KENYA SCHOOL OF GOVERNMENT STAFF RETIREMENT BENEFIT SCHEME

Frequently Asked Questions (FAQ's)

INTRODUCTION

The **Kenya School of Government SRBS** provides valuable benefits for all its members. This handbook is your guide to the benefits provided by the *Scheme* and is designed to explain the main provisions of the *Scheme* in a way which, it is hoped, is easy to understand.

This handbook is not a legal document and does not cover every aspect of the *Scheme*. Full details of the *Scheme* are set out in the *Scheme*'s Trust Deed and Rules which may be inspected on request and which will always overrule this handbook.

The responsibility for managing the *Scheme* rests with the *Scheme* Trustees. In carrying out their duties, the Trustees take advice from professional advisors.

The assets of the *Scheme* are held separately from the *Employer* in a trust fund. Significant safeguards have been put in place to ensure that the assets of the *Scheme* are kept secure.

The *Scheme* is registered and approved under the Retirement Benefits Act 1997 and complies with all the provisions of this Act. The *Scheme* is also approved by the Kenya Revenue Authority as an exempt approved *Scheme* under the Income Act (Cap 470).

1. How does the Scheme work?

Every month you will contribute a percentage of your *Basic Salary* into the *Scheme.* Over the period until retirement (or until you leave the *Scheme* if earlier), your contributions, along with contributions paid by the *Employer* on your behalf that are allocated to your retirement savings, are invested in your *Member Account.*

Your Contributions	+	**Employer Contributions Allocated to**	=	**Your Member Account**

Your *Member Account* will be invested by the Trustees and will grow broadly in line with the net returns achieved each year on the investments. The value of your *Member Account* can go down as well as up.

At retirement the value of your *Member Account* will be used to provide you with an optional cash lump sum and pension for you and your dependents.

Your Member Account	=	**Optional Cash Lump Sum**	+	**Monthly Income**

The amount of your benefits at retirement will depend upon four basic factors:

1. The level of contributions you make to the *Scheme*
2. The contributions that the *Employer* makes on your behalf that are allocated to your retirement savings
3. The net investment returns credited to your *Member Account*

This type of pension scheme is known as a ‘money purchase’ or ‘defined contribution’ scheme.

2. What benefits does the Scheme offer?

The benefits offered are;

a. Retirement Benefits i.e

i. A pension for life
ii. **Or** an optional part cash lump sum and a pension for life at retirement
iii. Early and late retirement options
iv. A pension or optional lump sum on ill-health retirement.

b. Death Benefit while in service

In the event of death while in employment, a lump sum amount equal to your Scheme Credit at the time of death will be paid to your beneficiary (ies)

c. Benefits on early exit.

If you leave before you retire;

i. A transfer to another approved pension arrangement; or
ii. A return of your contributions with interest.
iii. The 50% of the Employer's accumulated contributions on your behalf are preserved in the Scheme and may be transferred to your new employer's pension scheme, to a preservation scheme or an individual personal pension plan.

d. Additional Benefits

i. Tax relief on your contributions subject to Income Tax limits
ii. You may be permitted to transfer any other pension benefits into your *Scheme Credit*
iii. You can make additional voluntary contributions to boost your benefits

Limits on Benefits and Contributions

All aspects of the *Scheme* are subject to restrictions laid down by the Retirement Benefits Act 1997, 2000 and Regulations made under this Act. In addition, the Income Tax Act imposes restrictions on the tax-free benefits that may be paid from the *Scheme* as well as requirements on the tax treatment of contributions more than the Income Tax allowable limits on contributions. You will be notified if any of these affect you.

3. Who can join?

All full-time permanent and pensionable employees of the *Employer* aged over 18 who have completed their probationary period or a maximum period of one year of service with the *Employer* may join the *Scheme.*

4. Is membership compulsory?

Yes, for all eligible employees who join the *Employer* on or after the commencement date.

5. When can I join the scheme?

On the first day of employment.

6. How do I join the Scheme?

To join the *Scheme,* you must complete an Application for Membership. A copy is available from the Human Resource Department. This should be filled and returned to the *Employer's* Human Resource Department. You will be required to supply evidence of age or any other information as required by the Trustees of the Scheme.

7. If I join, what happens to the pensions I have elsewhere?

The Scheme can accept transfers from other approved pension arrangements while you are in service of the Employer. Further details will be provided to anyone who is interested.

8. Am I also a member of the NSSF?

Your membership of the National Social Security Fund (NSSF) is in no way affected by being a member of the Scheme. You and the *Employer* will still be required to pay the statutory contributions to the NSSF, but you will be entitled to all the benefits provided under this *Scheme.*

9. Who contribute to the scheme?

Both you and the *Employer* contribute to the *Scheme.*

10. How much do I contribute to the Scheme?

You will be required to pay *Scheme* contributions of 7.5% of your *Basic Salary*. Your contributions will be deducted from your *Basic Salary* in monthly instalments and will be paid to your *Member Account*.

11. How much does the Employer contribute to the Scheme?

The *Employer* pays an amount equal to 15% of your *Basic Salary* on your behalf.

12. Can I pay more for higher benefits?

Yes. These payments are known as ***Additional Voluntary Contributions (AVCs) (appendix 1)*** and are a tax efficient way of providing extra retirement income. You can start paying AVCs on joining the *Scheme* or at any other time.

There are however Income Tax restrictions on the contributions that are tax deductible and you will be advised if you are affected.

More information about AVC's is available from the *Employer's* Human Resource Department.

13. Can I change any Additional Voluntary Contributions (AVC's)?

AVC's can be changed subject to the 1/3 rule.

14. How do I obtain tax relief?

Your contributions are deducted from your *Salary* before tax is calculated which means that full tax relief is granted without the need to claim it. There are Income Tax limits on the extent to which tax relief is available on your contributions to the *scheme*. In addition, there may be tax implications to you if the contributions in your respect exceed the limits on tax deductible contributions to the *scheme*. You will be notified if you are likely to be affected by these limits.

15. From what source will I receive interest on my account?

The *Scheme's* assets are invested by the Trustees with the objective of producing a long-term return which maximizes growth while ensuring income generation and sufficient capital to meet benefit out goings.

The net returns from the *Scheme's* investments will fund interest on your *Member Account.*

16. What rate of interest will my Account earn?

Interest will be provided on your *Member account* at rates determined by the Trustees on the advice of the *Scheme* Actuary. The Actuary will advise the Trustees on what the Interest Rate should be, based on the investment return (less expenses) achieved by the *Scheme*. However, the declared Interest Rate may not necessarily be equal to the *Scheme's* investment return. In good years, some of the investment income may be held in reserve. These reserves are then available at times when the investment return is not good to provide a reasonable level of investment income.

17. When can I retire?

The *Normal Retirement Age* for the *Scheme* is your 60^{th} birthday but the 65^{th} birthday for faculty members. However, provided that the *Employer* agrees, you may retire at any time after the age of 50 or earlier if you are in ill health. Also, if the *Employer* agrees, you may continue working after your *Normal Retirement Age.*

18. How much will my pension be at retirement?

The benefits you will receive at retirement will depend on the size of your *Scheme Credit* at the time of your retirement. The pension will be secured from an Insurance Company selected by you.

19. Can I take my benefit in the form of a cash lump sum?

You may take *part* of your *Scheme Credit* as a cash lump sum at retirement. The prescribed maximum amount by law is 1/3 of the whole benefit.

20. What if I retire early as a result of ill-health?

You may with the consent of the *Employer* retire early as a result of ill health. Your pension will depend upon the value of your *Scheme Credit* at the date of retirement.

21. Can I continue working beyond Normal Retirement Age?

If the *Employer* agrees, you may continue working after your *Normal Retirement Age*.

The *Employer's* contributions to the *Scheme* will cease at your *Normal Retirement Age*. You may, however, continue contributing to your *Scheme Credit* until you retire.

22. What benefits are payable should I die before retirement?

If you die before your *Normal Retirement Age* while in service of the *Employer*, an amount equal to your Member Account at the date of your death is paid as a lumpsum to your nominated beneficiaries.

23. Who would receive these benefits?

You should complete a nomination of beneficiaries' form which asks for details of your chosen beneficiaries. The *Scheme* Trustees will have regard to (but are not bound by) your wishes when arranging payment of benefits. You should remember that the Trustees are independent of the *Employer*.

24 What happens if I die whilst retaining a deferred benefit in the Scheme?

If you die after you have left Service with an entitlement to a deferred benefit but before you have attained *Normal Retirement Age*, the *Scheme* will pay to your beneficiaries as a lump sum the amount of your benefit retained in the *Scheme* on leaving service with interest to the date of payment.

25. What happens if I leave the service of the Employer before my Normal Retirement Age?

If you leave the service of the *Employer* before your *Normal Retirement Age*, you will have one of the following options:

a. To take a deferred benefit from the *Scheme* payable from your *Normal Retirement Age*; or
b. To take a transfer payment to another approved retirement scheme; or

c. To take your own contributions plus up to 50% of the Employer's contributions with interest as a lump sum; and
d. The remaining portion of the Employer's contributions with interest will need to be preserved in the *Scheme* until your retirement date or may be transferred to another approved scheme or a personal pension plan.

In each case, the amount of the benefit will be equivalent in value to the sum of:

a. The part of your *Member Account* representing the contributions which you have made to the *Scheme* and interest thereon on that part of the *Member Account* less expenses; and

b. A percentage of the part of your *Member Account* representing the contributions which the *Employer* has made to the *Scheme* on your behalf and interest thereon on that part of the *Member Account* less expenses.

From the date of joining the Scheme you are entitled to 100% of the Employer's contributions. However, you will be able to access up to 50% of the Employers contributions and the balance will be used to get a pension for you when you attain age 50 or upon attaining the Normal Retirement Age. The deferred portion of the employer's contributions can be transferred to any approved pension scheme of your choice even before attaining the Normal Retirement Age.

26. What are the income tax provisions used in the management of my pension benefits?

The *Scheme* is approved by the Commissioner of Income Tax under the Income Tax Act (Cap. 470) – 'The Income Tax (Retirement Benefits) Rules 1994'.

Some of the tax provisions are as follows;

a. Provisions applying to Scheme Contributions

Under the current Income Tax regulations, the monthly *Scheme* contributions which you pay (including any AVCs) are an allowable deduction from your gross taxable income up to a maximum of K. Shs 20,000 per month. This limit is periodically reviewed.

b. Provisions applying to Scheme Benefits

The various benefit payments made to you from the *Scheme* are tax exempt in the following manner:

i. On Pension payments

The first K. Shs 300,000 per annum or K Sh 25,000 per month of pension received by a resident individual is exempt from tax. However, the balance of pension in excess of K. Shs 300,000 per annum or K Shs 25,000 per month will be taxed under the withholding tax rates.

ii. On Cash lump sum on retirement

Assuming you've been in the scheme for more than 10 years, the first K. Shs 600,000 of your *Member Account* taken as a lump sum is exempt from tax. However, the amount in excess of K. Shs 600,000 will be subject to tax.

Retirement benefits due to members who are above **65 years** are exempted from tax, whether payable as a cash lump sum or a monthly pension.

The Tax payable upon retirement is based on preferential tax rates which significantly reduce the tax payable compared to the PAYE rates.

iii. On Lump sum payments when leaving service

The tax-free cash lump sum is restricted to the lesser of the first K. Shs 60,000 times the number of full years of service up to a maximum of ten years, as a member of the *Scheme* or the first K. Shs 600,000. The amount in excess of these limits will be subject to a withholding tax at prescribed rates.

Benefits accessed upon leaving service before attaining age 50 are not subjected to preferential tax rates. It is therefore more beneficial for you to retain your benefits in the Scheme until you attain age 50 or the *Normal Retirement Age*.

iv. On Transfers to Registered Retirement Benefits Schemes

Benefits Transferred to a registered retirement benefits Scheme will not be subjected to tax at the point of transfer. Benefits will be taxed at the point of accessing your benefits.

27. How do the Trustees declare the rate of return?

Once the audit of the Scheme is completed, the Scheme actuary conducts a financial review of the Scheme where the assets of the Scheme are matched against the liabilities of the Scheme.

At this point, the Trustees are then able to determine what portion of the assets is available for distribution to members. The factors that influence what portion of the income is distributed to members include the following:

- The actual income earned over the period under review
- The portion of the income that is realized and unrealized
- The Scheme's policy on distribution of returns as will be determined from time to time.

28. Can I get a mortgage using my retirement benefits savings?

Following the gazettement of the Retirements Benefits (Mortgage Loans) Regulations 2009 represented a significant benefit for members of retirement benefit Funds who will now be able to assign a proportion of their retirement benefits (up to 60%) without physically withdrawing from their Funds and thus have an affordable means of securing a mortgage loan for houses.

The key requirements of the regulations were as follows;

a. Retirement Funds may, but not required to offer this facility to their members through an appropriate provision in their Fund rules which needs to be approved by the RBA.
b. The Trusts Deed and Rules of the Scheme must allow for this provision for one to be able to assign benefits.
c. Direct loans from Funds will not be permitted.
d. Mortgage loans for the purposes of the regulations may only be issued by registered financial institutions approved by the RBA.
e. The assignment of Fund benefits is only permissible by a member of a Fund to

    i) Purchase immovable property on which a house has been erected, or

    ii) Build a house on immovable property for residential purposes for which the member or spouse has the right to ownership, or

    iii) Add, alter or carry out repairs to a house for which the member or spouse has the right to ownership or meet the costs incurred (but excluding arrangement and commitment fees) in the purchase of immovable property on which to build a residential house.

f. The loan is transferable to another Scheme with a similar facility
g. The value of the guarantee that may be provided by the Scheme may not exceed the market value of the property or 60% of the accumulated Scheme benefit, whichever is the lower.

29. What determines where funds are invested?

The Trustees are required by law to develop an Investment Policy Statement (IPS). An IPS is a document that guides the fund manager when investing Scheme funds. The policy provides limits of investment in each asset class that have been prescribed by the Retirement Benefits Regulations.

30. If I do not withdraw my funds from the Scheme when I leave service, will the funds continue to grow, or will they stagnate?

If you withdraw from service and opt to leave your benefits in the *Scheme*, the funds will continue to be invested alongside other members' funds and will continue to grow and earn interest like the rest. No separation of funds is made.

31. Is it possible to transfer benefits accrued in another scheme to your current pension scheme and how is it done?

Yes, it is possible to transfer benefits that you have accrued in another registered retirement benefits scheme to the *Scheme*. This is done through advising the Trustees that you have benefits in another scheme that you would like to transfer and provide the name and administrator of the Scheme. The Trustees will then forward this information to the administrator who will progress the matter. Once the funds are received they will be credited to your member account.

32. When should I expect to receive my member statement?

Statements are issued after completion of audit. The Retirement Benefits Regulations stipulate that members should get their statements within six months of end of financial year.

33. If I retire or leave employment how long should I wait to receive my benefits?

The Retirement Benefits Regulations stipulate that members should be paid within thirty days of leaving service.

It is the members' responsibility to ensure that they complete the clearing process required by the *Employer* in order for Trustees to have sufficient documentation, verified by the Sponsor to confirm that a member has left service.

Appendix 1.

Additional Voluntary Contribution

Section A - Scheme Member Section

I, ……

M/No. …………………………… hereby request that my monthly contribution to the Scheme be increased by an amount of

KShs ……………………………………………………… as an additional contribution with effect ………………………………………………………

from ………………………………………………………...

I also hereby authorise that the said amount be deducted from my monthly salary.

Signed: ______________________________ Date: ______________________________

You are requested to forward an original signed copy of this form to your Salaries Department Officer for approval.

Section B - Salaries Department Officer Section

Approved: ______________________________ Date: ______________________________

Kindly forward a signed and approved copy of this form to Zamara Actuaries, Administrators & Consultants Limited.