ICEA LION
LIFE ASSURANCE

ALL YOU NEED TO KNOW ABOUT THE NSSF ACT 2013

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The questions that our customers and business partners frequently ask are listed below. While we try to answer the questions in simple terms, please keep in mind that the NSSF Act No.45 of 2013 (& subsidiary legislation) is the final authority on this subject.

A What are the noticeable features of the new Act?

01. Benefits Structure

- The old NSSF structure is a Provident fund providing Lump sum benefits at retirement for all members. The accumulated member funds will be retained in the old structure and paid out to the members as a Lump sum upon retirement.
- The new NSSF Act introduced a Pension Fund structure for formal sector members while retaining the Provident Fund structure for informal sector members. Formal Sector members will therefore be required to purchase an annuity (monthly pension) upon retirement.

02. Levels of Contributions

- The new Act has introduced 2 levels of contributions:
  - Tier 1 contributions which must be paid to the NSSF without exception.
  - Tier 2 – Employers can either remit these contributions to NSSF or to a scheme that is approved by the Retirement Benefits Authority ("RBA").
- The pension contribution rate has been set at 6% of earnings for employees and 6% of earnings for employers subject to an initial total maximum contribution of KES. 2,160 per month for the first 12 months
- The deductions will be based on gross salaries excluding fluctuating allowances such as overtime pay.

	MAXIMUM EMPLOYER CONTRIBUTION	MAXIMUM EMPLOYEE CONTRIBUTION	COMMENT
Tier 1	KES 360	KES 360	Employers are required to remit these contributions to NSSF without exception.
Tier 2	KES 720	KES 720	Employers can either remit these contributions to NSSF or to a scheme that is approved by the RBA
Total	**KES 1,080**	**KES 1,080**	

- Contributions will gradually increase over 5 years.
- Employers are required to pay contributions to the NSSF by the 9th day of the following month. This also includes payment of Tier 2 contributions to a contracted out scheme

03. Basis of levels of contributions

Tier 1 and Tier 2 contribution amounts are based on minimum wage and average earnings as gazetted by the Ministry of Labour and the Kenya National Bureau of Statistics. The Act Provides for a gradual increase of the contribution amounts over 5 years.

04. Approval to remit contributions to a Retirement Benefits scheme instead of NSSF

- An Employer can receive approval from the RBA to pay Tier 2 contributions to a Retirement Benefit Scheme approved by the RBA to receive such Contributions.
- A retirement benefit scheme is given approval to receive Tier 2 contributions first and thereafter an employer is given approval to pay Tier 2 contributions to the approved scheme.
- Tier 2 contributions may be deducted from existing retirement benefits scheme contributions.
- An Employer may also pay Tier 2 contributions in addition to the existing scheme contribution rates.
- An approved (or contracted-out) scheme will record Tier 2 contributions separately, and this will be paid out to members as per the New NSSF Structure by purchasing an annuity or income drawdown (monthly pension) upon retirement. This structure will apply even if the contracted out scheme is provident fund.

B What are the noticeable features of the new Act?

The NSSF is a compulsory scheme set up by the Government of Kenya with the primary goal to eradicate poverty in old age. Other retirement benefits schemes are set-up by employers and offered to employees in order to enable them attract and retain quality staff while enjoying tax benefits.

C How will the Act affect me as an employee?

Your monthly contribution in the first year will increase by a maximum of Kshs.880 from Kshs.200 to a maximum of Kshs. 1,080. Your contribution will gradually increase over the next five years.

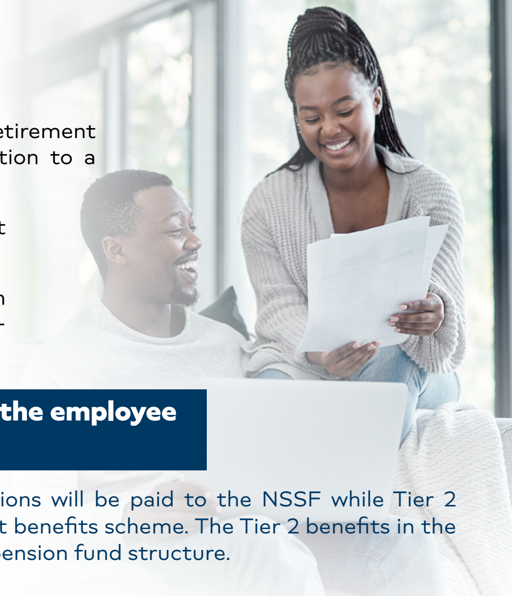
You will have access to benefits from the new NSSF such as a retirement pension, invalidity pension, survivor pension, funeral grant and emigration benefit.

You will achieve a higher monthly pension when you retire because of the higher contributions paid by you and your employer into your pension account.

When you retire any time after attaining 50 years of age, you will be paid your benefits in the form of a monthly pension. This monthly pension will be provided through an Annuity plan with an Insurance Company or an Income Drawdown by the way of joining an approved Income Drawdown Fund.

D How will the Act affect my employer?

- Your Employer contribution in the first year will increase by a maximum of Kshs.880 from Kshs.200 to a total maximum of Kshs.1,080. This contribution will steadily increase over the next five years.
- If your employer had never established or joined a retirement benefits program for the benefit of the employees, they will need to come up with a good plan to cover the cost of higher social security benefits.



E What does contracting-out mean?

Contracting out means obtaining permission from Retirement Benefits Authority (RBA) to remit Tier 2 contribution to a Retirement Benefits scheme. The process involves:

- First, obtaining approval from RBA for a retirement benefits scheme to receive Tier 2 contributions;
- Second, obtaining approval from RBA for an employer to remit Tier 2 contributions to a retirement benefits scheme approved by RBA.

F What contributions will be payable by the employee and employer after contracting-out?

After successfully contracting out, Tier 1 contributions will be paid to the NSSF while Tier 2 contributions will be paid to the approved retirement benefits scheme. The Tier 2 benefits in the approved retirement benefits scheme will be of the pension fund structure.

G What benefits will the retiring employees be entitled to after contracting out?

A retiring employee will receive a monthly pension. The employee will also be entitled to take a third (1/3) of their pension balance in cash lumpsum. In the event that the pension balance can only purchase a trivial pension, then the retiring employee will be entitled to receive his pension balance in cash lumpsum.

H What will happen to my benefits in the Old NSSF?

The accumulated member funds will be retained in the provident fund structure and will be paid out to you as a Lump sum upon retirement.

I Will I enjoy any tax benefits??

Yes, according to the Act, Tier 1 & Tier 2 contributions will be absolutely tax deductible, the investment income will be tax-exempt and the benefits paid out to members will not attract any tax.

J Can I transfer my benefits from NSSF to my employer scheme?

Yes, you can move your Tier 2 pension balance from the NSSF to your employer scheme. To do this you will need to fill a claim form giving instructions to the NSSF to transfer your Tier 2 pension balance to an approved (contracted-out) employer scheme.

K When do I access my benefits under the Act?

You can access the following benefits as shown briefly from the NSSF or an approved Scheme receiving Tier 2 contributions:

Retirement Pension – You can get this any time after your fiftieth (50th) birthday.

Invalidity Pension – This is available whenever you have a lasting physical or mental disability that prevents you from working after contributing to the NSSF for more than thirty-six (36) months.

Survivor's Pension – This will be paid to the dependants you nominate to get it in the event you die before receiving your retirement pension and after contributing to the NSSF for more than thirty-six (36) months.

Emigration benefit – This will be paid to you in the event that you emigrate and obtain permanent citizenship in another country.

Funeral grant of Kshs.10,000 will be paid to your dependants when you die.

Please note that withdraw benefit such as on change of job or on expiry of contract of employment or on retrenchment or on summary dismissal is not provided for under the NSSF.

L How do I claim benefits upon retirement?

You will need to fill a claim form provided to you by the NSSF free of charge. The claim form shall be accompanied by a retirement, termination or dismissal letter from your last employer.

The retirement pension claim will be paid within 60 days by a transfer of your pension balance to an insurance company so that you can buy an annuity or transfer to an income drawdown fund or payment in cash.

Payment by cash will be for:

- The optional 1/3 of your pension balance under Tier 2 which can be paid to you if you request to be paid in cash.
- Trivial pension which means that you can be paid your pension balance in cash if your pension savings are not enough to buy for you a monthly pension equal to or more than Kshs.10,820 as at February 2023. The trivial pension amount will change from time to time as revised by the Cabinet Secretary for Labour.

If your employer will have been approved to pay Tier 2 contributions to an approved retirement benefits scheme, you will need to make a second claim to the approved retirement benefits scheme. You will do this by completing the claim form provided to you by the Trustees or the Administrator of the scheme.

M When do I access the above-Tier-2 funds and previously accumulated benefits under an approved (contracted-out) retirement benefits scheme?

Above-Tier -2 funds refers to savings accumulated from contributions that are over and above Tier 1 and Tier 2 contributions.

You can access your accumulated above-Tier-2 fund and previously accumulated fund from a retirement benefits scheme on attainment of retirement age or earlier. Retirement means the retirement age of each employer with a minimum of 50 years. Benefits can be accessed earlier through;

- **Resignation/Dismissal/Termination/Retrenchment**
- **Ill health**
- **Permanent emigration out of the country**
- **Death, where the benefits will be paid to your nominated beneficiaries.**

N What proportion of Above-Tier-2 funds and previously accumulated benefits can I access under an approved (contracted-out) retirement benefits scheme?

At retirement: You can access your full benefits in cash lump sum for provident funds while for pension fund option, one third cash lump sum and lifetime annuity or income drawdown.

Upon resignation above age 50 years: same as retirement.

Upon resignation before age 50 years: You can access 50% of your account balance.

On ill health: full benefits in cash lump sum or in the form of a monthly pension.

Upon permanent emigration: full benefits in cash lump sum or in the form of a monthly pension.

On Death – full benefits to the nominated beneficiaries.

O How do I nominate my beneficiaries?

You can nominate your beneficiaries anytime under the NSSF by filing the appropriate nomination of beneficiaries form provided to you free of charge. The same can be done for the pension balance in your approved (contracted-out) retirement benefits scheme.

P Can I assign or use my funds in NSSF to get a mortgage?

Yes, you can use up to 60% of your funds as a mortgage security. This is merely a guarantee or a promise and does not mean any withdrawal of funds from your account.

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