**STATEMENT BY HON. (AMB.) UKUR YATANI, EGH, CABINET SECRETARY, THE NATIONAL TREASURY & PLANNING DURING THE PRESS BRIEFING ON THE PUBLIC SERVICE SUPERANNUATION SCHEME.**

**Wednesday, 5th August, 2020**

**The Head of the Public Service,** Dr. Joseph Kinyua, EGH

**The CS, Public Service & Gender Affairs:** Prof. M.Kobia, EGH

**The Chairman, COG,** H. E. Wycliffe A. Oparanya, EGH, CGJ

**The CAS, NT & P –Hon.** Nelson Gaichuhie,

**The PS, National Treasury -** Dr. Julius Muia

**The Principal Secretary/Planning -** Mr. Saitoti Torome

**The PS, State Department for Public Service -** Mary Kimonye

**The Chairperson PSC** – Mr. Stephen Kirogo

**The Chairperson, SRC** – Ms Lyn Mengich

**The Chairperson TSC** – Dr. Lydiah Nzomo

**The Chairperson NPS** – Mr. Eliud Kinuthia

**The Chairperson, RBA**– Mr. Victor Pratt

Chairpersons of Trade Unions

CEOs of State Agencies

Stakeholders of the Pensions Industry in Kenya

Senior Government officials

**Ladies and Gentlemen**

Allow me to warmly welcome you to this important ceremony from wherever you are. I am fully aware of the unique and extra-ordinary circumstance that has necessitated participants taking this meeting virtually. Indeed, the now ‘new normal’ situation dictated by the COVID-19 pandemic behooves on us to adjust our work orientations in order to keep the economy running while preserving health and the lives of staff as well as the general public. As a rallying call, we must all be reminded of our responsibilities irrespective of our status in the society to play our role as patriotic Kenyans to continuously remind each other of the requirements in containing the spread of the disease. At the National Treasury we are committed in observing all the guidelines and measures recommended by the Health Authorities.

In my speech during the Budget Statement for the current Financial Year 2020/2021, I addressed myself to some of the key reforms that constitute the transformational Government agenda during the period. One area of focus is in the public sector retirement benefits, which indeed, the government had as early as 2001 identified the need for structural and policy reforms in the pensions industry. A key component of the pension reforms was the proposed introduction of a contributory pension scheme for the public service to replace the Defined Benefit ‘**Pay-as-you-go**’ arrangement that continues to date.

The proposal for the contributory scheme was passed by the Cabinet in 2003. At this time there was growing concern that the pension wage bill had continued to rise making it unsustainable in the future. An actuarial study conducted in 2004 had found that the pension liability had reached **Ksh 271.2 billion** representing a 25% of the GDP at the time. A later study conducted in the Year 2013 established that the pension liability was almost hitting **1 trillion** mark and getting out of control. To rescue what had become an imminent time bomb, the delayed pension reforms particularly the adoption of a contributory pension was considered the only option available to the Government.

During the recent National Wage Bill Conference held in November last year under the auspices of the Salaries Remuneration Commission (SRC), the cost of the pension liability was laid bare. The pension wage bill that rose from **Kshs. 27.9** **billion** in the Financial Year 2013/14 to **Kshs 86.7 billion** in 2019/2020 is projected to cross the **Kshs. 100 billion** mark in the current Financial Year 2020/21. It is clear that this situation cannot wait any longer, therefore giving urgency for the roll-out of the Contributory Scheme.

**Ladies and Gentlemen**

You will recall that on 24th November 2010 the National Treasury issued a policy circular that largely set in motion the trend towards the harmonization of pension policies for public sector workers, with the introduction of some pre-funding or fully funded complementary pension schemes. This process has been driven mainly by the necessity to alleviate the fiscal burden imposed by relatively generous public employees’ pension schemes, enhanced labour mobility and the desire to build more equitable and financially sustainable social security systems.

Building on this policy position and reflective of previous attempts of reforming the public pension sector, the Public Service Superannuation Scheme Act, 2012, was assented to on 9th May 2012. The Act established the contributory **Public Service Superannuation Scheme (PSSS)** to provide retirement benefits to public servants. The law requires that the Cabinet Secretary appoints and gazettes the commencement date of the scheme. Despite numerous challenges that has occasioned the delay, I have now gazetted the **1st January, 2021** as the commencement date of the Act.

I have also constituted the Board of Trustees in line with provisions of the Act. I beseech all actors in the Public Service to render support to the Board and the staff for a smooth implementation of the scheme.

**Ladies and Gentlemen**

The scheme we are rolling out covers all employees of the Public Service who are recruited through:

* the Public Service Commission;
* the Teachers Service Commission;
* the National Police Service Commission; or
* any other service that the Cabinet Secretary determines to be public service for the purposes of the Act.

Upon commencement of the contributory scheme, the current Public Service Pension arrangement will be closed to all new employees and all serving employees who will be aged below 45 years as at 1st January, 2021. Employees aged 45 years and above as at that date will be given an option to join the new Scheme or remain in the old Scheme. It’s important to note that there will be over 333,460 public servants who will be below the age of 45 Years as at 1st January 2021.

**The Institutional Framework of the Scheme** comprises of the **Public Service Superannuation Fund** and the **Board of Trustees**. The Board which draws membership from both the employer and the workers’ unions, is charged with the responsibility of operating and managing the fund. All contributions shall be paid into the Fund and conversely, all the benefits and any other payments required under the provisions of the Act shall be paid out of the Fund. The operations of the Scheme shall be in accordance with the Retirement Benefits Act.

This scheme is portable and allows employees to transfer their services to other employers without losing their pension benefits. Employees who for any reason exit Government service before the retirement date, will be allowed to access their own accumulated contributions and a further 50% of the Government portion on leaving service.

Under the new scheme, monthly contributions by employees of up to 30% of their basic salary or Kshs. 20,000 whichever is lower will be tax deductible. This means that the contribution is deducted from the salary before tax is calculated. This in effect reduces the tax level and improves the pay of an employee as well as avoiding double taxation of pension contributions and pension payouts.

The new scheme ensures involvement of the employees and members in the management of their retirement fund through participation in the Board of Trustees in accordance with the Retirement Benefits Authority. This in essence enhances a sense of ownership and oversight of the management of the fund.

**Ladies and Gentlemen**,

In conclusion, The Public Service Superannuation Scheme Fund will no doubt become the largest fund in the country. The fund will generate growth of Capital Markets and bring meaningful growth in unlocking value in real estate. You will agree with me that the expected fund income of over **Ksh. 3bn** monthly presents resources that will not only stimulate the economy that has been negatively affected by the Covid pandemic, but will also support the big four agenda.

In the medium and long term periods, the resources that have been directed to the Defined Benefit arrangement will be freed to finance the development of other critical sectors of the economy.

More significantly, under the contributory arrangement the investment income realized will allow for retirement benefits improvement that will guarantee adequate monthly income and financial security in old age.

As I thank all those involved in the preparation of this briefing event, I once again appeal to relevant stakeholders to support this important scheme.

I thank you.