments.
- Respondents were caring for an average of 4 dependents despite having retired.
- Only 37.4% of retirees felt that the amount that they and their employers had been contributing to their retirement was adequate.
- 45.8% of retirees changed jobs during working life but only 18.4 percent of these transferred their benefits to the scheme of the new employer.
- Biggest problem with regard to benefits is delays in obtaining payments despite 81.9% of pensioners being paid through bank accounts. This suggests problem is with administrators/trustees.

- Most retirees are concerned about prompt payment and efficiency of trustees.
- There is also a high level of concern about spouse and dependent benefits after death of member.

2. To establish how retirees applied their lump-sum benefits.

- The range of lump sums received at retirement was shs 14,000.00 to shs 8,000,000.00 with an average of shs 789,395.00.
- 89.7% of retirees received some sort of lump sum benefit.
- Only 11.2% of retirees received any advice on how to spend their benefits.
- Use of lump sums was biased towards consumption including school fees, residential property, household goods and paying debts. 19.2% of responses invested in business and only 5.9 percent of responses invested in capital market assets.
- For those who invested in business 50.9 percent felt that the business was still operating profitably, 29.8% felt their business was running but not profitably and 19.3% had business that had collapsed.

3. To establish the difficulties and challenges faced by retirees and pensioners in securing their retirement benefits

- Only 39.2% of respondents knew the amount of benefits that was due to them at retirement.
- 51.2% never received any information from the scheme or administrator at all during their membership.
- 56.0% of retirees did not identify any problems encountered when securing benefits.

- Main problem encountered was delays in receiving benefits which often resulted in high expenses in following up the benefits.
- Most common complaints were lack of pension increases and lack of information from schemes.
- 33.6% of retirees did not know if their scheme had member nominated trustees and 35.5% stated that their schemes did not have member nominated trustees.
- 51.4% of retirees had never had of RBA and therefore did not know that they could obtain assistance from RBA in obtaining their benefits.

4. To compare the situation of retirees and pensioners in externally administered schemes as compared to those in the self administered schemes.

- No statistical difference between average number of years saved for retirement by members of internally vs. externally administered schemes.
- No statistical difference between employer contribution rates in internally vs. externally administered schemes.
- Employee contribution rates higher in internally administered schemes.
- Generally neither externally nor internally administered schemes gave advice on how to spend benefits to retirees.
- Externally administered schemes have higher concentration of pensioners and these are mostly paid directly through bank accounts.

- Members of internally administered schemes had more problems accessing their benefits than those in externally administered schemes.
- Members of internally administered schemes faced more delays in receiving their benefits than those in externally administered schemes.
- More members of internally administered schemes complained about expenses incurred in following up benefits than in externally administered schemes.
- More members of internally administered schemes felt their trustees were uncooperative or corrupt than was the case with members of externally administered schemes.
- Members of internally administered schemes were more involved in scheme affairs than those in externally administered schemes.
- Internally administered schemes provided more general information to members than externally administered schemes but externally administered schemes provided more information about benefits due to members.

POLICY IMPLICATIONS

1. Need for greater preparation of scheme members for retirement. This should include education on benefits and investments. Schemes as well as the Retirement Benefits Authority need to carry out pre-retirement seminars for members who are approaching retirement.
2. Annuitization and other financial market investment of lump sum benefits is insignificant. Need for education as well as development of new capital market products through which retirees can invest lump sums.

3. Members are still facing long delays in obtaining their benefit. Need for specific legislation for benefits from Occupational Retirement Benefits Schemes to be paid within say 90 days and for retirees to earn interest on benefits in case of any further delay.
4. Need for increased indexation of pensions to inflation or for built in pension increases. Many pensioners receive a static pension which reduces in real terms with increases in the cost of living. Most schemes have discretionary mechanisms for pension adjustment as opposed to built in increases or indexation.
5. No overwhelming evidence that members of externally administered schemes are better off than those in internally administered schemes. Both externally and internally administered schemes have performed woefully in their role of providing information to members. Need for regulation of administrators whether internal or external to provide clear framework for their operations and thereby address issues of delays in payments and failure to provide information to members.
6. Awareness about the Retirement Benefits Authority is increasing in all areas of the country reflecting the impact of the public education campaign. Need to enhance the campaign and place more emphasis on TV and Newspapers which have been the most effective media.