

THE ROLE OF NSSF IN THE WELFARE AND DEVELOPMENT OF THE
KENYAN SOCIETY

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INTRODUCTION

The National Social Security Fund (NSSF) was established in 1965 by an Act of Parliament under cap 258 Laws of Kenya. The Fund was intended to serve as the 1st pillar of social security for Kenyan workers. The ILO defines Security as the protection which society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by stoppage, or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death the provision of medical care and the provision of subsidies for families with children.

Social security is important for the well being of workers, their families and the entire community. It is a means of creating social cohesion, thereby helping to ensure social peace and social inclusion. It is an indispensable part of the government social policy and important tool to alleviate poverty. It can through national solidarity and fair burden sharing, contribute to human dignity, equity and social justice. It is also important for political inclusion, empowerment and the development of democracy.¹

SOCIAL SECURITY STRUCTURE IN KENYA

Kenya has several types of schemes which offer social security which can be divided into three broad categories:-

1. Public Schemes

- The NSSF
- The NHIF
- The Civil Servants Pension Fund
- The local Authorities Pension Trust
- The Public Universities Superannuation Pension Fund
- The Workmen's Compensation Fund
- The widows & Orphans Compensation Fund
- The Parliamentary Pensions Fund

These are established by Acts of Parliament.

2. Occupational Scheme

¹ ILO resolution on social security, Geneva 2001

The Occupational schemes are run by employers for their employees and are underwritten by private insurance companies.

3. Individual Schemes

The individual schemes are private schemes designed for the employed, self-employed and/ or for those in non-personable employment.

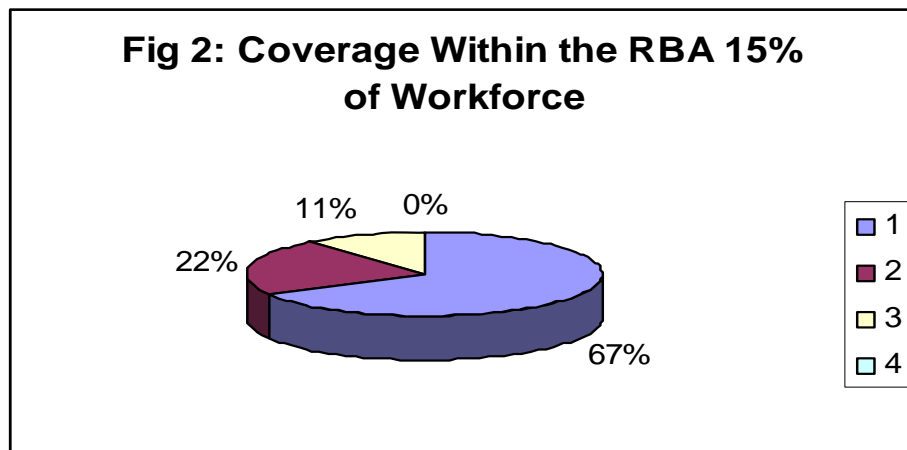
The public schemes, occupational and individual schemes cover workers mainly in the formal sector. They form the first pillar where membership is not optional but compulsory. The Occupational schemes form the second pillar where membership is either voluntary or mandatory and are privately managed. The voluntary schemes form the third pillar where membership is voluntary.

REGULATION OF PENSION SCHEMES IN KENYA

The Retirement Benefits Authority (RBA) is the regulator and supervisor of pension schemes in Kenya. Currently, 1350 pension schemes are registered with RBA and cover 15% of the Kenyan Labour force.

Labour Force Statistics

The total labour force is estimated at 8 million out of which 2.5 million are employed in the formal sector.² NSSF has the largest share of the working labour force as illustrated in figure 2.



- 1- National Social security Fund
- 2- Civil service Pension Scheme
- 3- Occupational Retirements Benefit schemes

² Central Bureau of statistics, 2007

4- Individual Retirements Benefits Scheme

Source: Retirements Benefits Authority, 2004

MEMBERSHIP OF NSSF

In 1966 membership of the Fund was 252,107. Over the years, membership has steadily grown and the Fund has a cumulative registered membership of 3,569,573. The Fund attributes this growth to an increase in the working urban population. The current active membership accounts are 887,421. NSSF currently draws its membership from workers in the formal sector of the economy. The Fund's mandate is to register members, collect contributions, invest the contributions and pay specified benefits. The scheme is financed entirely by the employer/employee monthly contributions set at 5% of wages based on a ceiling of Kshs 4000 per month.

Table 1: Membership and Contributions Received

Year	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Members Registered	106,483	97,066	94,356	80,585	68,144	62,633	64,301	110,413	117,508	139,100
Contributions (Kshs billions)	1.538	1.589	1.539	1.593	1.650	1.688	2.562	3.602	3.847	4.600

TYPES OF CONTRIBUTIONS PAYABLE TO NSSF

There are three types of contributions payable to the Fund namely:-

- Standard contributions in respect of regular workers at kshs. 200 (employer) and Kshs. 200 (employee)
- Special contributions in respect of casual workers at 5% of the employer's total wages bill
- Voluntary contributions payable in respect of self employed persons. Voluntary contributions range from a minimum of Kshs. 100 to a maximum of Kshs. 1000

The financial resource of NSSF is totally dependent on its members and not government funded.

The types of contributions payable to NSSF have varied over time as follows:-

Table 2: Monetary ceiling on contributions

Year	Total (Kshs)	Employer's contribution (Kshs)	Employee's contribution (Kshs)
1966-1977	80	40	40
1977-2001	160	80	80
2001	400	200	200

There are different types of benefits paid by NSSF to its members. The Age Benefit or Retirement benefit is paid to a member who is 55 years and is no longer in employment. Payment is a single lump sum made up of total contributions and interest earned over the contribution period. Minimum interest according to law is 2.5% per annum.

The age benefit is paid to a member who has attained age 55 and has retired from regular employment. The withdrawal benefit is paid to a member who is at least 50 years and is unemployed. The invalidity benefit is paid to a member who is certified as being permanently incapable of working and there is no age barrier prescribed. The emigration grant is paid to a member who is permanently leaving the country and no age barrier is prescribed. The survivor's benefit is paid to eligible dependants of a deceased member. The funeral grant which amounts to kshs. 2,500 is paid to the family of the deceased member to help defray funeral expenses.

In summary form the original mandate of the NSSF has been registration of eligible members, collection of monthly contributions, investment of the contributions mainly in Government Securities and payment of the contributions when due.

Table 3: Contributions & Benefits paid since 1997

Financial statistics in billions of Kshs

Year ended 30 th June	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Contributions	1.59	1.54	1.59	1.65	1.68	2.50	3.60	3.85	4.29	4.6
Benefits paid	1.53	1.62	1.79	1.87	2.21	2.20	2.09	2.23	2.3	2.85

THE ROLE OF NSSF IN THE WELFARE AND DEVELOPMENT OF THE KENYAN SOCIETY

The Fund plays the role of securing the future of its members. After several years of contribution members are assured of a lump sum payment that goes towards alleviating

poverty. Studies have shown that the payments by NSSF have assisted members in different ways. The Fund is an active participant at the Nairobi Stock Exchange (NSE). Quantitatively the Fund's portfolio at the Stock Exchange is equivalent to 8% of the NSE value. In this regard the Fund helps to stabilize the operations of the NSE. The Fund has shareholdings in companies such as Bamburi Cement (17%), E.A Portland Cement (27%), KPLC (7%), Kenya Commercial Bank (9%), Kenya Breweries (60%), British America Tobacco (16%), National Bank of Kenya (48%) among others. Should the Fund decide to dispose off its equity, this would drastically affect the stock exchange.

The Fund has also developed several estates in Nairobi and Eldoret. The purchasers pay 10% deposit and are allowed to reside in the residential houses while paying the balance in monthly instalments for a period of 15 years. This enables Kenyans to own homes at a more affordable rate through a Tenant Purchase Scheme that is friendly. The interest rate is fixed. This goes on to assist the Government's goal of providing affordable housing to Kenyans.

Besides, NSSF has several commercial buildings and plots around the country. The rents charged are fair and this stabilizes the costs of office space in the country. With regard to the plots, the Fund has sold over 2000 plots at Tassia to low income earners through the Fund's Tenant Purchase Scheme.

Through collection of monthly contributions from the workers of this country, the Fund plays a role of mobilizing savings. This money is re-invested in the economy and conversely helps the government mop up excess liquidity. Part of the contributions is used to buy Government Treasury Bills and Bonds and this enables the government to carry out its financial obligations.

The Fund has 39 branches spread across the Country and makes deposits in several banks where its branches are. These deposits improve liquidity of the banks enabling the banks to lend loans to the Society. It also plays the role of an Employer to Human Resource. Currently the Fund has employed 1,800 personnel who in turn support their nuclear and extended families. This can be construed to be a very positive role in the Kenyan Society.

In its daily operations, the Fund is a consumer of goods and services. There are several service providers who benefit from them. Thus the NSSF creates employment indirectly to Kenyans by way of utilizing the services of Kenyan Companies. This includes supply of materials such as stationery, security, training, information technology and construction.

If the proposed conversion of the NSSF from a Provident Fund into a Pension Scheme is effected, it will be paying its members monthly pension as opposed to lump sum payment. This will greatly enhance poverty reduction in Kenya.

CORPORATE SOCIAL RESPONSIBILITY

In the Fund's reforms and changes the Board of Trustees and Management have made a decision to participate in Corporate Social Responsibility and involve the society at the following various levels.

- Corporate Membership to the Kenya Society for the Blind

The Fund is a Corporate Member of the Kenya Society for the Blind and donates Kshs. 50,000/= annually.

- Target Women and Children

When you invest in women you invest in communities. The Fund believes in supporting small and upcoming women's groups in an effort to eradicate poverty. The Fund gives donations, offers advice, helps with investments and recruits the women through Voluntary Membership. This enables them to save with the Fund for their future.

With regard to children, the Fund is actively involved in health campaigning through ventures of Mater Hospital Heart Run. The Fund contributed Kshs. 100,000/= towards this cause in 2007. It plans to set up mechanisms to help educate children who are bright through scholarships and intends to target KCPE and KCSE. The initial plan is to look for a brilliant child in each province.

- Standing Donation to the Elderly Members of the Society

Each year the Fund donates Kshs. 50,000/= to Helpage Kenya, an Organization dealing with the welfare of the Aged. Each year the NSSF also donates foodstuffs and blankets to the elderly.

- Participation in National Disasters

The Fund participates in National Disasters. Last year the organization through its Trustees donated Kshs. 1.5 million towards Famine Relief. Staff members also came together to donate foodstuffs and money for the famine relief.

- Participation in Freedom of Hunger Walk

The Fund gives a donation of Kshs. 100,000/= annually for the Freedom from Hunger Walk and also participates in the walk.

- Sponsors Athletics Events

The NSSF sponsors events carried out by the Kenya Athletics Association. It intends to recruit young athletes to be its members and educate them on saving and steer them from poverty.

- Environmental Clean-up

Staff Members get involved in environmental clean-up exercises in hospitals. The Staff members in Kisumu help the Women Fish mongers in the market to clean up their stalls.

CHALLENGES FACED BY THE FUND

- One lump sum payment is made to the retiree which is inadequate.
- The benefits offered to the members are limited.
- Limited public knowledge on the need on social security.
- Organizing the informal sector into a unit which can access social security.
- Slow growth of the formal sector.
- Retrenchment of Workers.
- High prevalence of HIV and AIDS.
- Tendency for employers to artificially understate workers to avoid compliance
- The contributions are very modest

MILESTONES

- The autonomy of the Board of Trustees.
- Remarkable growth in membership.
- The Funds large market share in the retirement benefits industry.

- The ability to pay the retirees.
- The introduction of Voluntary Contribution.
- The introduction of Funeral Grant.

RECENT REFORM INITIATIVES

- Drafting of a Bill to convert the NSSF into a Pension Trust.
- Improved Investments portfolio through adherence to guidelines of the REA; appointment of custodian etc.
- Incorporation of the Informal Sector into all the NSSF's strategic planning for growth of coverage.
- Improvement of service delivery through the decentralization of all core activities of the Fund to 39 branches spread countrywide.
- The Board of Trustees and Management are on performance contract.