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The Role of Pension Schemes in Economic Development: Comparing Kenya and Singapore

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Abstract
The purpose of the study was to examine the role of pension schemes in economic development by comparing Kenya and Singapore. Kenya and Singapore attained independence from the British government nearly at the same time in the year 1963. Ironically Singapore is an emerging third world economy with its GDP over seven times the Kenyan GDP. As per the 2011 statistic, Singapore's GDP was estimated at over Kshs.20 trillion and Kenya's 2.8 trillion. Kenya is still characterized by high rates of unemployment, high poverty rates, poor housing, poor healthcare and low of life rates expectancy and other characteristics of third world countries. The puzzle is: do pension schemes play any role in Economic Development? We examined the role pension schemes has played in Singapore to achieve its growth and Development the lessons Kenya can learn and replicate to achieve its economic growth and development as envisaged in vision 2030. The research focused on the first pillar of pension system in both countries that is National Social Security Fund (NSSF) and Central Provident Fund (CPF) for Kenya and Singapore respectively. We used a historical design where secondary data was collected from already available sources. Major findings and trends are that in Singapore the CPF deals with both retirement, healthcare and home ownership with contributions to the fund being mandatory and adequate and covers all Singaporeans while Kenya's pension system characterized by low levels of contribution hence inadequate and cannot sustain retirees after retirement. We recommend that for Kenya to achieve its vision 2030 there has to be robustness in dealing with pension system because its role in economic development are immense and cannot be over emphasized as we have demonstrated in this study.
Keywords: Pension Schemes; Economic Development

1. Introduction
Kenya and Singapore gained independence in the year 1963 from British Colonial Government but by the year 2013 the Gross Domestic Product (GDP) in Kenya was worth 55.24 billion US Dollars equivalent to 4.6 trillion Kenyan shillings representing 0.05 % of the world economy while Singapore's Gross Domestic Product (GDP) was worth 297.9 billion US Dollars equivalent to Kenyan shillings 24.856 trillion (at an exchange rate of 83 Shillings for one USD) representing 0.39 % of the word economy. This therefore means that by 2013 Singapore economy was 9 times bigger than Kenyan economy despite gaining independence almost the same year, (www. trading economics.com, Wednesday January 23, 2013). Moreover by the year 2011 the unemployment rate and GDP Per Capita of Singapore was at 1.9% and 33,529.83 USD respectively while the Kenyan Unemployment rate and GDP Per Capita were 40% and 476.88 USD respectively. According to Forbes "The World Wealth Report 2012" Singapore lead the top ten countries with GDP Per Capita of 56,532 USD followed by Norway, US, Hong Kong, Switzerland, Netherlands, Australia, Austria, Canada and Sweden in that order and is expected to be the leading by 2050 followed by Hong Kong and Taiwan, (www.Forbes.com, Wednesday January 23, 2013). Akin to many developing countries in Africa, Kenya's current pension system is characterized by poor overall levels of coverage and benefit adequacy, small size of formal economy relative to informal economy, low level of disposal income, insufficient insurance against longevity and competing priorities. Compared to Singapore Kenya has a smaller state scheme, the NSSF that has enabled a larger occupational pension sector. Positively there is now a better appreciation on the part of policy makers of the potential of a well-developed pension system to contribute to economic growth and development of the country's capital markets and reform of the pension system is now acknowledged as one of the key policy measures to achieving economic development in any country.

1.1.1 Pension Schemes in Kenya.
The National Social Security Fund (NSSF) was established in 1965 by an Act of parliament Cap 258 of the laws of Kenya in order to administer a provident fund scheme for all workers in Kenya. Initially the fund operated as a government department under the ministry of labor but as its membership grew and its operations became complex, the NSSF Act was amended in 1987 to transform it into an autonomous state corporation. Since 1988 the fund has been operating under board of trustees, which is contributed by representatives of three key stakeholders; the government, workers and employees, (NSSF, Kenya Website). The scheme membership is mandatory for workers in the formal sector where they are employed by an employer with more than five employees. The civil service workers, those of state corporations which were under the previous East African

Community and senior categories of employees of local authorities and public universities are covered by separate pension schemes. The scheme is financed entirely by employer/employee contribution set at 5% of wages based on a ceiling of kshs.400 per month. (Source: NSSF Act laws of Kenya). Legally the fund is expected to comply with the regulation of the Retirement Benefits Authority (RBA); the arbitrator in case of disputes is the Retirement benefits authority. The second pillar of pension scheme in Kenya is the Pension Scheme for public service employees and Armed Forces which are governed under Pension Act and regulations. The Public Service Pension Scheme (PSPS) covers approximately 406,000 civil servants, teachers, police and prison staff and just over 180,000 pensioners.

Separate arrangement apply for the Armed Forces and other military personnel, PSPS operates as a defined benefit basis and is noncontributory other than modest contributions at 2% of salaries by male employees towards widows and orphans benefits. Benefits vest after ten years of service and there is no portability of benefits and individuals who resign from service before retirement are not entitled to any benefits. (Source: Pensions Act, Cap. 286 Kenyan law). Another pillar for pension schemes in Kenya is the Voluntary occupational schemes. Occupational schemes are schemes set up by employers for the benefit of their staff. Such schemes are voluntary and are established under trust. Occupational pension schemes are regulated by the Retirement Benefits Authority under the Retirement Benefits Act. There are no minimum requirements in relation to the levels of contribution by employers and staff, (Source: RBA ACT, laws of Kenya)

The total number of occupational schemes is currently indicated at 1,379 of which 10.4% are defined benefit schemes and 89.6% are defined contribution schemes. The total contributing membership of pension schemes is estimated at about 300,000 (or 16% of the formal sector employment) all of whom are also required to be members of the NSSF and make statutory contribution to NSSF. (Source: RBA website). The total Assets of occupational schemes are estimated at Kshs.181 billion and are more than double those of NSSF. Thus the occupational retirement schemes sector in Kenya whilst smaller in terms of membership than NSSF is larger in terms of invested assets reflecting the higher average contribution to occupational schemes.

The last pillar of pension system in Kenya is the individual Personal Pension Plans (IPPPs). They comprise schemes set up by institutional providers to target individual members not necessarily tied to an employer or any formal setting. Although the numbers of IPPPs in the market have grown from 1 to 17 in a ten year period; the membership is currently less than 10,000. Individual lives has failed to track this growth. The majority (11 out of 13) of the IPPPs in the market are offered by insurance companies.

Retirement Benefits Authority has been promoting and encouraging the growth of such schemes as a means to increase coverage amongst the self-employed and the estimated Individual Pension Plans asset value of kshs.2 billion is expected to grow with more focus and strategic action by stakeholders and market players. The pre - RBA era in Kenya saw a retirement benefits sector with little effective regulation and supervision. The interests of retirement scheme members and their beneficiaries were not sufficiently protected, (Source: RBA Kenya website).

1.1.2 Pension Schemes in Singapore.

Singapore pension system is one of the oldest and most developed national schemes in Asia. The system rests predominantly on one pillar: the Central Provident Fund (CPF); which provide for most social security functions. Social risk pooling and redistribution does not take place, comprehensive social security system does not exist and individuals rely exclusively on defined contribution funds accumulating in the accounts of the Central Provident Fund. In addition a non-contributory pay-as-you-go (PAYG) pension scheme, otherwise known as the Government Pension Scheme exists for some categories of civil servants. There is also a savings and employees scheme for certain categories of Armed Forces personnel. The Supplementary Retirement Scheme: a voluntary private pension scheme without employer involvement that enjoys tax advantages completes Singapore pension landscape, (Source: CPF Singapore website www.cpf.gov.sg**).**

Given a low fertility rate and increasing life expectancy, Singapore belongs to the group of Asian countries hardest hit by demographic change. Singapore is set to become one of the oldest countries in the world by 2050 meaning that it faces major demographic challenges in the years ahead. The old age dependency ratio will worsen from 12 today to 59 in 2050. The median age will soar from 37.5 to 53.7 years by 2050. Given high net immigration rates, the non- resident population is set to continue until it peaks in 2035, (Ibid).

In 2006, the CPF had an asset volume of EUR 63.1B (SGD 125.8 B) and expected an annual growth rate of 5.9% until 2015. Assets in the Supplementary Retirement Scheme amounted to EUR 578 Million (SGD 1.17Billion) with a projected Cumulative Asset Growth Rate of 14.8%. The Central Provident Fund (CPF) is the statutory authority that administers Singapore public pension system. Established in 1955 by the British Colonial administration, the CPF was indeed to provide retirement income security for private sector employees with continuous amendments over the past five decades; it has developed into a multipurpose fund consisting of a variety of different schemes. The major schemes under the CPF other than for retirement purposes include: healthcare, home ownership and insurance schemes for family protection. It also comprises an asset enhancement scheme that allocates a portion of accumulated assets to products offered by external financial institutions, (Ibid). In contrast to the majority of the publicly managed pension schemes, the Singaporeans system operates on a fully funded basis. The CPF does not include social risk pooling and redistributive elements. Individuals rely exclusively on defined contribution funds accumulating in individual accounts. The CPF covers private and public sector employees as well as the self-employed; who may join on a voluntary basis. At the end of 2006 it had over 3.1 million members with assets amounting to EUR 63.1 billion (SGD 125.8 billion). In relative terms, CPF assets account for 60% of GDP. The balance of the CPF has shown a steady growth rate of 20.6% p.a. since inception in 1955, which can partially be attributed to increasing contribution rates. The CPF is managed by tripartite board of governance; employees, employer and industry representative that is appointed by the minister. The CPF is responsible for the custody of funds and for administering the program. However it does not have any investment responsibilities. The scheme operates on a fully funded basis and is financed by employer and employee contribution that are credited to three accounts, (Source: Economic Development Board of Singapore).

1.1.3 Role of pension schemes in Economic Development.

The roles of pension schemes in the economy are: Provision of retirement income in the light of the ageing population pensions serve as a means of saving towards the future after the employees' normal working life. It provides income security to the retired worker or his beneficiaries in the event of death or invalidity. Governments in many countries normally grant tax exceptions on the contributions made by employees to the fund. This increases the level of savings for the employees or retired worker. Also under a defined benefit scheme, managers see defined benefits (DB) fund liabilities as a debt to the company which the employees can claim like creditors. They therefore invest some of the company's assets to serve as collateral for the pension obligation when it's due. Pension schemes (PS) help companies to reward and retain their best staff, attract high quality labor and reduce labor turnover. This is called the business expediency concept. As a reward, managers use pensions as a negative reward to lay off too-old-to-work employees whose carelessness and mistakes might cause injuries to other employees and losses to the company. Defined benefit plans attract high quality labor and also retain the existing ones because of the insurance features attached to it. Employees feel that there is a guarantee for their income during retirement. This is because under a Defined Benefit system, employee's rights to accrued pension benefits increase with the length of service. Managers can also reduce labor turnover by increasing the length of time the employee must work to acquire the right to the accrued pension benefits. Pension schemes help governments to develop infrastructure, eradicate poverty, reduce financial services costs and improve the financial system. Such instruments in turn create jobs and spill over to other sectors of the economy. Pension funds have also been seen to influence corporate governance in the economy. Clark and Hebb, (2003) identified four factors which facilitate pension funds corporate governance: first the use of indexation technique; second is the increasing demand by owners for more accountability and transparency, third is the pension funds pressure to undertake socially responsible investing and fourthly to harmonize capital with social, moral and political objectives extending pension funds simple concern for rate of return.

Pension schemes also boost the performance of life insurance companies. Pension funds are used to purchase annuity products for pensioners upon retirement. Pension schemes improve the financial markets; this is evident in many stock exchanges in various countries where pension schemes are among the largest institutional investors in the exchange. Pension funds accumulate large amounts of resources, providing long term capital and stability to the stock market. For example in the United States (US) investors with over USD 10 trillion in pension fund assets now own up to 76% of the stock market. In Kenya National Social Security Fund (NSSF) is one of the largest institutional investors on the Nairobi Securities Exchange which was ranked among the best performing stock markets in Africa in 2012. Pension funds also protect investors and enhance public confidence in the capital market. Additionally, pension funds role in the financial sector includes the following: The allocation of savings, investment in securities and other financial assets both locally and foreign, payment of annuities and provision of forms of insurance, domestic borrowing by various governments, improving the liquidity of various intermediaries who are custodians of the fund for example commercial banks, (Davis, 1995). The governments borrow the amount they need from pension funds with the promise to repay in an agreed time.

There has been remarkable growth of pension funds in many Organization of Economic Corporation and Development (OECD) countries as well as many emerging markets. OECD countries include Canada and United States (US). Emerging markets include countries like Chile and Argentina. This growth has been in relation to that of GDP and the banks. Due to long term nature of pension funds, the fund can be invested in high yielding long term instruments. Early withdrawals are restricted. The funds can thus be invested in corporate equities, government bonds and corporate bonds and corporate debt (Davis 2000). Corporate equities are in the form of shares, government bonds which include treasury bonds, bills and corporate debts are loans granted to companies. Contributions into the pension funds may be made by only the employers alone or by both the employer and employee. Where contributions are made by only the employer, we have a noncontributory scheme while where contributions are made by both the employee and employer, we have contributory scheme.

The benefits received by eligible members can either be defined contribution or defined benefit. Under the defined contribution, benefits are not based upon a predetermined formula; plan participants upon retirement get back their benefits plus their accumulated return with the pension benefit taking the form of a lump sum payment or a series of lump sum payments or an annuity. Defined contribution plan is usually fully funded. The employee/retiree bears the risk of poor investment performance and inflation. The real value of benefits may fall during periods of inflation. Attention must therefore be paid to the selection of investment options. The defined benefit plan act defines plan participants benefit as a function of salary and work history. A formula is used in the calculation of this benefit. The risk of investment is borne by the employer to another. There are also a lot more conditions attached to the benefits. Some of the conditions may include length of employment and position. In recent years defined contribution plans have grown faster than defined benefit plans. This is because employers now seek to minimize their risk of obligation while employees also seek funds readily transferable between employers.

1.2 Problem

In achieving Economic development all pillars of economic, social and political development have to be achieved .The focus of this study was on the economic and social pillar and specifically on the financial services sector which includes pension scheme funds and its role in economic development. Unemployment rate stood at 40% in Kenya compared with Singapore 1.9% in the year 2010 and over 50% of Kenyans living below the poverty line and who have not even satisfied physiological level of needs in what Abraham Maslow called Hierarchy of needs and living in deplorable conditions compared to Singapore where poverty rate is almost 0%. Additionally, life expectancy of Kenyans stood at 56years in 2010 compared to Singapore's 82years in the same year,(source:data.worldbank.org 2012). This is the point of departure. The puzzle is: what went wrong? The purpose of this study was to examine the role that pension scheme funds have played in making Singapore not only one of the four Asian tigers but also one of the emerging markets in the world despite gaining independence almost at the same time with Kenya and to make recommendations from the same success story of Singapore to the stakeholders of pension schemes in Kenya on the lessons they can learn so that they can replicate them in Kenya and ensure that this vibrant sector of Kenya's economy achieves its full potential.

1.3 Objective

To assess the level of capital market development, examine the extent of savings and investment mobilization, examine the extent of infrastructure development contributed by pension financing between Kenya and Singapore and they have contributed to Economic Development.

1.4. Justification

The findings of the study will help the public at large and the government to the importance of pension schemes in achieving economic development and to encourage workers in informal sector to register as members of the scheme. Employers shall appreciate the role of pension schemes in guaranteeing social security to their employees and the impact of this on the performance of employees in workplace and saving a lot of company costs in terms of supporting its employees during their sunset years. Governments would therefore realize that through increased membership and prudent management and investment of pension scheme funds by ensuring proper policies are in place can easily spur Economic Development and improve the standards of living of citizens. Furthermore political leaders can learn a lot about the role the pension schemes play in achieving economic development.

2.0. Literature

Philip E.D. (2000), analyzed pension funds as financial intermediaries using a functional approach to finance which encompasses tradition theories of intermediation. The results showed that pension funds fulfill a number of the functions of the financial system more efficiently than banks or direct holdings. Further, the growth of pension funds complements that of capital markets and they have acted as a major catalyst of change in financial landscape.

Sagna M.L and Sagna I (2012) in "African pension funds: The missing link to African Development?" posted on 17/11/2012, 10.16am on research project2/Africa-pension funds_b_214111.html, they have distinctively demonstrated how pension funds can be used to mobilize savings for investment and achieve economic development in Africa. In their research they found that the near term prospects of witnessing the deployment of local wealth and even saving are encouraging at continental level. First, size of pension fund assets are growing at a staggering pace: South Africa saw assets grow from USD 166billion in 2007 to USD 277 billion in 2011 while Nigeria from USD 3billion in 2008 to USD 14billion in 2010.Secondly, positive industry development is at regulatory level(with regard to allocations). According to Rory Ord, head of Riscurra fundamentals, changes in regulations and investment processes of pension funds are having a significant impact on private equity in Africa. "What that has allowed is that for the first time pension funds are explicitly allowed to invest in private equity in Africa", said Ord. This change is becoming well pronounced in South Africa and is spreading across the continent. Nigeria, just like South Africa, is headed in the right direction by setting up a legislative framework for local pension funds to invest up to 5% of their assets in the local Equity – 5% which equates to about USD 800 million of resources held by pension funds in Nigeria. Ghana, as a result of 2005 pension Act, its Social Security and National Insurance Trust (SSNIT) remains the largest institutional investor on the Ghana stock exchange.

Njuguna A.G (2010), did a research on "strategies to improve pension fund efficiency in Kenya", and demonstrated that pension funds are the principal sources of retirement income for millions of people in the world and very important contributors of GDP in many countries. The primary objective was to investigate ways of enhancing pension fund efficiency by establishing the determinants of such efficiency i.e. which influence does organization culture, regulations, investment strategy, ethics, risk management, design, size and age proportion of members in pension funds exert on the efficiency of these funds.

Rono L.J. (2009), Moi University Kenya did a research paper on, "An evaluation of factors influencing pension managers' investment decisions in Kenya" where she focused on the analysis of factors influencing pension fund managers investment decisions. The objectives of the study were primarily to identify investment options available to pension fund managers, identify factors considered by fund managers when making investment decisions and identify the challenges faced by fund managers in making investment decisions.

2.1 Gap.

In conclusion therefore lots of research have been done on the role of pension in economic development and its' undisputable that pension funds play a significant role in economic development. However, there is a big gap in literature on comparative research among countries which have used and succeeded in using pension schemes as a vehicle of achieving economic development hence the focus of this study.

3.0 Methodology

This was a cross-sectional study where data was collected verified and synthesized evidence from the past to establish facts that defended or refuted the set objective and also the fact that most of the information was collected from past informational sources. However, the limitation was that the sources of the information had to be authentic and valid which the authors tried as much as possible to overcome.

3.1 Population, data type and sources

We targeted the first pillar of pension system in Kenya and Singapore which was the mandatory pension schemes i.e. National Social Security Fund (NSSF) in Kenya and the Central Provident Fund (CPF) in Singapore. We used purposive sampling and therefore selected the two mandatory pension schemes in both countries because we believed that they provided focused information for the purposes of the study.

3.2 Data Collection method and data reliability.

We used document analysis method of collecting data. This was because the method allowed the authors to obtain data at their own pleasure and very conveniently since it only involved examining both private and public data which related only to the topic under investigation. In addition to that, the method enabled the researchers to obtain the words and language of the informants and more importantly save on time and expenses.

3.3 Data analysis Procedures.

Both qualitative and quantitative techniques were used in analyzing and presenting the data. This included use of graphs, tables, pie charts, percentages and descriptive information.

4.0 Findings and discussion

4.1. Kenya's population and employment structure

Kenya's population at the last census in 2009 was 38.6M. The population is projected to be 55.4m by 2050. The proportion of the population above age 55 is estimated at 6% whilst 41% of the population is estimated to be below age 15. The population of Kenya is thus still young, but is projected to age and by the time today's labor force market entrants retire, the proportion of the population above age 55 is expected to almost triple. The dependency ratio is also expected to increase from 12% to 30% by 2050, Interpolated from UN World Population Prospects base year 2000 projections.

Total employment outside rural small scale agriculture and pastoral activities was estimated at 8.7M in 2006. Of this, formal sector employees comprised 1.9m (or 21% of total recorded employment) and the informal sector (commonly referred to as the *'jua kali'* sector) which covers informal urban and the agriculture workers comprised 79% of the total recorded labor force. More importantly, over 80% of the new jobs in the last three years have been created in the informal sector. See the table below.

Table 1

Year	Total'000'	Wage Employment (%)	Self Employed & Unpaid workers (%)	Informal Sector (%)
1988	1736.3	77.5	2.5	20.0
1989	1796.2	76.2	2.5	21.3
1990	2395.0	58.8	2	39.2
1991	2557.1	56.4	2	41.6
1992	2753.2	53.1	2	44.9
1993	2997.5	49.2	1.9	48.9
1994	3355.1	44.8	1.7	53.8
1995	3855.1	40.4	1.6	58
1996	4325.8	37.4	1	61.1
1997	4698.4	35.1	1.4	63.1
1998	5083.2	32.7	1.4	65.9
1999	5477.5	30.5	1.2	68.2
2000	5893.0	28.4	1.1	70.4
2002	6873.5	24.7	0.95	74.3
2003	7339.4	23.5	0.9	75.6
2004	7822.8	22.6	0.85	76.6
2005	8271.5	21.9	0.81	77.3
2006	8740.5	21.3	0.77	78.0

Source: Various Economic Surveys, Kenya.

Table 1.1 shows that in the year 1988 formal employment was very high at 77.5 % but it has since declined to 21.3 in 2006 while the informal sector employment has increased from 20% in 1988 to 78% in 2006. Thus akin to many other countries in Africa, a significant majority of workers in Kenya belong to the informal urban or agricultural sector with the relative size of the formal sector workforce declining significantly as a percentage of total employment over the last two decades. Also worth noting is that females constitute 50.1% of the total population but only about 29.4% have formal employment and earn on average 33% less than their male counterparts, (Source Data: Economic Survey 2007 & Maureen Were and Jane Kiringai, 2004)

4.1.1 Relevant macro-economic and poverty incidence data

Kenya's GDP was estimated at KShs. 1,642bn (or US$ 22.01bn) in 2006 and per capita GDP at KShs 45,485 (or US$ 650). Agriculture remains the mainstay of the economy contributing 23% of GDP. Other key contributors to GDP include tourism and manufacturing. Government monetary policy has been directed at attaining and maintaining inflation at a rate of 5% or below, although actual rates have been higher.

Overall poverty incidence is reported to have declined from 52.3% in 1997 to 45.9% in 2006. Overall poverty incidence is estimated at 49.1% in rural areas compared to 33.7% in urban areas implying that poverty in Kenya is still more pronounced in the rural population. According to the Welfare Monitoring Survey of 1994, only 3.1% of the elderly above 55 years reported receipt of any form of pension income, 90% of whom were male and only 0.2% of the total population reported receipt of pension income. Studies suggest that the incidence of poverty in Kenya and in many countries in Africa among the elderly (i.e. households with elderly only, elderly with children and elderly-headed households) is much higher than the average incidence of poverty.

4.1.2 Relevant financial sector data

Compared to other countries in East and Central Africa, the financial services sector in Kenya is relatively more developed with over 40 banking institutions and a similar number of insurance companies. Over the past five years, there has been a rapid growth in the customer base of banks and in the growth of consumer banking products. The level of penetration of life insurance remains low at less than 1% of GDP. During the past few years, Kenya has made important progress towards improving the financial markets, including the dematerialization of securities, automated trading, the introduction of risk rating agencies, introduction of derivative securities and the introduction of new performance measurement indices, all of which have improved the investment environment in which pension schemes operate in. The Government bond market has expanded significantly in the last seven years with bond tenors ranging from 1 to 15 years and in (2008) seeing the introduction of a 20 year fixed rate Government bond. The Nairobi Stock Exchange has also experienced significant growth with a marked increase in market capitalization to over K Shs 1,000bn in the year (2013) through an improvement in performance as well as a modest number of new listings and share offers. There are 11 registered stock brokers, 14 fund managers and 9 registered custodians. Kenya also has a vibrant cooperative sector with over 11,000 registered cooperatives, a membership of over 7 million and assets estimated at K Shs 30 billion. (**Source Data: Economic Survey 2007 & Aging and Poverty in Africa and the Role of Social Pension Nanak Kakwani and Kalanidhi Subbarao).**

4.1.4 Pensions system in Kenya

Table 2 below shows the classification of pension system in Kenya.

Scheme type	NSSF	Public Service Pension Scheme	Occupational Schemes	Individual Schemes
Legal Structure	Act of Parliament	Act of Parliament	Established under trust.	Established under trust.
Membership	Employees in formal sector establishments with 5+ employees excluding public service employees	All public service employees including civil servants, teachers and disciplined forces. Separate Scheme for armed forces.	Formal sector workers in companies that operate retirement schemes.	Open to all on voluntary basis.
Funding	Funded	Non funded	Funded	Funded
Regulation	RBA	Act of parliament	RBA	RBA

Source: RBA Website www.rba.go.ke

In order to assess the aspects of the pensions system, the following factors are used:
Adequacy i.e. are benefits for the full breadth of the population, sufficient to prevent old age poverty and provide reliable means to smooth lifetime poverty for the vast majority of the population.(ii) Affordability both within the financing capacity of individuals and of society, and without undue displacement of other social or economic imperatives, or untenable fiscal consequences.(iii) Sustainability i.e. it refers to financial soundness over an appropriate time horizon under a broad set of reasonable assumptions.(iv) Robustness i.e. capacity to withstand major shocks, such as significant shifts in economic prospects or demographic trends.

4.1.3 The mandatory scheme for formal sector employees – the NSSF

The National Social Security Fund ('the NSSF') was established under an Act of Parliament in1965. The NSSF is established as a provident fund operating on a defined contribution basis. The NSSF covers formal sector employees in Kenya other than employees covered under the public service pension scheme. All employers are required to register with the NSSF but only employers with five or more employees are required to contribute to the NSSF. The total cumulated membership of the NSSF as per its records is estimated at 3.4m, but the active contributing membership is currently estimated at just over 1m. The number of registered employers with the NSSF (cumulative) is just over 74,000. The NSSF introduced voluntary membership and contributions in 2006 and embarked on a marketing campaign to attract voluntary membership, particularly from the informal sector. The success or otherwise of this campaign to date is difficult to establish, although the number of such voluntary members is indicated at 13,000.

Statutory contributions to the NSSF are set at 10% of an employee's pay, half of which is paid by the employer and half by the employee. There is a monetary ceiling on the maximum combined contribution to the NSSF of currently K Shs 400 per month (or at only 1.3% of average monthly formal sector earnings in Kenya of KShs 31, 3579). There have been only two adjustments to the statutory ceiling on contributions since the inception of the NSSF (i.e. an increase from K Shs 80 to K Shs 160 in 1977 and from K Shs 160 to 400 in 2001). The Retirement Benefits Act includes a provision for employers with the consent of their employees to opt out of making statutory contributions to the NSSF and make contributions to another approved scheme. This clause in the Act has not been activated and no other scheme to date has been approved to receive statutory contributions. The NSSF provides lump sum benefits on retirement at or after age 50, earlier invalidity, to survivors on death of a member and on permanent emigration from Kenya. A modest funeral grant and a maternity grant were introduced in 2004. The Act provides for interest at a minimum rate of 2.5% per annum to be credited to individual member accounts.

The NSSF is governed by a Board of Trustees appointed by the Minister responsible for matters relating to labour and social security. The composition of the Board is on a tripartite basis with representation from the Government, employers and workers. The NSSF Act provides no explicit framework for investment and custody of the NSSF assets. The investments are currently managed in-house through an Investment Committee and an Investment Department. There is no external/separate custody of the assets. (**Source: the NSSF Act laws of Kenya and NSSF website).**

4.1.4 Analysis of Emerging Experience

An analysis of the emerging experience of the NSSF indicates that there has been an increase in the number of active contributing members from 750,000 in 2003 to almost 1M as a result of the improved state of the economy and improvements in the levels and enforcement of compliance. The level of standard contributions has more than doubled from K Shs 2.2bn in 2002 to K Shs 4.9bn in 2007 while the level of benefit outgo has remained static at just over K Shs 2bn in the last 8 years reflecting a combination of a decrease in early withdrawals as well as the impact on benefit outgo of the lower allocation of interest to members' individual accounts. The total reported assets of the NSSF increased from K Shs 39.7bn in 2002 to K Shs 81.3bn in

2007 .Moreover, the portfolio weighting in land and property assets has decreased from a peak of 78% in 2000 to 34.6% in 2007 this is in line to RBA regulations on investment of pension funds.

The proportion of the total assets invested in quoted domestic equities was 47.7% reflecting a relatively higher weighting in domestic equities compared to other large retirement funds in the country. Furthermore the NSSF had a dominant shareholding in a number of companies listed on the Nairobi Stock Exchange. The portion of the NSSF assets invested in Government securities was 10.5% while it's good to note that there was no offshore investment which is a sign that all the pension funds are invested in the economy hence a plus to the growth of the Kenya economy. It is sad however to note that the net return earned on the NSSF assets (using cash flows) over the three years to 2007 at an annualized 10.5% has not compared unfavorably with benchmark returns and the returns earned by other asset management firms in Kenya over the same period which puts a serious question on the management of investment of pension assets in Kenya.

Another major interesting finding about NSSF is that the rate of interest credited to member accounts has varied substantially from the net (of expense) rate of return earned on the Fund assets. The interest credited to members' accounts between 1993 and 2002 was substantially higher than that earned from 2003 to date. Since 2003, the interest credited to member accounts has been at the minimum annual rate of 2.5% although an increase to 5% had been proposed since 2009 at the same time the rate of interest credited to members also falls well short of the returns allocated by other retirement schemes in Kenya. This does create a disincentive to participate in the NSSF, encourages non-compliance and undermines support amongst members of the NSSF.

Although there has been an improvement in operational efficiencies, a major setback has been the level of administrative and staff expenses which have continually remained high compared to country and international benchmarks, especially noting that the NSSF operates as a provident fund and does not disburse pension payments, total expenses as a percentage of contributions have decreased from a peak of 127% in 2000 to 82% in 2003 largely reflecting the effect of the increase in the contribution ceiling in 2002. The current (2007) expense ratio is 46%, but is projected to increase to 60% of contributions in 2008. Expenses as a percentage of investment assets have averaged 4% in the six years to 2007. The per capita cost of the NSSF's total expenses assuming an active membership of 1M is about KShs 3,500 per annum. The total expenses have been higher than investment income other than for 2007. The total outgo of the NSSF in terms of benefit payments and expenses has been higher than contribution income, but the difference has been covered by investment income. Even though a special department has been established to address the issue of the suspense account (i.e. contributions not allocated to individual member accounts as a result of incomplete or incorrect data), the size of the suspense account remains significant at almost KShs 6bn, but has reduced as a percentage of total member accounts. Based on the NSSF's published financial statements for the year ending 30 June 2007, the reported assets adequately covered the disclosed liabilities to members however a more careful analysis of the values placed on the assets and liabilities, the individual member data, the nature of the assets and any contingent liabilities is required in order to express an opinion on the NSSF's financial position. (**Source:** NSSF Audited Financial statements 2001 – 2007, NSSF Benefits Staff and Alexander Forbes Consulting Actuaries Schemes' Survey**).**

4.2 Investment of Pension Assets

The total assets of occupational schemes are estimated at K Shs 181bn and are more than double those of the NSSF. Thus, the occupational retirement schemes sector in Kenya whilst smaller in terms of membership than the NSSF is larger in terms of invested assets reflecting the higher average contributions to occupational schemes. 51% of the total schemes by number are invested in guaranteed funds (i.e. invested with insurers on a pooled basis) whilst 49% are on a segregated basis; by value, however, over 90% of the total assets of occupational schemes are currently invested on a segregated basis. The schemes invested in guaranteed funds tend to be smaller schemes. Positive real returns and stable operating costs have led to a positive growth in asset accumulation in the occupational sector. The Retirement Benefits Authority has been promoting and encouraging the growth of such schemes as a means to increase coverage amongst the self-employed and the estimated IPPs asset value of KShs 2 billion is expected to grow with more focus and strategic action by stakeholders and market players.

4.2.1 Taxation of pension system

The tax regime for pensions in Kenya is the EET regime i.e. contributions tax-deductible, investment income exempt and benefits taxed. There is a percentage limit on contributions (30% of pay) and a monetary ceiling on the tax deductible contributions (of currently KShs 240,000 per annum). The monetary ceiling has not been adjusted for the last three years and is only irregularly reviewed. Pension payments after attainment of age 65 for pensioners are tax exempt.

(**Source:** Retirement Benefits Authority Survey 2004)

4.2.2 The New Regulatory Framework in Kenya

The pre-RBA era in Kenya saw a retirement benefits sector with little effective regulation and supervision. The interests of retirement scheme members and their beneficiaries were not sufficiently protected. There was concern about the design and financial viability of certain schemes in the country unless appropriate remedial action was taken. There was poor administration and investment of scheme funds with particular concerns on concentrations of investment, particularly in property. In the majority of cases, this was inadvertent and unintentional, but without adequate controls and supervision, there was always a risk of mismanagement and outright misappropriation. Further disclosure and accountability were lacking. The NSSF had also been riddled with governance issues and concerns over its investments and payment of benefits. Not surprisingly, confidence in the sector was low. The primary motivation for reform and enactment of the retirement benefits legislation in Kenya in 1997 was thus to strengthen the governance, management and effectiveness of the NSSF and of the occupational pensions sector. The enactment of the Retirement Benefits Act ('RBA') (1997) and the establishment of the Retirement Benefits Authority ('the Authority') in 2000 marked the beginning of a regulated, organized and more responsible retirement benefits sector in Kenya.

Through the regulatory framework and policies, new legislation since then has been founded on the following two (2) tenets that's improvement of protection of member's benefits and improved governance of schemes. The new legislation provided for registration of existing and new retirement benefits scheme in the country with a transition period for compliance for schemes existing on the date of implementation of the new framework. The law placed greater emphasis on protection of members' benefits through the imposition of design and viability checks, minimum funding requirements for defined benefit schemes and restrictions on adverse amendments to members' benefits. Key amongst the measures to safeguard members' benefits was the separation of roles between scheme sponsors, trustees and professional advisors. In particular, in-house investment and custody of scheme funds which was the norm before 1997 was no longer allowed under the Act with all schemes required to appoint external professional investment managers and custodians registered by the RBA.

Investment guidelines were set out in the new Regulations which prescribed maximum limits on the amounts that may be invested in various asset categories including property and offshore investments and these were aimed at reducing concentration of risks and achieving more diversification of assets. Since the promulgation of the initial regulations in 2000, there have been additional regulations to improve the protection of member's benefits. Some of these measures include: Reduction in the period for full vesting of benefits initially from five years to three years and now down to one year; Compulsory preservation of a portion of benefits on leaving service before retirement although the introduction of compulsory preservation has been resisted by members of schemes and employers; Explicit clarification on treatment of death benefits under trust based schemes; Requirement for legally enforceable contribution schedules, penalties and interest on late contribution payments and criminalization of non-remittance of employee contributions deducted from pay; Prescribed time period within which benefit payments to be processed and provision for interest on late payments and Protection of members' benefits on winding ups and liquidation of schemes or scheme sponsors.

The Act further preserved the Anglo-Saxon model of trust based schemes in Kenya, but made explicit some of the requirements of trust law through regulation and made trustees the linchpin of the new legislation and guided the composition and election/nomination of trustees to include member participation of at least one-third of a board of trustees (later increased to at least 50% for defined contribution schemes). Schemes were required to conduct annual audits and periodic actuarial reviews and new disclosure requirements, including a requirement for annual benefit statements and annual general meetings for scheme members have also been introduced. In particular, the Regulations provide for submission of various documentations and reports to the RBA including trust deeds, amending deeds for prior approval, annual audits, actuarial valuations, investment policy statements, service provider agreements, quarterly investment and custody reports from service providers, quarterly contribution records, etc. Inspection of these documents and the timeliness of submissions enable the RBA to track a scheme's compliance levels with legislation and exposure to risk. The Authority also has the powers to and has carried out scheme inspections in certain instances where there are indicators of poor scheme governance. The penalties and fines associated with non-compliance are stated in the Act and serve as a deterrent to would be offenders. The provision of a 'whistle blowing' mechanism by both the members and professional advisors leads to timely information that allows the Authority to take the necessary steps in good time.

Scheme administration which was recognized as a key risk area has recently debuted into the priorities list with the amendment of the Act to provide for registration of administrators and the formalization of regulations for administration of schemes in 2007 to improve the operation and management of schemes. Again, as for the first tenet above, there has been a progressive increase in the level of responsibility placed on trustees and service providers and the level of accountability demanded of them.

4.3 Situation analysis and current pension system in Singapore

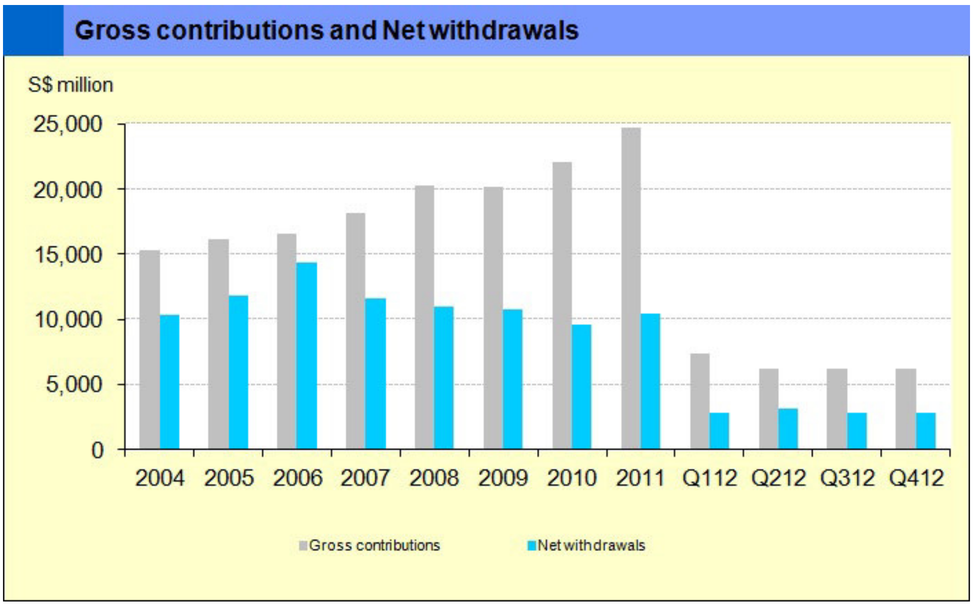
Singapore is an affluent state which finances its social security system through a mandatory, publicly managed, defined contribution system based on individual accounts. The main vehicle embodying this is the Central Provident Fund (CPF). There are two other pension systems operating in Singapore: 1) Non-contributory pension scheme for the government employees; and 2) provident fund scheme for the certain categories of armed forces personnel called the Savings and Employees Scheme. The report makes a thorough assessment of the CPF. Then it is followed by a discussion of reform options which could help provide adequate level of retirement protection to the population in a sustainable manner while maintaining Singapore's international competitiveness for attracting requisite investments, and professional and technical manpower. The Central Provident Fund (CPF) is the bedrock of Singapore's social security system. It is a defined contribution scheme with individualized accounts fully-funded by both workers and employers. The comprehensive savings system provides for three essential elements of financial security: **retirement, home ownership and healthcare**. A key tenet in the success of HDB's Home Ownership Program was policy innovation. The move from renting flats to encouraging Singaporeans to own their homes was no easy task. It required a change of mindset and finding a way for families to pay for a flat. The program received a boost when the Central Provident Fund (CPF), a social security savings plan, eased the rules in 1968 to allow its members to pay for their HDB flats from their savings - up to 34.5 percent of a member's salary bringing home ownership within the reach of most Singaporeans. Today, over 70 percent of Singaporean HDB flat owners service their housing loans from their CPF account without the need for outright cash payments.

The CPF has enabled every active member to save regularly to provide for his retirement needs. It has also enabled Singapore to become a nation of home owners, giving everyone a stake in the nation. The CPF healthcare savings and insurance schemes - **Medisave and MediShield** - are key components of the **national healthcare system**, facilitating the provision of high quality medical care to all Singaporeans.

4.3.1 Pension System Design

Singapore's pension system is one of the oldest and most developed national schemes in Asia. The system rests predominantly on one pillar: the Central Provident Fund, which provides for most social security functions. Social risk pooling and redistribution does not take place, a comprehensive social security system does not exist and individuals rely exclusively on defined contribution funds accumulating in the individual accounts of the Central Provident Fund. In addition, a non-contributory pay-as-you-go pension scheme, otherwise known as the Government Pension Scheme, exists for some categories of civil servants. There is also a Savings and Employees scheme for certain categories of armed forces personnel. The Supplementary Retirement Scheme, a voluntary private pension scheme without employer involvement that enjoys tax advantages, completes Singapore's pension landscape. Given a low fertility rate and increasing life expectancy, Singapore belongs to the group of Asian countries hardest hit by demographic change. Singapore is set to become one of the oldest countries in the world, meaning that it faces major demographic challenges in the years ahead. The old-age dependency ratio will worsen from 12 today to 59 in 2050. The median age will also soar from 37.5 to 53.7 years by 2050. Given high net immigration rates, the non-resident population in 2006 grew at a rate of 9.7%. Singapore's population is set to continue growing until it peaks in 2035. In 2006, the CPF had an asset volume of EUR 63.1 billion (SGD 125.8 billion); and expected an annual growth rate of 5.9% until 2015. Assets in the Supplementary Retirement Scheme amounted to EUR 578 million (SGD 1.17 billion); their projections foresee a AGR of 14.8%.

Figure 1



Source: CPF, Singapore website.Figure 1 above shows the gross contributions and net withdrawals in Singapore dollars from the year 2004 to the last quarter of 2012.

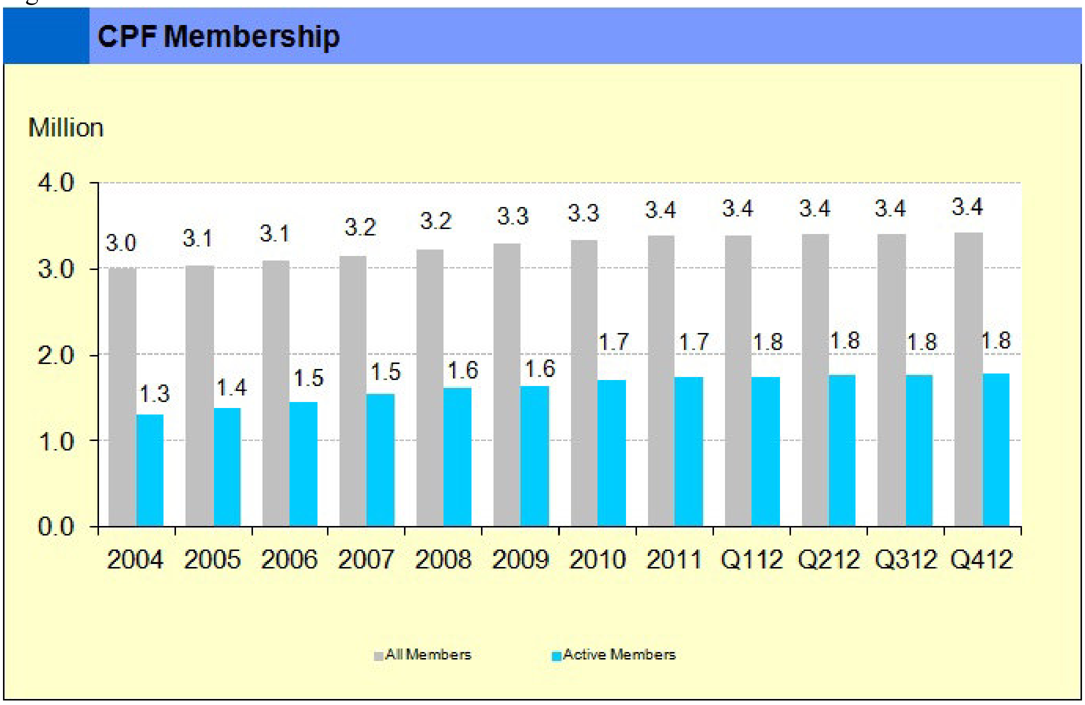
Public Pensions: The Central Provident Fund
4.3.2 Institutional framework

The Central Provident Fund (CPF) is the statutory authority that administers Singapore's public pension system. Established in 1955 by the British colonial administration, the CPF was intended to provide retirement income security for private-sector employees. With continuous amendments over the past five decades, it has developed into a multi-purpose fund consisting of a variety of different schemes. The major schemes under the CPF other than for retirement purposes include healthcare, home ownership and insurance schemes for family protection. It also comprises an asset enhancement scheme that allocates a portion of accumulated assets to products offered by external financial institutions.

In contrast to the majority of other publicly managed pension schemes, the Singaporean system operates on a fully funded basis. The CPF does not include social risk pooling and redistributive elements. Individuals rely exclusively on defined contribution funds accumulating in individual accounts. The CPF covers private and most public sector employees as well as the self-employed, who may join on a voluntary basis.

In recent decades, total membership in the fund has nearly tripled. At the end of 2006, it had over 3.1 million members with assets amounting to EUR 63.1 billion (SGD 125.8 billion).

Figure 2



Source: CPF website

Figure 2 above shows the trend in membership in millions from the year 2004 to the last quarter of 2012 for both the active members and all members. In relative terms, CPF assets account for 60% of GDP. The balance of the CPF has shown a steady growth rate of 20.6% p.a. since its inception in 1955, which can partially be attributed to increasing contribution rates. The CPF is managed by a tripartite board of government, employee, employer and industry representatives that is appointed by ministers. The CPF is responsible for the custody of funds and for administering the program. However, it does not have any investment responsibilities.

The scheme operates on a fully funded basis and is financed by employer and employee contributions that are credited to three accounts. Employees with monthly earnings above EUR 247 (SGD 500) are obliged to contribute to their CPF accounts. A lower limit applies to employers, who must pay CPF contributions for employees whose monthly wages exceed EUR 25 (SGD 50). Monthly contributions are capped at a salary ceiling of EUR 2,224 (SGD 4,500). The share contributed to the different accounts varies depending on the employee age structure. The lion's share is distributed to the Ordinary Account. Savings from contributions accumulated in the Ordinary Account may be used to buy residential and non-residential property as well as approved assets and insurance funds. The account balance can also be used to cover education costs and can be redirected to affiliated accounts. Contributions directed to the Special Account are dedicated to old age, contingency purposes and investment in retirement-related financial products. Medisave Account savings are used to meet hospitalization and medical care expenses and to pay for approved medical insurance premiums.

From the age of 55 onwards, CPF members have an additional Retirement Account, which is used to set aside a statutory Minimum Sum, which must be held for the exclusive purpose of retirement. Currently, the

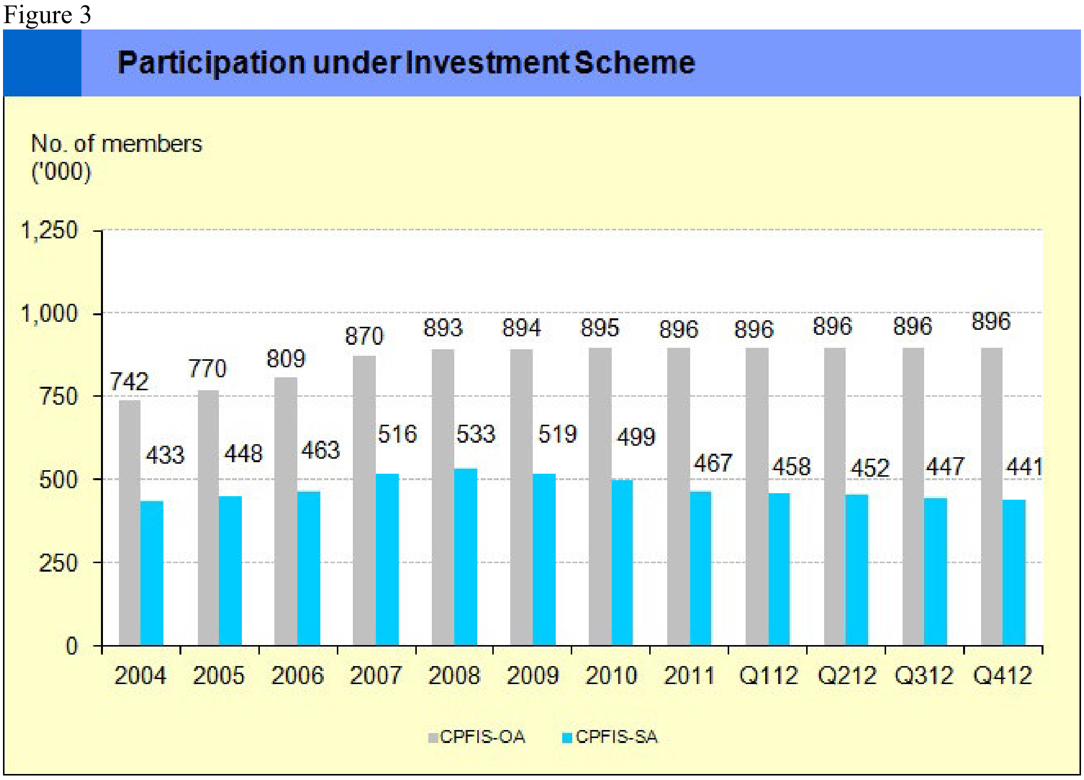
Minimum Sum amounts to EUR 49,232 (SGD 99,600) and will be increased continuously to EUR 59,316 (SGD 120,000) by 2013. The Minimum Sum is taken from the Special and/or Ordinary Account balances. Since the housing crisis in Singapore in the 1960s, the state has been involved in improving the population's housing situation. Homeownership plays an important role in Singapore, with over 90% of the population owning the homes they live in. In order to finance property purchases or pay monthly housing loan installments, CPF members may use their Ordinary Account balances. The basic idea is that owning a house provides financial security in retirement. However, in the past, withdrawals for property purchases far exceeded 100% of the original price of the property. In order to safeguard retirement savings, the amount that can be withdrawn for property purposes has been reduced.

For the majority of the workforce, total contributions to the three accounts amount to 34.5% of total wages, of which 14.5% are made by the employer and 20% by the employee. Effective from July 2007, the employer contribution rate was increased by 1.5 percentage points. From the age of 50, contribution rates decrease to encourage the employment of older people. While contributions are split between the different accounts, the Ordinary Account attracts the bulk, especially for younger people. Generally, effective splitting rates depend on the age of the employee. The Singapore Government Investment Corporation (GIC) is the body responsible for investing the scheme's assets. The vast majority of capital in Ordinary and Special Accounts is held in CPF guaranteed accounts, which must be invested in non-marketable government floating rate bonds, issued primarily to the CPF. At the end of 2006, EUR 53.4 billion (SGD 108 billion) were invested in the specially issued Singapore Government securities. Assets outside the guaranteed accounts are invested through the CPF Investment Scheme.

4.3.3 CPF Investment Scheme

Members who wish to manage and enhance their CPF savings and returns can do so through the CPF Investment Scheme (CPFIS), which provides CPF members with more choices in investing their savings. All members who are at least 21 years of age are eligible to participate. The CPF Investment Scheme comprises the CPFIS – Ordinary Account and the CPFIS – Special Account, into which members may invest the full balance of their Ordinary and Special Accounts. From April 2008, restrictions will apply to the CPF investment scheme.

Figure 3



Source: *CPF, Singapore website.*

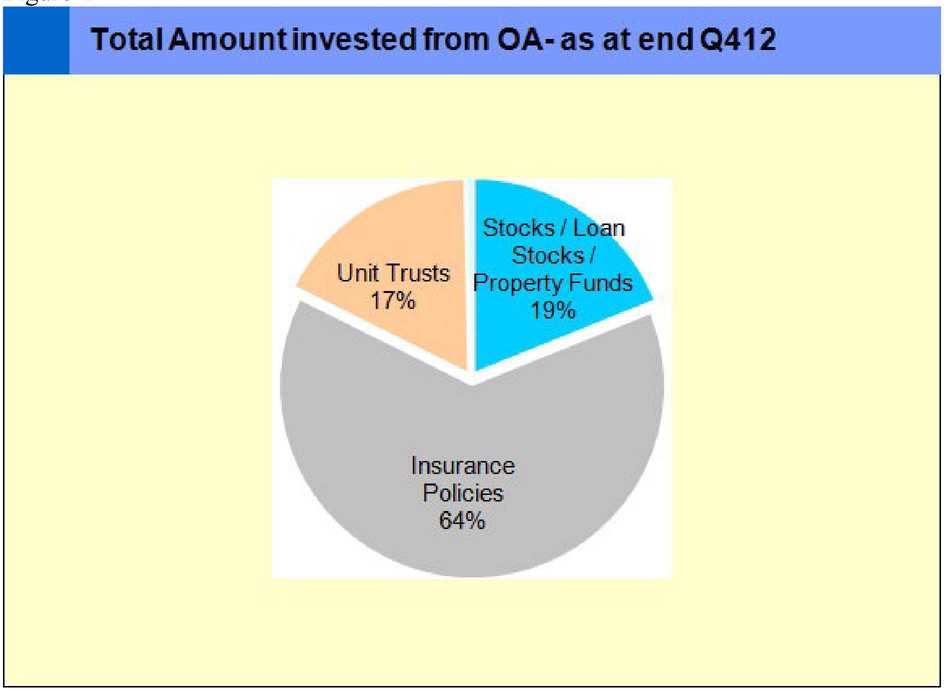
Figure 3 shows the investment in both CPFIS-SA and CPFIS-OA by from the year 2004 up to the last quarter of 2012.It shows the number of members in thousands who invested in both schemes. The first EUR 9,900 (SGD 20,000) from the Ordinary and Special Accounts combined will no longer to be used for the CPF Investment Scheme. Money already invested will not be affected. This measure will reduce assets available for investment in externally managed products to approximately EUR 20.8 billion (SGD 42 billion).

4.3.4 Investment regulations

Under the two schemes, a broad range of financial instruments is available for investments. Full account balances can be invested in fixed deposits, government bonds, annuities and endowment insurance policies, investment-linked insurance products as well as unit trust and Exchange Traded Funds, among others. Some restrictions apply to assets from the Special Account, as only selected investment-linked products, unit trusts and ETFs are available for investment. Restricted only for savings in the CPFIS Ordinary Account, a limit of 35% applies to the following asset classes: Shares, Property funds or real estate investment funds, Corporate bonds An additional 10% of investable savings in the OA can be invested in gold, gold ETFs and other gold products. All investments must be made in Singapore Dollars.

Investment from various accounts is as shown in the pie charts below:

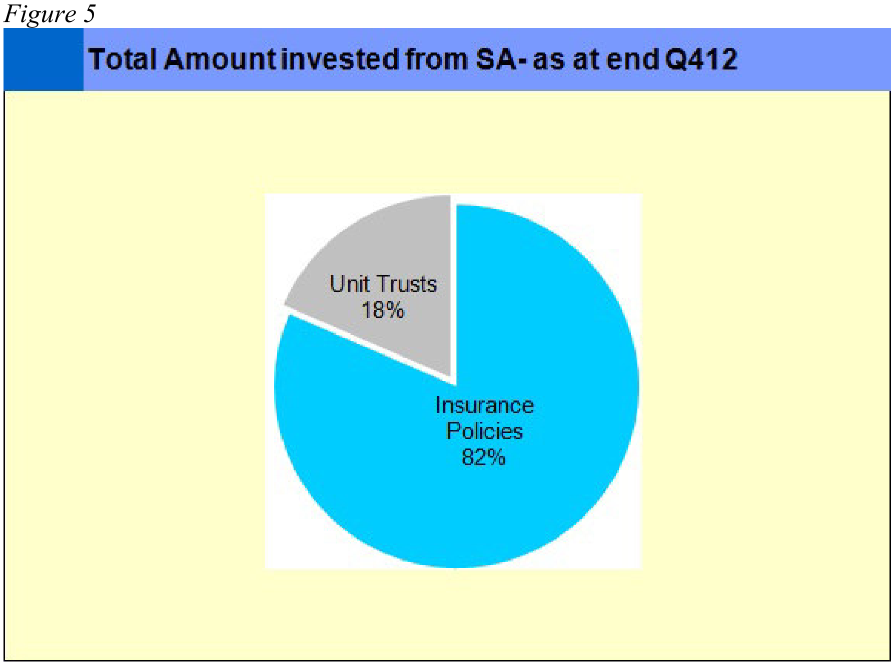
Figure 4



Source: *CPF website.*

Figure 4 Summarizes how the Ordinary account savings had been invested as at the last quarter of 2012. It clearly shows the amount in percentage invested in Unit trusts, stocks/loan stocks/property funds and insurance policy at 17%, 19% and 64% respectively.

Figure 5



Source: *CPF website.*

Figure 5 shows summary of how the savings from the Special Account were invested as at the end of the last quarter 2012. The schemes invested in as shown by the pie chart are 18% on Unit Trusts and 82% on Insurance policies respectively. The asset management of the CPF Investment Scheme is outsourced to external service providers. Since its introduction in 1997, EUR 15.6 billion (SGD 31.6 billion), or 24.5% of total CPF assets, have been transferred to the CPF Investment Scheme. Of this amount, EUR 12.8 billion (SGD 25.9 billion) have been invested in the CPF Investment Scheme - Ordinary Account and the remaining EUR 2.8 billion (SGD 5.7 billion) in the CPF Investment Scheme - Special Account. The bulk of assets lie with insurance policies.

4.3.5 Pension benefits and taxation

From the age of 62, CPF members may claim their pension. Beneficiaries are free to buy a life annuity, place their assets with a participating bank as a fixed deposit or leave it in their Retirement Account to earn interest. If they do not choose one of these options, the default option applies, through which the beneficiary will receive payments for a period of 20 years. The government plans to implement a National Longevity Insurance Scheme with compulsory longevity insurance under the umbrella of the CPF. As life expectancy rises, beneficiaries run the risk of running out of savings. Annuities aim to secure lifelong income. Beneficiaries will have to take a part of their Minimum Sum to buy a deferred longevity insurance at age 55, which will become payable when the beneficiary gets 85. For the first time, the new scheme contains a risk-pooling element, as premiums are combined in a common pool. While the National Longevity Insurance Scheme has been drafted, an implementation date has not yet been determined. The government still has to work out the detailed scheme in collaboration with industry representatives. Mandatory CPF contributions are tax-exempt for both the employer and employee. The same applies to pre-retirement and retirement withdrawals from the accounts. The EEE taxation system applies. Both the employer and employee may voluntarily contribute to the CPF, but these contributions are not subject to tax breaks.

4.3.6 Other public schemes

There are two other special public pension schemes covering certain categories of government employees: the Government Pension Scheme for public sector employees and the Savings and Employees Scheme for certain categories of armed forces personnel. The number of public servants covered by the Government Pension Scheme has declined substantially in recent decades. This has mainly been due to the tightening of eligibility criteria, which shifted most civil servants to the CPF framework. At present, only a few public services and political appointees are covered by this scheme. With its exclusive reliance on fully funded accounts in the Central Provident Fund, complemented by voluntary retirement savings, Singapore's pension system is quite unique in Asia. It is a mature system that is "demography-safe" because it is fully funded. Given Singapore's likely demographic development, this is very important. The absence of a social security system means that individual responsibility plays a major role. The main challenge for pension policy is to make sure that not too much capital is withdrawn before retirement, which is often the case. Recent reforms that have increased the minimum amount to be left in the accounts are a step in the right direction, while the plans for a National Longevity Insurance Scheme intend to prevent retirees from running out of money. These reforms have the potential to remedy the weaknesses arising from the multi-purpose character of the Central Provident Fund, which is an otherwise consistent system.

5.0 Summary, Conclusion and recommendation

5.1 Summary

The results of the reform so far have been positive in remedying some of the governance, benefit security and investment management problems of the pre-reform period, particularly in the voluntary occupational pension sector. The requirement for external investment management has seen a positive impact on the country's financial markets. The pensions sector has played a key role in helping the Government to lengthen the maturity of its debt profile and retirement schemes through their fund managers have also become major players in the stock market.

National savings as a percentage of GDP have increased. This is attributed to increase in pension savings which are thought to be one of the key contributors for such an increase.

Based on the results of the reform to date, there is now a better appreciation on the part of policymakers of the potential of a well-developed pension system in contributing to economic growth and development of the country's economy. Pension funds have also been seen to influence corporate governance in the economy. Clark and Hebb, 2003 identified four factors which facilitate pension funds' corporate governance. The first is the use of indexation technique. The second is the increasing demand by owners for more accountability and transparency. Thirdly Pension funds' pressure to undertake socially responsible investing (SRI) and fourthly is the pension funds ability to humanize capital with social, moral and political objectives extending pension funds simple concern's for rate of return.

Pension Schemes also boost the performance of life insurance companies because they are used to purchase annuity products for pensioners upon retirement like how it is done in Singapore. In addition to the benefits already mentioned, it has also been found that Pension Schemes improve the financial market of a country by accumulating large amounts of resources and providing long term capital and stability to the stock market for example in the US, investors with over $10 trillion in pension fund assets now own up to 76% of the stock market. In Ghana, Social Security National Investment Trust (SSNIT) is the largest institutional investor on the Ghana Stock Exchange. In Kenya one of the largest institutional investor in the Nairobi Securities Exchange is the National Social Security Fund (NSSF). Pension funds also protect investors and enhance public confidence in the capital market. Finally Pension funds' role in the financial sector has been found to encompass the following: mobilizing of savings for investment, the investment in securities and other financial assets both locally and foreign and the payment of annuities and Provision of forms of insurance.

5.2 Conclusions.

There is now broad consensus among policymakers that social protection is a powerful way to fight poverty and promote inclusive growth. This international consensus is most clearly articulated in the African Union's Social Policy Framework (SPF), which was endorsed by all African heads of state in 2009. The SPF explains that social protection includes ***"social security measures and furthering income security; and also the pursuit of an integrated policy approach that has a strong developmental focus, such as job creation..."***The SPF commits governments to progressively realizing a minimum package of essential social protection that covers essential health care and benefits for children, informal workers, the unemployed, the elderly, and people with disabilities. This approach is echoed in the United Nation's Social Protection Floor Initiative. Across Africa, social protection has become a mainstay in poverty reduction strategies, and many countries have developed a social protection strategy.

The reform of the pension system is now acknowledged as one of the key policy measures to achieving the country's Vision 2030. However, there has been less appreciation in Kenya of the potential that pension system has and which can therefore be exploited to alleviate poverty and achieve income redistribution. It is good to note that RBA has been at the forefront of championing a state financed universal basic pension which we believe should be supported. This is because introducing a social pension would provide an important safety net in old age and alleviate old age (as well as household) poverty.

The successful reform to date has provided a good basis on which to consider a deeper and broader second phase of pension reform. The key objectives of further reform are suggested as strengthening the institutional structures of the current pension system, reforming the PSPS, assessing the feasibility of introducing a basic universal grant financed from the national budget and increasing the level of mandatory contributions to the NSSF with participation by voluntary schemes for some element of the increased mandatory contributions .

Undertaking a comprehensive reform of the type required to achieve the proposed objectives requires a co-ordinated strategy and a significant amount of ground work in terms of evaluation of policy and implementation choices extending to enactment of enabling legislation, building of institutional capacity and sensitization of approved reform programs. It will also be critical to prioritize the reform objectives in implementing the reforms. The detailed reform objectives and road map to achieving the reform objectives are best captured in the envisioned national pension's policy that the Government has proposed. An important lesson of the pension reforms in Kenya is to have a co-ordinated approach to pension reform in which all Government policy arms and stakeholders actively engage and dialogue. Pension schemes can help Kenyan government achieve its development objectives through the following ways; infrastructure development, poverty eradication, reduction of financial services costs, improving the financial system. Such investments in turn create jobs and spill over to other sectors of the economy.

5.3 Recommendations

In spite of these improvements and the significant changes that have been made at an institutional level, there remain concerns over the institutional structures at the NSSF and their effectiveness in terms of its adequacy, affordability, sustainability and robustness. To improve its adequacy contributions to the fund should be increased progressively to at least 35% as it is done in Singapore as opposed to the paltry ceiling of shs. 400 which not inadequate and cannot sustain an individual after retirement. With respect to sustainability corporate governance should be embraced and the fund managers should ensure that the fund liabilities match the assets at any given period in time which will guarantee sustainability.

Nevertheless, with its established structures and wide branch network of 35 regional offices and provided that the institutional weaknesses are addressed, the NSSF can provide a good platform on which to implement further reforms of the pension system in Kenya.

Reform of the NSSF and its conversion to a pension scheme has been a Government policy objective for some years. The Government's Economic Recovery Strategy for Wealth and Employment Creation 2003 – 2007 explicitly provides for the NSSF Act to be reviewed to convert the NSSF into an autonomous pension fund with an increased coverage and range of benefits. A bill to convert the NSSF into a social insurance pension scheme has been presented to Parliament and possible reform options for the NSSF have been the subject of debate with stakeholders but these negotiations should be fast tracked to achieve fast reforms. In Kenya nowadays prospective home buyers can use 60% of pension funds only as collateral for home purchase but not as deposit while in Singapore 88% of the pension scheme savings can be withdrawn for house purchase. It's the researchers recommendation that Laws be amended in Kenya to allow prospective buyers to be able to use pension funds as deposit for house purchase. Finally we also recommend that National Hospital Insurance Fund (NHIF) and National Social Security Fund (NSSF) be merged as one central organization that deals with Retirement, Hospital insurance and Home ownership as it is in Singapore where the Central Provident Fund (CPF) deals with retirement, home ownership and healthcare. This will not only help in governance, management and investment issues more effectively but also reduce administration costs by huge amounts in terms of synergy that will exist by merging the two organizations in Kenya.

5.4 Suggestions for further research.

Further research should be conducted on merger strategies Singapore employed to merge the three aspects of retirement, home ownership and healthcare. This research will be of great help in Kenya if we will be able to finally combine the three aspects since in Kenya home ownership and health insurance have been a nightmare for many Kenyans who live below the poverty line. Further, this study was qualitative and hence we suggest an empirical study be conducted.

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