ARBS

Developing the retirement benefits industry in Kenya

Presentation at Retirement Benefits Open Day
November 2007

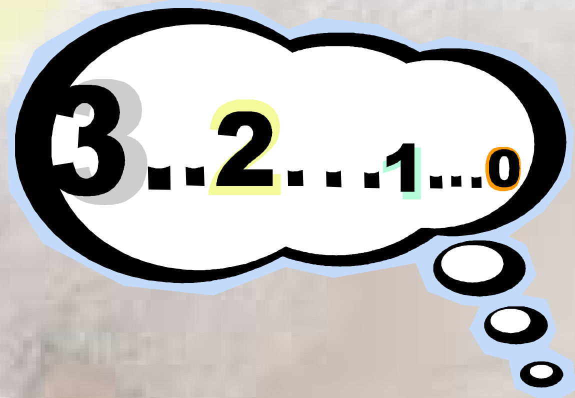
Agenda

1. Introduction to trends in retirement benefits provision

2. Experience and challenges around the globe

3. ARBS view of the future of the retirement benefits industry in Kenya

Agenda 1



Introduction to trends in retirement benefits provision

Global Reviews

Around the world governments and employers are reviewing their retirement benefits systems, taking account of:

- Changing demographics (increased life expectancy)
- Growing interest in privatisation
- Globalisation of markets (labour/social costs under scrutiny)
- Growth of informal sector
- Changing/weakening of traditional social supports
- Unstable or inadequate state-provided pensions

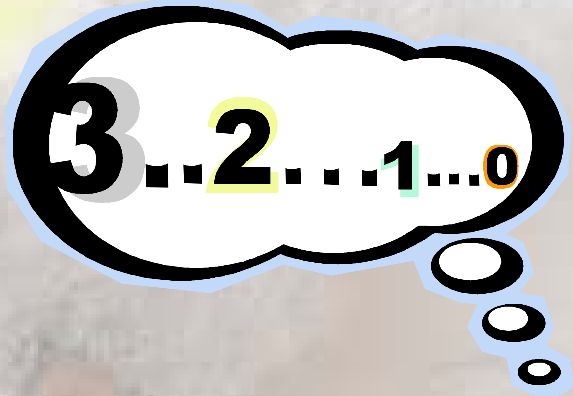
Changes in population 2005-2025

Country	Population Change ('000)
Europe	-21,153
U.S.	51,886
Latin America	133,359
Africa	438,554
Asia	822,715
World	1,440,488

Regional summary

	Asia	Europe	Latin America
Status	Emerging Markets	Mature Markets	Emerging Markets
Population	3.7 billion	728 million	443 million
Economic development	Varied Stages of Economic Growth	Western Europe: Developed Eastern Europe: Developing but stagnant population	Multi-fund systems adopted or soon to be adopted in most markets Voluntary pensions could lead to increased assets
Trends	New Pension Laws & Pension Reform Arguments	Minimal reforms to manage deficits of PAYG systems	Chilean model predominant in the region (ex Brazil)

Agenda 2



Experiences and Challenges

Chile

3-pillar system introduced 1981 to replace bankrupt PAYG plan:

- pillar 1 – government guaranteed minimum pension
- pillar 2 – registered private pension administrators
  - mandatory contributions for all employees
  - additional 2.5% - 3% for administration + survivor and disability
- pillar 3 - voluntary savings from workforce

Offshore markets attract approx 30% of Chilean funds

Other Latin American countries have since adopted this blueprint for reforms and US President George Bush has presented it as a model for modernising US system

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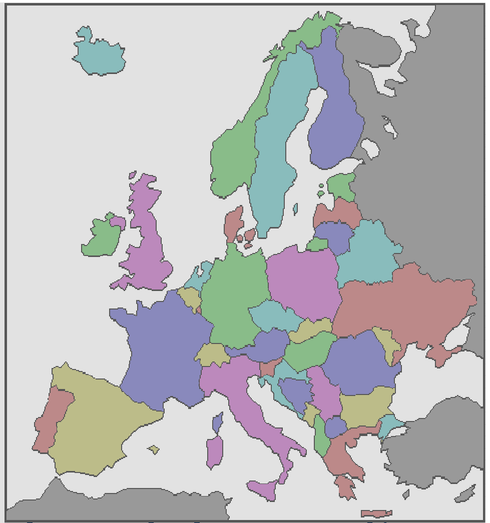
Continental Europe



Ailing PAYG systems, many pensioners & younger generation providing more retirement income from own savings.

In Sweden, from 2001, every Swede has an individual social security account

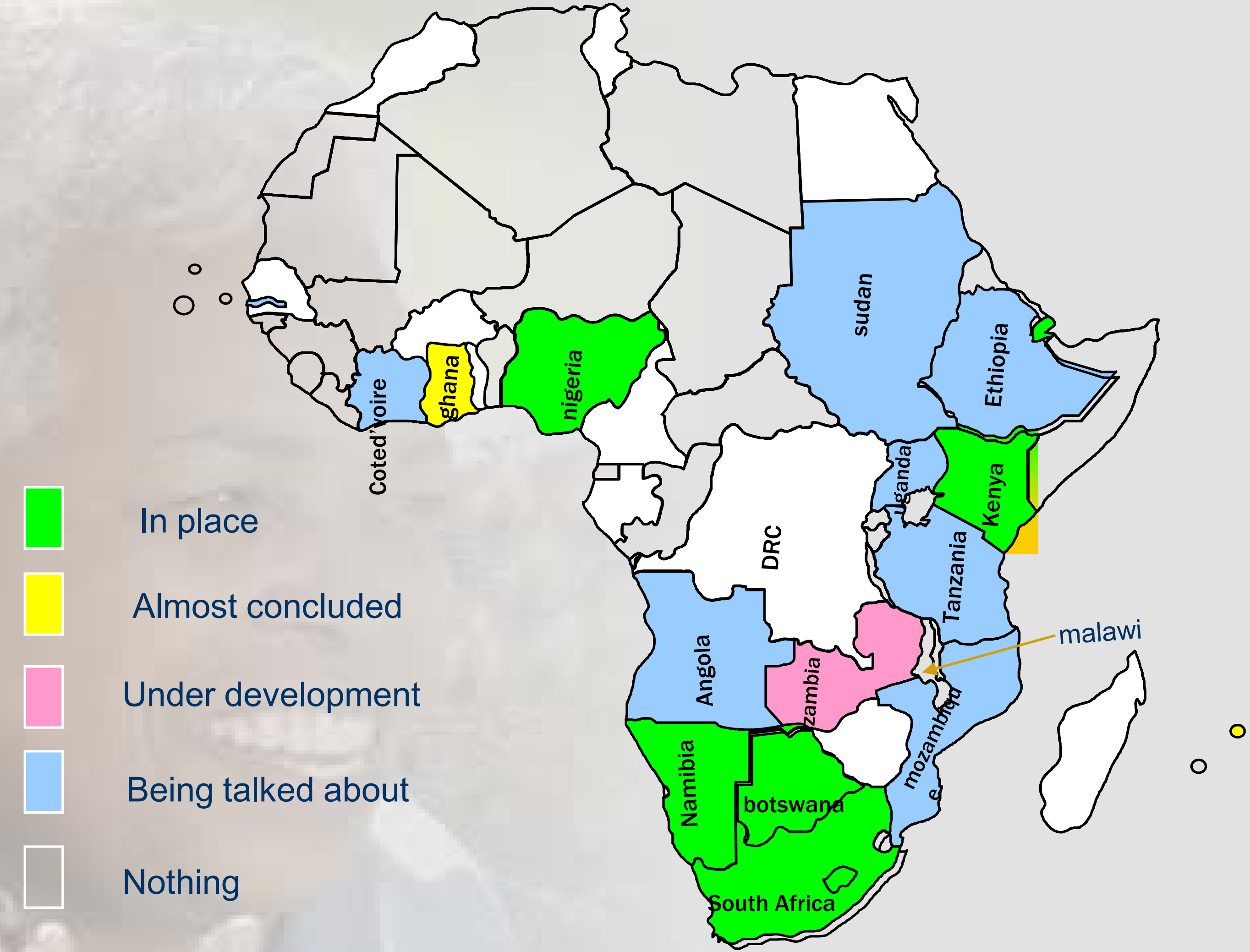
Contributions at 2.5% of the 18.5% payroll tax

Individuals choice from over 600 privately run mutual funds

In France:

- deficit arising from an extremely (generous) PAYG system that gives basic old age pension (up to 50% of minimum wage).
- several PAYG systems exist for different interest group schemes e.g. public sector, private schemes etc.

Status of Retirement Benefits Reforms in Africa



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Nigeria

Lazarus please add content

Patricia. Do you have a picture of Lagos (or shall I just insert a fuzzy Bombay)?

South Africa

The structure is multi-pillar:

pillar 1 - non-contributory Universal ‘social pension “to ‘elderly” of USD 120 per month (R740)

pillar 2 - occupational pension schemes regulated by Financial Services Board via Pension Funds Act
- Tax incentives used to promote savings

pillar3 - voluntary savings with tax incentives

Recent challenges with regard to cost structures, investment risks, institutional weaknesses and governance.

Government considering introducing mandatory state pension fund to widen coverage (fears of impact on occupational schemes)

Kenya

Reforms started with Retirement Benefits Act,

- pillar 1 NSSF
  - reforms being discussed
  - covers only formal employed category
  - contributions low hence low benefits
- Pillar 2 occupational schemes
  - regulated by RBA
  - low coverage of population
  - tax incentives
- Pillar 3 voluntary savings
  - additional contributions by scheme members
  - Individual Personal Pension Plans

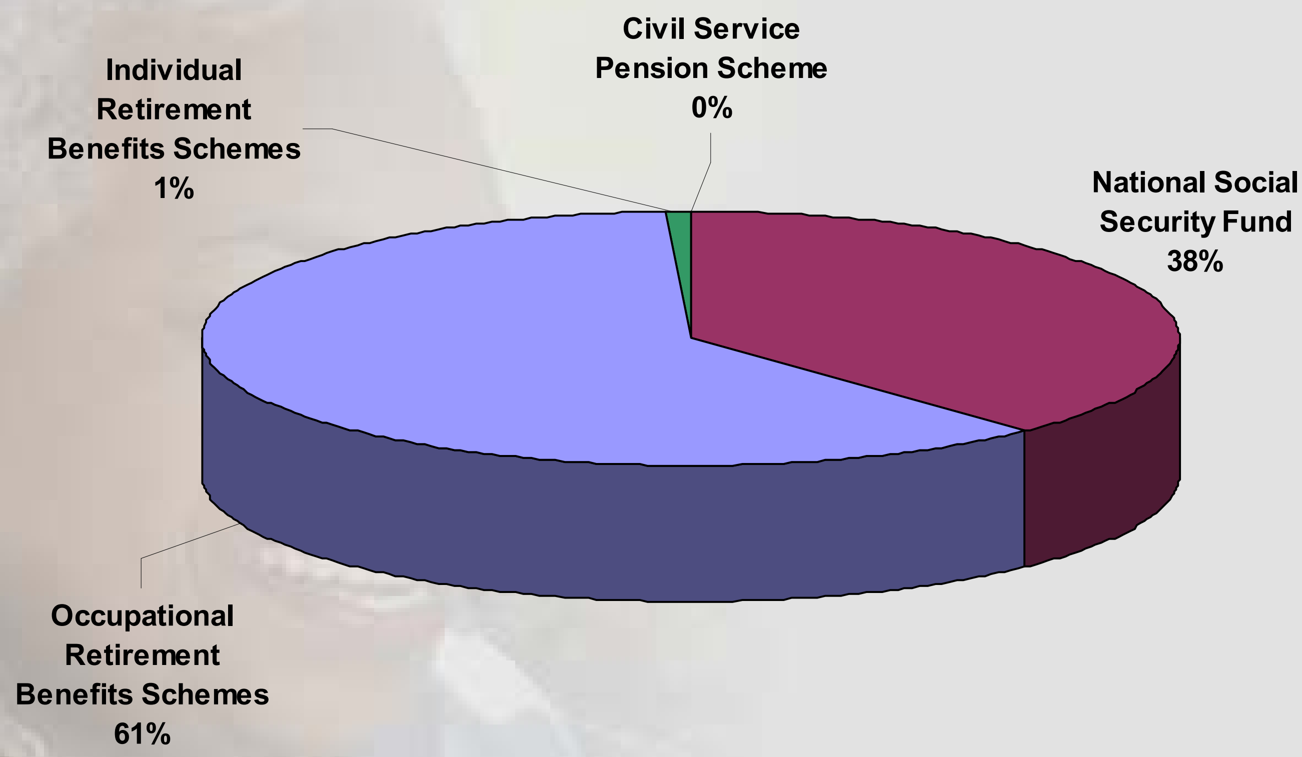
The Kenya Retirement Benefits Industry

	Civil Service Pension Scheme	**National Social Security Fund**	**Occupational Schemes**	**Individual Schemes**
Legal Structure	Act of Parliament	Act of Parliament	Trust Deed	Trust Deed
Membership	all civil servants	formal sector workers in companies with 5+	formal sector workers in companies that have schemes	individuals formal/informal sector join voluntarily
Funding	Non-funded	funded	funded	funded
Regulation	Exempt from RBA	Subject to RBA	Subject to RBA	Subject to RBA

Main African Countries

	Kenya	Tanzania	Uganda	Ghana	Botswana	South Africa
Universal Pension	No	No	No	No	Yes	Yes
Mandatory State Scheme	Yes	Yes	Yes	Yes	No	No
Contribution Rate (ER+EE)	10% cap shs 400.00	20%	15%	17.5%	0%	0%
Benefits	Lumpsum	Pension	Lumpsum	Pension - 50% of avg salary in best 3 yrs	Pension - US$ 27.5 per month	Pension - US$ 95.00 per month
Occupational Schemes	Yes	No	Yes	No	Yes	Yes
Population 65 +	2.8	2.4		3.2	2.8	3.6
Stock Market Cap2002, US$m	1,676	146		382	1,717	182,616

Retirement Benefits Sector Assets



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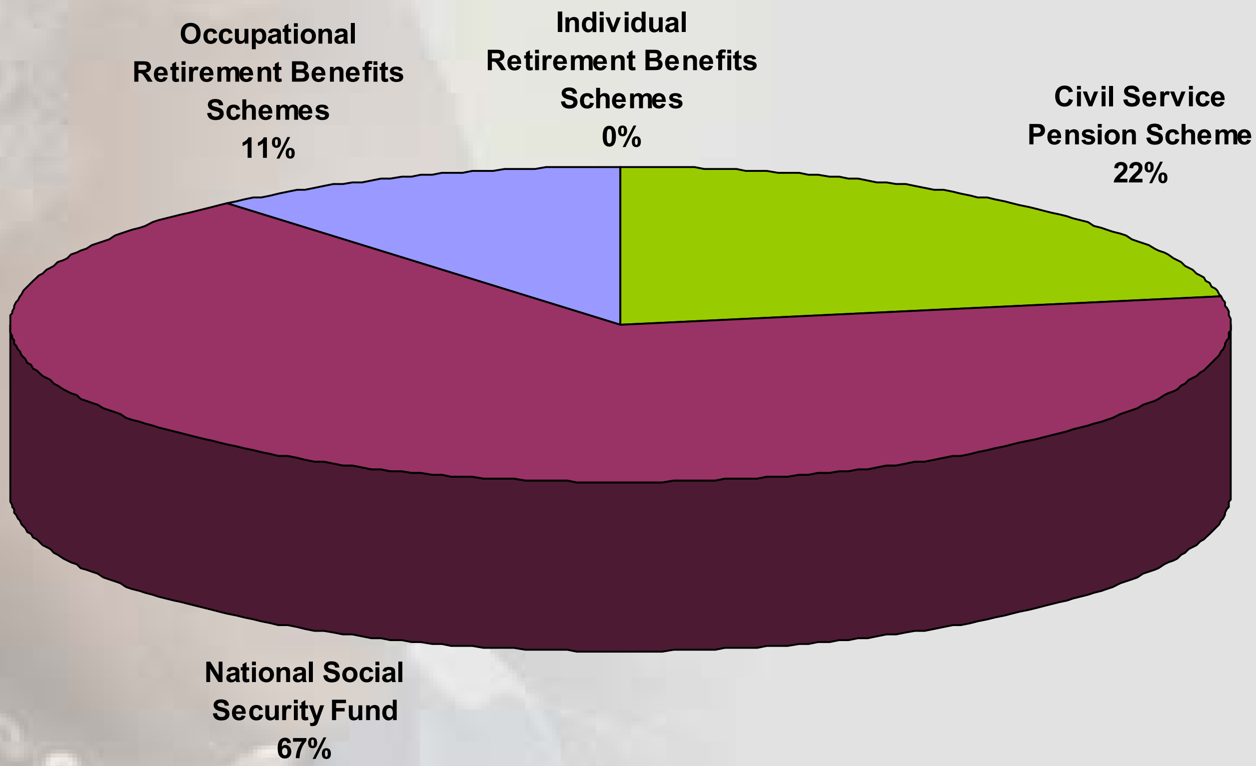
Retirement Benefits Schemes Membership



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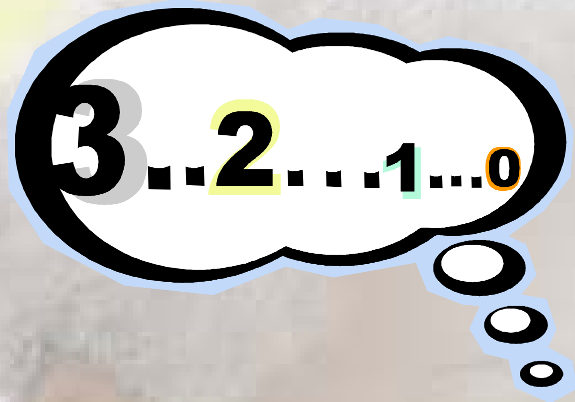
Agenda 3



The ARBS view on the future of the retirement benefits industry in Kenya

Issues facing the Kenya retirement benefits industry

The main issues to be considered in planning for the future development of the retirement benefits industry in Kenya include:

- What is to be the role of the State sector and how is it to be funded and managed?
- How can coverage be expanded?
- What is the target replacement ratio and what steps are necessary to make it achievable?
- What steps are necessary to promote acceptance of retirement benefits schemes as providers of retirement benefits rather than savings arrangements?

Three Pillars of Retirement Benefits Provision

Pillar 1
State Provision

Basic safety net

Minimum old age pension

Management not always professional

Pillar 2
Occupational Schemes

Contributory plans share risks

Professional management

Tax incentives

Supportive Regulation

Pillar 3
Personal arrangements

Designed to suit own needs

Professional management

100% of risk or opportunity

The 1st Pillar - State provision

- ARBS recognises the importance of a strong State-supported 1st pillar to provide the basic safety net
- 1st pillar should aim to provide an affordable universal pension and should be fully funded
- Should be structured and managed in a way that it will not undermine the 2nd and 3rd pillars
- State Sector should be efficiently and professionally managed and operate on a level playing ground with 2nd and 3rd pillars
- A national pensions policy needs to be developed setting out the desired framework for retirement benefits provision in Kenya and the roles of the State and private sectors
- **“Piece meal” reforms are not the answer**
- ARBS as representatives of all stakeholders in the industry should be consulted throughout the process

The 2nd Pillar – Occupational Schemes

ARBS believes that development of a vibrant retirement benefits industry needs for occupational schemes:

- Coverage to be expanded from the current low 15% to 60%+
- Good governance and professional management are fundamental to building credibility
- A supportive regulatory environment and favourable tax treatment are necessary
- A commitment to full funding
- Innovative and competitive service provision – fund management, custody, administration, actuarial, audit etc
- Benefits should be safeguarded from erosion by inflation
- The target replacement ratio should be 60%+
- Education, education, education

The 3rd Pillar – Private Savings

This pillar focuses on individual retirement plans, AVCs and other personal retirement-oriented savings plans. ARBS sees the key enablers as:

- Tax incentives
- Innovative and competitive annuity sector (at least beating inflation)
- Supportive co-ordinated regulation
- Greater recognition of individual choice
- Education, education, education

Further information

Thank you for your attention. I don't think there is time to take questions today, but……

…if you would like to explore these issues further, please contact the Association of Retirement Benefits Schemes Executive Secretariat – contact details are available at the ARBS stand here today