REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

PUBLIC SERVICE SUPERANNUATION SCHEME **(PSSS)**

H A N D B O O K

OCTOBER **2020**

This handbook provides general information on the Public Service Pension Scheme. The handbook opens with a background of the current arrangement of the Defined Benefit design before delving into the Defined Contributory design that is projected to commence on 1st January 2021 under the badge of the Public Service Superannuation Scheme. The handbook outlines the salient features of each arrangement and proceeds to make a comparison of the two.

It is anticipated that the handbook will make a major contribution to informing the public service about the provisions of the Public Service Superannuation Scheme especially in the prevailing circumstances of limited physical social interaction dictated by the unprecedented outbreak of Corona Virus Disease 2019. The handbook is intended to assist public service employees understand the transition from the current scheme to the new arrangement. The roles of the employee members, the employer and other respective actors involved are outlined in the handbook

It is noted that a handbook of this kind may not be fully comprehensive, but it attempts to provide answers to questions that would be most frequently asked. No doubt there are some aspects of the scheme which are not covered at present but may be incorporated in future updates of the handbook.

DISCLAIMER: Please note that this handbook is for general information. In the instance of any item referred to in this handbook that is addressed by a law applicable in Kenya, then the provisions of the Law take precedence. Neither should the handbook be used to commence a legal action or as evidence in any matter before the courts.

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DEFINITION OF TERMS

Accrual Factor is a rate equivalent to 1/480 used in computation of pension benefits in the defined benefits pension scheme.

Accrued interest means income from the fund investment that is credited to a member's retirement savings account less any applicable tax.

Actuary is a professional who compiles and analyses statistical data to calculate pension risks and its consequences. In the Act it means a person appointed by the Trustees pursuance to the Act to render acturial services to the scheme.

Act means the Public Service Superannuation Scheme Act No 8 of 2012.

Annuity means a fixed sum of money paid to a pensioner periodically over their lifetime.

Benefit means pensions, gratuities and any other payments paid to members and /or dependants under the Act

Board means the Board of Trustees of the Scheme.

Cabinet Secretary means the Cabinet Secretary responsible for matters relating to finance.

Child means any child of a deceased member who is under eighteen years of age or if the child is receiving full-time education, not more than twenty-five years of age and was at the time of the death of the deceased wholly or mainly dependent on the deceased.

Commutation means giving part of the pension payable on retirement in exchange for an immediate lumpsum payment.

Contribution means the amount payable by a member and by the Government into the Scheme.

Current Pension Scheme means the Public Service Pension Scheme operated under the Pension Act Cap 189.

Defined Benefit is a pension plan that provides for payment of an amount on retirement determined based on a formula. The amount paid is based on length of service and the annual basic salary at the time of retirement.

Defined Contribution is a retirement plan where both the Government and employees make set contributions to the Scheme for the benefit of the member at retirement. The benefits are based on the scheme credit and investment income.

Dependant refers to a surviving spouse, child or a parent who was wholly or substantially dependent on the deceased by virtue of their station.

Disciplined services means the National Police Service, the Prisons Service and the National Youth Service.

Financial year means the period of twelve months commencing 1st July and ending 30th June of the subsequent year.

Fund means the Public Service Superannuation Fund.

Government means the National Government.

Gratuity refers to any lumpsum payment which includes commuted pension or payments on account of death of an employee.

Life Insurance Company means any company registered by the Insurance Regulatory Authority under the Insurance Act (Cap. 487) to carry out the business of providing life insurance.

Member means the person who has joined the scheme and any other person who is entitled to a benefit under the scheme.

National Police Service Commission means the National Police Service Commission of Kenya established under Article 246 of the Constitution.

New Contributory Scheme means the Contributory Public Service Superannuation Scheme (PSSS) established by section 3 of the Act.

Retirement Age means the mandatory retirement at sixty years or as may be determined by the Government for a particular group.

Pensionable Emoluments means the annual basic salary as determined by the Government and does not include allowances or any special remuneration, honorarium or other flactuating emoluments received by a Member.

Pensioner means a member who has retired from the service of the Government and qualifies for pension.

Public Service Commission means the Public Service Commission of Kenya established under Article 233 of the Constitution.

Public Service Superannuation Scheme means the new contributory scheme.

Retirement Benefits Authority means the Authority by that name established under section 3 of the Retirement Benefits Act (No. 3 of 1997).

Retirement Savings Account means an account set up and maintained by the Scheme Administrator.

Teachers Service Commission means the Teachers Service Commission of Kenya established under Article 237 of the Constitution.

Trustee means a member of the Board.

Vesting refers to the legal ownership of the accrued benefits in the Scheme for a member including what has been contributed by the Government and returns thereon.

ABBREVIATIONS

DC	–	Defined Contribution
DB	–	Defined Benefits
NPS	–	National Police Service
NPSC	–	National Police Service Commission
NSSF	–	National Social Security Fund
PSC	–	Public Service Commission
PSSS	–	Public Service Superannuation Scheme
RBA	–	Retirement Benefits Authority
TSC	–	Teachers Service Commission
WCPS	–	Widows and Childrens' Pensions Scheme

1. O INTRODUCTION

1.1 Background

The Kenya Retirement Benefits Sector falls under the social and economic pillars of the Kenya Vision 2030. The Retirement Benefits system has three pillars; the zero pillar, comprising the elderly citizens (cash transfers); the first pillar, which is mandatory (NSSF) and the second pillar comprising Civil Service Pension Schemes, Occupational, Individual and Umbrella Retirement Benefits Schemes. The retirement schemes serve among others the following objectives;

(i) Payment of benefits to members on attainment of retirement age
(ii) Avail benefits to members on leaving service
(iii) Stabilize financial wellbeing of retirees
(iv) Provide financial protection to members' dependants on death in service
(v) Provide disability benefits
(vi) Alleviate old age poverty

The Government has operated a non-contributory Pension Scheme hereinafter referred to as the Current Pension Scheme since independence fully financed through the Exchequer. As part of the reforms in the Public Service Pensions' Sector, the Government enacted the Public Service Superannuation Scheme Act, 2012.

The Act established the Public Service Superannuation Scheme (PSSS) hereinafter referred to as the new contributory Scheme in line with the Policy direction issued by Government through The National Treasury Circular No. 18 of 2010.

The Government directed the conversion of all Defined Benefit (DB) Schemes in the Public Sector to Defined Contributory (DC) Schemes. The objective was to align public service pension schemes with best practice in the retirement benefits industry.

The Public Service Superannuation Scheme (PSSS) will commence on 1st January, 2021.

1.2 Purpose of the Handbook

The purpose of the Handbook is to provide a quick reference to stakeholders of the Scheme.

2.0 THE CURRENT PENSION SCHEME

2.1 Legal Framework

The provision of pensions and related retirement benefits to Public Servants covered under the current Scheme are governed by the following statutes and regulations:

i. Pensions Act (Cap 189) (the main Act);
ii. Widows and Children's Pensions Scheme (WCPS) Act (Cap 195);
iii. Pensions Increase Act (Cap 190);
iv. Human Resource Manuals/Code of Regulations; and
v. Other related statutes and regulations.

2.2 Features of the current pension scheme (Cap 189)

2.2.1 Coverage

The current pensions Scheme covers the following:

a) Civil Servants
b) Teachers employed by the Teachers Service Commission.
c) Disciplined Services (National Police Service, Prisons Service and National Youth Service).
d) Judges of the Judiciary except the Chief Justice and Deputy Chief Justice.

2.2.2. Benefits

2.2.2.1 Benefits on retirement

The benefits are calculated based on the following:

i. Length of service
ii. Final Pensionable emoluments (annual basic salary) at the time of retirement.
iii. A pension accrual factor of 1/480 is applied in arriving at the benefit entitlement.

On retirement, a member is entitled to an annual pension calculated as follows:

Pension = 1/480 x Pensionable Service (Months) x Final Pensionable Emoluments
Where **1/480** *is the pension accrual factor.*

A portion (up to a maximum of a quarter) of this pension can be converted into a lumpsum determined as:

Lumpsum = 1/4 x Pension x 20
Where 20 is the commutation factor

Access of the lumpsum results in a reduced pension of:
Reduced Pension = 3/4 x Pension

For example:
Where a member retires having completed 30 years pensionable service with the final pensionable emoluments of Kshs.540,000.00 per annum, the unreduced pension payable would be calculated as:

No. of years served	*=30 Years*
No. of completed months	*= 360 months*
Unreduced Pension	*= 360 xShs. 540,000 P.a x 1/480ths*
	=Kshs 405,000
Reduced annual pension	*= Kshs 405,000 P.a x 3/4*
	= Kshs 303,750 P.a
Monthly pension	*= Kshs 303,750/12*
	= Kshs 25,312.00 Per Month
Commuted Lumpsum	*=Kshs 405,000 P.a x 1/4 x 20 years*
	= Kshs 2,025,000

2.2.2.2 Benefits on Death

(a) Death Gratuity
The formulae used in calculating retirement benefits is applied in determining the Death Gratuity. The higher of the resultant lump sum or the employee's two (2) year basic salary, is paid.

(b) Dependants Pension
Dependant's Pension is paid to the widow or children for five (5) years only. The amount is equivalent to what an officer would have earned as pension. To qualify for Dependant's Pension under Cap.189, an officer should have served for a period of at least ten (10) years.

2.2.2.3 Marriage gratuity

This benefit is paid to a female officer who resigns after serving for at least five years with a view to marriage or on account of circumstances surrounding her marriage.

2.2.2.4 Killed on duty pension

This is paid to dependants' of an officer who is killed on duty on the circumstances specifically attributed to the nature of his duties and without his own fault. Widow's benefit is 10/60th of the pensionable emolument at the time of death while the children's portion is 1/8th of the widow's pension subject to a maximum of 6 children.

2.2.2.5 Injury Pension

Injury Pension is an additional pension granted to an officer who is permanently injured in the course of his duties. The Pension is paid at an annual rate of the proportion of his actual pensionable emoluments at the date of his injury appropriate to his case. The proportions range from 5/60 to 20/60 of the pensionable emoluments at the time of injury. This is paid on retirement and is not transferable.

2.3 Limitations of the Current Pensions Scheme

1. The Scheme disadvantages employees who may wish to leave the service before they attain the age of 50 years since they do not qualify for pension or any other benefit.
2. Benefits under the Scheme are not portable.
3. It is a defined benefit scheme that does not allow benefits improvement. There is no investment income or voluntary contribution.
4. The current scheme is expensive and unsustainable in the long run.
5. It is discriminatory to male officers on account of marriage gratuity and widowers pension.
6. The accrued retirement benefit cannot be accessed while in service, hence not applicable for personal development.
7. Discriminatory against female officers as they are required to meet certain additional conditions to be allowed to contribute towards WCPS.

3.0 THE PUBLIC SERVICE SUPERANNUATION SCHEME

3.1 Legal Framework

The provision of pensions and related retirement benefits to Public Servants covered under the Public Service Superannuation Scheme are governed by the following statutes and regulations:

i. The Public Service Superannuation Scheme Act, No. 8 of 2012;
ii. The Retirement Benefits Act, No.3 of 1997;
iii. Human Resource Manuals/Code of Regulations; and
iv. Other attendant statutes and regulations.

3.2 Object and purpose of the Scheme

The object and purpose of the Public Service Superannuation Scheme shall be to:

(i) Pay retirement benefits to members of the Scheme;
(ii) Ensure timely payment of benefits to members as and when they become due.
(iii) Improve the social security of members; and
(iv) Establish a uniform set of rules, regulations and standards for the administration and payment of retirement benefits for members of the Scheme.

3.3. Coverage

The Scheme covers the following:

(i) Civil Servants;
(ii) Teachers employed by the Teachers Service Commission; and
(iii) Disciplined Services (National Police Service, Prisons Service and National Youth Service).

3.4 Membership

Membership to the new contributory scheme comprise the following categories:

i) Employees serving on permanent and pensionable terms of service and aged below 45 years as at 1st January, 2021;
ii) New employees who join the service on or after 1st January, 2021 on permanent and pensionable terms of service;

iii) Employees aged 45 years and above as at 1st January, 2021 who opt to join the new contributory Scheme;

iv) Employees whose services were transferred to the County Government and are currently covered under the Public Service Pension Scheme will be processed as per the above provisions.

3.5. Features of PSSS

3.5.1 Defined Contribution

The PSSS is a Defined Contribution Scheme where the Government and employees will contribute to the Scheme to fund the retirement benefits of the employee.

The contributions will be paid into the Fund established and managed under the Act and regulated in accordance with the Retirement Benefits Act.

3.5.2 Rates of Contribution

a) Employees will contribute at the rate of 7.5 % of their monthly basic salary graduated at the following rates: 2% in first year; 5% in the second year; and 7.5% in the third year.

b) The Government will contribute 15% of the monthly basic salary in respect of each employee.

c) Employees will have an option to make additional voluntary contributions to the scheme above the mandatory 7.5% of the basic salary. Where an employee takes this option, the Government will not increase its contribution.

3.5.3 Portability

The benefits under the new contributory Scheme are portable and therefore an employee can transfer accrued pension benefits from one registered scheme to another irrespective of the sector (private or public).

3.5.4 Access to Benefits before Retirement

Members of the scheme may access retirement benefits earlier than a prescribed Retirement Age by reason of dismisal, resignation, ill health, mortgage finance, advancement for the purchase of a residential house, immigration, death or any other circumstance as may be prescribed in the Act.

3.5.5 Regulation of the Scheme

The new contributory Scheme shall be regulated by the RBA.

3.5.6 Tax Relief

The Contribution is deducted from the salary before tax is calculated.
Members can enjoy tax benefit to a maximum of the lesser of Kshs.20,000 or 30% of pensionable emoluments.

3.5.7 Life Insurance and Disability Cover

The Act provides for a Life Insurance Policy that has disability benefits in favour of every member of the scheme, for a minimum of five times of the members annual pensionable emoluments.

3.5.8 Terms of Commutation

Under the Scheme a member can withdraw up to a maximum of a third of the accumulated savings upon retirement. A member can also withdraw all the additional voluntary contributions with accrued interest.

3.5.9 Member Involvement

The Scheme ensures involvement of the employees and pensioners in the management of their retirement fund through participation in the Board of Trustees in accordance with the Act.

3.5.10 Access to contributions to purchase a Residential House

The Retirement Benefits (Mortgage Loans) (Amendment) Regulations 2020 provides for a member to access up to 40% subject to a maximum of Kshs.7million of accumulated contributions to purchase a residential house.

3.6 Benefits provided by the Scheme

3.6.1 Retirement

The following benefits are payable at retirement as per the provisions of this Act;

i. A member may take a lump sum not exceeding one third of the balance in retirement savings account. However, additional Voluntary Contributions made into the Scheme and the accrued interest can be withdrawn in full.
ii. A monthly or quarterly annuity for life purchased from a life insurance company of a member's choice; or
iii. A monthly or quarterly withdrawals calculated by an actuary on the basis of life span and paid from the Fund.

3.6.2 Death in-Service

In the event that a member dies whilst in Service before Retirement, the following benefits will be payable to the beneficiaries:

(i) A member's scheme credit; and
(ii) The insured benefit of up to five times the annual pensionable emoluments.

3.7. Institutional Framework of the new contributory Scheme

The Act establishes the Public Service Superannuation Fund and the Board of Trustees as the principal agencies of the Scheme.

3.7.1 The Public Service Superannuation Fund

The Public Service Superannuation Fund shall vest in and be operated and managed by the Board. All contributions and any other payments required under the Act shall be paid into the Fund; conversely, all the benefits and any other payments guaranteed under the provisions of the Act shall be paid out of the Fund.

3.7.2 The Board of Trustees

The Board is comprised of the following:

(1) A Chairman appointed by the Cabinet Secretary responsible for Finance.
(2) Principal Secretary in the Ministry for the time being responsible for matters relating to finance or his representative.
(3) Principal Secretary in the Ministry for the time being responsible for matters relating to the public service or his representative.
(4) Secretary to the Teachers Service Commission or his representative.
(5) Secretary to the Public Service Commission or his representative;
(6) Inspector General of the National Police Service or his representative;
(7) Three other Trustees appointed by the Cabinet Secretary for Finance, of whom;
    (i). one shall be nominated by the Kenya National Union of Teachers;
    (ii). one shall be nominated by the Kenya Union of Post Primary Education Teachers;
    (iii). one shall be nominated by the Union of Kenya Civil Servants; and
(8) the Chief Executive Officer employed by the Board who is an ex-official.

3.7.3 Service Providers

3.7.3.1. The Fund Administrator

The Board shall appoint an Administrator of the Fund who shall, amongst other functions:

i. maintain an account for each member with a personal pension number;
ii. reconcile accounts;
iii. compute retirement benefits; and
iv. cause to be paid retirement benefits to a member who has retired in accordance with the provisions of the Act.

3.7.3.2 Fund Manager

The Board shall appoint a Manager of the Fund who shall, in accordance with the Retirement Benefits Act:

i. Develop an investment strategy for the Fund;
ii. Invest and manage the Scheme funds and assets in accordance with the provisions of the Act;
iii. Maintain books of account of all transactions relating to the fund; and
iv. Provide regular information on the investment strategy, market returns and other performance indicators to the Board.

3.7.3.3 Fund Custodian

The Board shall appoint a Custodian of the Fund who shall, in accordance with the Retirement Benefits Act:

i. Receive contributions remitted by the Government;
ii. Settle transactions on behalf of the Board;
iii. Notify the administrator on received contributions, administer the fund including dividends and related activities;
iv. Report to the Board regarding assets held on its behalf;
v. Provide to the Board and Administrator data related to the Fund.

3.8 Comparison between the current pension scheme and new contributory scheme

S/ No	Current pension Scheme	The new Contributory Scheme
1.	Retirement benefits are paid on a set formula	Retirement benefits are paid from the accrued contributions and investment income
2.	Not portable since accrued benefits are not transferrable	Portable since accrued savings are transferrable
3.	Pension Vesting period is 10 years and on attainment of 50 years of age	Vesting period is 5 years with no age limit
4.	There is no employee participation	Employees participate through representation in the Board of Trustees and Annual General Meetings
5.	Payment of the benefits is from the Consolidated Fund.	Payment shall be from the Fund
6.	Pension commutation is limited to a ¼ of the accrued pension	Pension commutation is limited to a 1/3 of accumulated credit
7.	Dependant pension payment is prescribed and paid only to a widow and children	Annuity is paid as per principal member preference.
8.	Managed by the National Treasury	Administered by a Board of Trustees and regulated by the Retirement Benefits Authority
9.	The accrued retirement benefit cannot be accessed while in service, hence not applicable for personal development.	• Allows a member to access 40% of the accrued savings to purchase a residential house. • Members can access their accumulated savings upon exit subject to the vesting period
10.	Employee does not contribute	Employee contributes promoting a saving culture
11.	Benefits are defined and cannot be enhanced	Employee can enhance the benefits through additional voluntary contributions

4.0. TRANSITION ARRANGEMENTS TO PSSS

1. Officers below 45 years will automatically join the Scheme w.e.f. **1st January, 2021.**

2. Employees aged 45 years and above may opt to join the scheme by completing the option form. A window of three months with effect from 1st January 2021 is provided to exercise the option.

3. Employee who will not exercise the option shall remain in the Public Service Pension Scheme as provided for under the Pensions Act, Cap 189.

4. Employees serving on Temporary Terms of service and contributing to NSSF will be automatically converted to Permanent and Pensionable terms of service and shall cease contributing to NSSF with effect from 1st January, 2021. Upon conversion of the terms of service they shall be processed in accordance to the three categories above.

5. Members of the new contributory scheme shall complete beneficiary nomination form.

6. Contributions to WCPS shall automatically cease upon joining the new contributory scheme. The contributions to this scheme shall be refunded upon exit from service.

7. The current pension scheme shall be closed to new entrants with effect from 1st January, 2021.

8. Authorized Officers shall deduct 2% of the employees' basic salary and remit the same to the fund by the 10th day of the subsequent month. Any delay to remit the contributions will attract penalties.

9. Employees joining the new contributory scheme shall be issued with a letter recognizing their period of service under the current pension scheme. The benefits shall be accessed through the fund upon retirement.

10. Widows and Children's Pension Scheme (WCPS) and NSSF contributions will cease immediately an employee joins the new contributory scheme.

11. Employees aged below 45 years who are on secondment to other government agencies shall automatically join the new contributory scheme and contribute 2% of the basic salary based on salary scale of the seconding institutions. The government contribution of 15% of basic salary shall be remitted by the respective Agencies. Employees aged 45 years and above will exercise the option to join the PSSS. The 31% pension contribution will automatically cease.

12. Employees whose services were transferred from the National to the County Government owing to devolution of functions will automatically join the scheme and contribute 2% of the basic salary.

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CONTACT
PUBLIC SERVICE SUPERANNUATION SCHEME (PSSS)
Tel: 020-2252299, 0728 338 111, 0733 660 606
P. O. Box 20191 – 00200 Nairobi
Email: pensions@treasury.go.ke
BIMA HOUSE, HARAMBEE AVENUE, NAIROBI