

A QUARTERLY ISSUE

# KPPF e-News

/ Issue 15 / May 2020

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# FINANCIAL UPDATE AS AT 31ST MARCH 2020

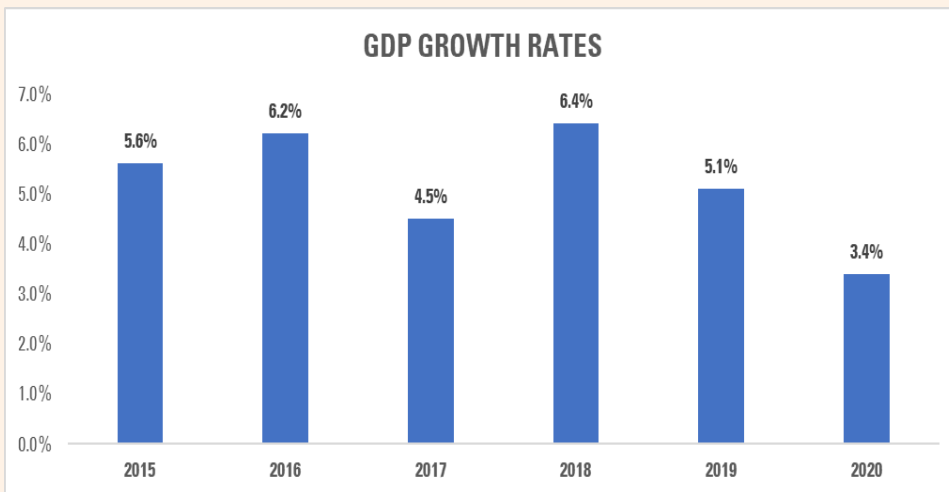
## Economic Review.

Kenya’s economic growth according to Central Bank’s Monetary Policy Committee (MPC) is expected to decline significantly in 2020, from a baseline estimate of 6.2% to possibly 3.4% on account of reduced demand by Kenya’s main trading partners, disruptions of supply chains and domestic production due to Covid-19 global pandemic.

## Foreign Exchange.

The Kenya Shilling depreciated against the Euro and the US Dollar by 1.8% and 3.3% respectively. However, Kenya Shilling recorded a 2.3% gain against the Sterling Pound. The volatility in the Kenya Shilling was largely due to the uncertainties brought about by COVID-19 pandemic.

The growth comparison with previous periods is as shown below;



## Equity Markets.

The Nairobi All Share Index (NASI), the NSE 20 Share Index and the NSE 25 Index declined by 20.7%, 25.9% and 24.2% respectively in Q1 2020 compared to the previous quarter. The gains experienced post rate cap repeal in the equity markets in last quarter of 2019 and January 2020 were eroded in February 2020 with the emergency of Covid-19.

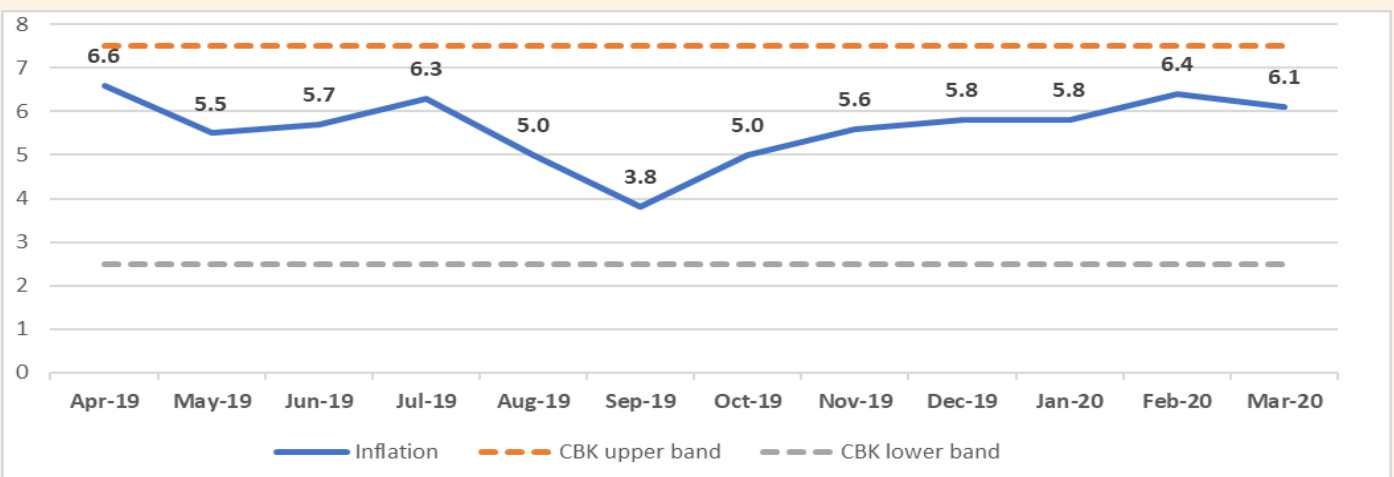
## Inflation

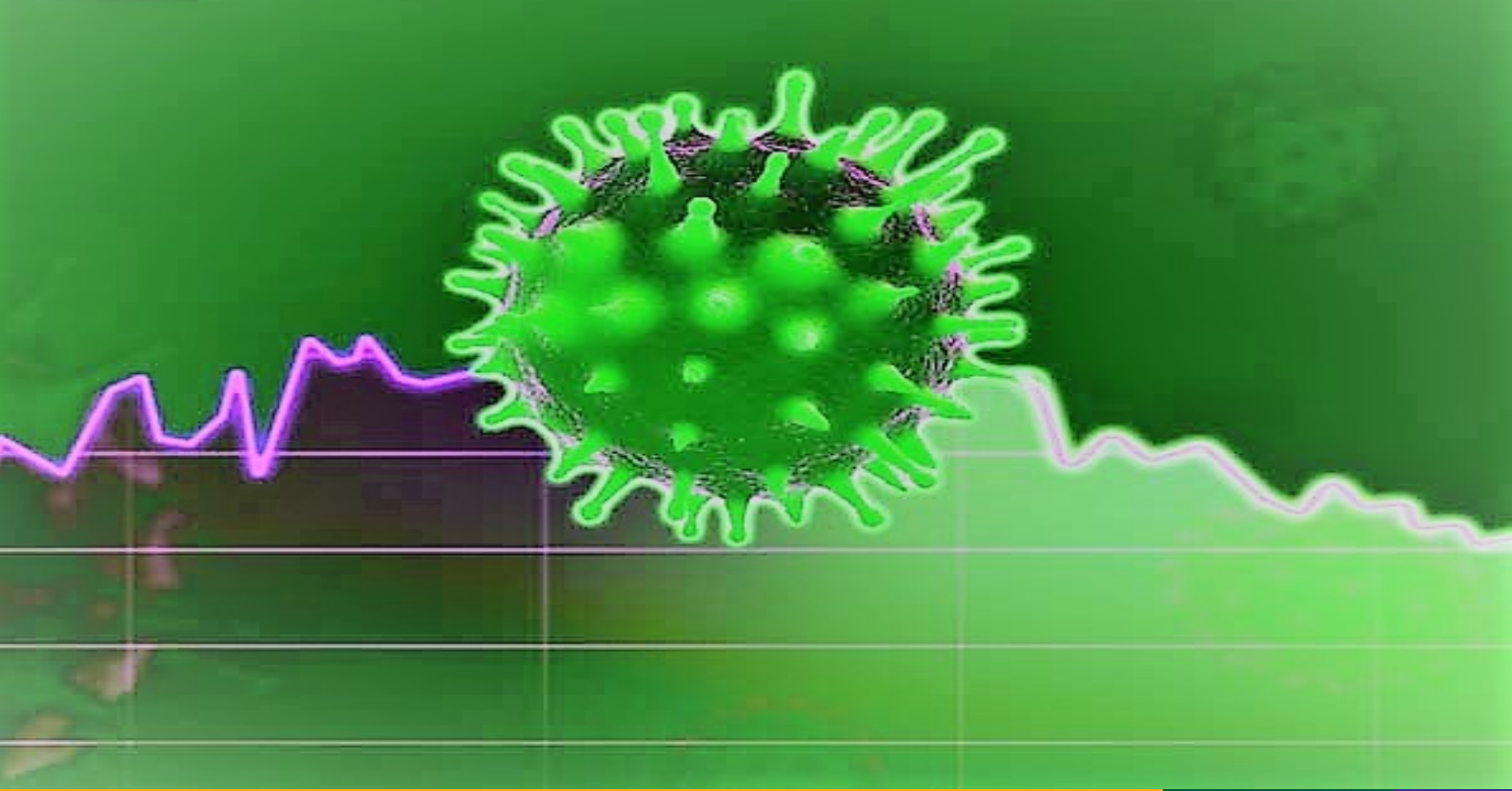
The overall rate of inflation increased marginally from 5.8% in Q4 2019 to 6.1% in Q1 2020. Inflation is expected to remain stable over the short-term due to lower food prices occasioned by favorable weather conditions, decline in international oil prices and muted demand pressure.

## Fixed Income Market

The Monetary Policy Committee (MPC) reduced the Central Bank Rate (CBR) and the Cash Reserve Ratio (CRR) downwards to 7.25% and 4.25% from 8.25% and 5.25% respectively in an effort to minimize the economic and financial impact of COVID-19 pandemic. This action will result into increased domestic borrowing and subsequently higher interest rates. The fixed income assets are expected to have stable returns in 2020 as investors run from stock market to more less volatile assets.

The annual monthly inflation trend is as shown below;



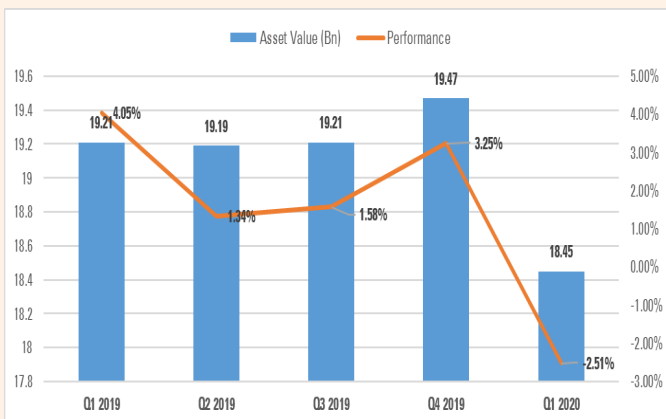


### DEFINED BENEFITS (DB) FUND

During the first quarter of 2020, the DB Fund recorded a return of negative 2.51% compared to industry weighted average performance of negative 7.7% in the same period according a pensions sector report by Zamara Consulting Actuaries Schemes Survey.

The decrease in performance from Quarter 4 2019 to Quarter 1 2020 was attributed to the significant drop in the stock market following the global concerns caused by COVID-19. At the end of the quarter, the assets under management stood at Kshs. 18.45 billion down from Kshs.19.47 billion in December 2019.

The Fund performance for the last five quarters is as below:

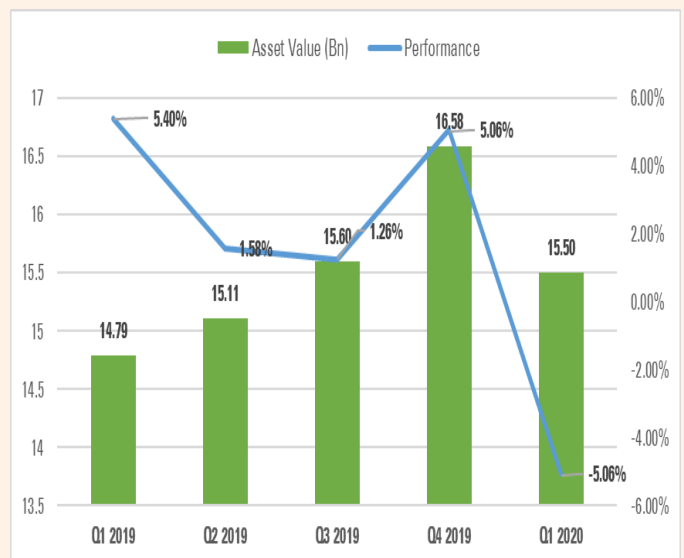


### DEFINED CONTRIBUTIONS (DC) FUND

In the first quarter of 2020, the DC Fund recorded a return of negative 5.06%.

Just like in the DB Fund, the unfavorable performance was due to the poor performance of the stock market because of the Covid-19 concerns. As at the end of Q1 2020, the Fund value was KShs. 15.50 Billion down from 16.58 Billion in Q4 2019.

The Fund performance for the last five quarters is as below:



### Outlook.

The International Monetary Fund's (IMF) latest World Economic Outlook projections for 2020 pegs Kenya GDP growth rates at 1% in 2020, down from 5.6% in 2019. According to IMF, Covid-19 pandemic will cause a 3% contraction in the global economy in 2020 which will be much worse than during the 2008-2009 global financial crisis.

## UPDATE ON MEMBERSHIP AS AT 31<sup>ST</sup> MARCH 2020

### DEFINED BENEFITS (DB) FUND

In-service members.....**2,825**  
 Deferred members .....**184**

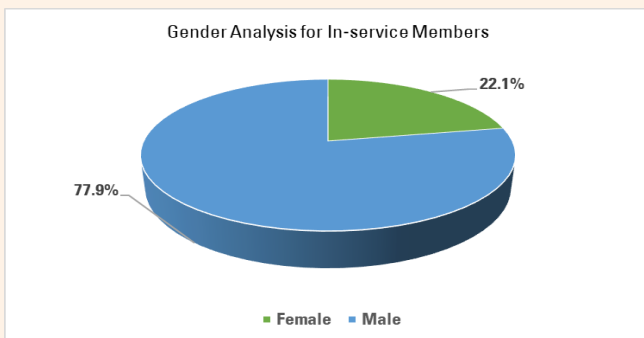
#### Age Analysis for in-service Members

Age Analysis	No. of Members	Percentage
41-50	425	15.04%
51-60	2,375	84.07%
Above 60	25	0.88%
Total	2,825	100.00%

Oldest Member - 63.59 years  
 Youngest member - 40.28 years  
 Average Age - 54.04 years

- Eleven (25) members had attained the normal retirement age 60 years but due to their disability status and in accordance with the law, their retirement has been revised to 65 years.

#### Gender Analysis for In-service Members

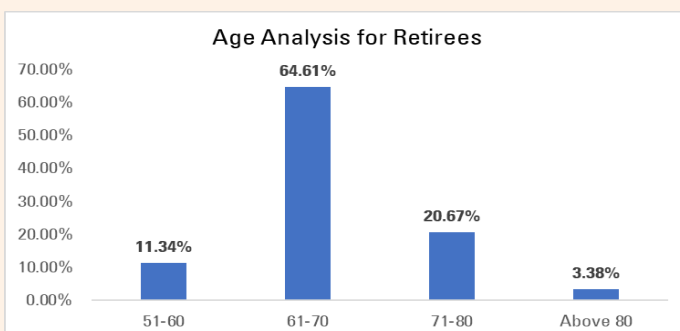


#### Pensioners

There were a total of 4,376 pensioners comprising of retirees and beneficiaries as shown in the table below.

Pensioner Category	Number	Percentage %
Retirees	1,834	41.91%
Widow(er) Spouses to members who passed on	1,425	32.56%
Orphans (Children to members passed on)	1,117	25.53%
Total	4,376	100.00%

#### Age Analysis for Retirees



Majority of the retirees were aged between 61-70 years with 62 retirees aged above 80 years.

#### Pensioners Payroll for Quarter 1 2020 (Jan - Mar)

Category	No. of Members	Amount (Kshs.)	Percentage %
Retirees	1,834	160,008,868	73.34%
Widow(er)s	1,425	46,492,579	21.31%
Orphans	1,117	11,658,813	5.34%
Total	4,376	218,160,260	100.00%

- 73.34% of the total pension payroll was paid to the retirees.
- The number of retiree pensioners has been increasing at an annual rate of approximately ten percent (10%).
- The pensioners' payroll is expected to rise as more members retire.

### DEFINED CONTRIBUTIONS (DC) FUND

In-service members .....**7,598**  
 Deferred members.....**491**

During the quarter, the number of in-service members decreased from 7,827 in Q4 2019 to 7,598 in Q1 2020. This was attributed to the higher number of members (235) who exited through retirement and withdrawals (resignations, terminations, dismissals, and deaths).

#### Age Analysis for In-service Members

Age Analysis	No. of Members	Percentage
21-30	92	1.21%
31-40	2,165	28.49%
41-50	2,607	34.31%
51-60	2,709	35.66%
Above 60	25	0.33%
Total	7,598	100.00%

Oldest member - 63.59 years  
 Youngest member - 24.36 years  
 Average age - 45.55 years

#### Received Contributions for 1<sup>st</sup> Quarter 2020

Month	Employee (Kshs)	Employer (Kshs)	AVC (Kshs)	Total
Jan 2020	41,982,958	83,833,091	3,696,973	129,513,022
Feb 2020	41,789,684	83,446,542	3,875,967	129,112,193
Mar 2020	41,525,449	82,918,073	3,903,520	128,347,042
Total	125,298,091	250,197,706	11,476,460	386,972,257



## TAX LAWS (AMENDMENTS) ACT, 2020

The President assented to the Tax Laws (Amendment) Bill, 2020 on 25 April 2020 that brought about wide-ranging changes to the Tax Act.

Below are the changes relevant to retirement benefits schemes.

1. Rates of tax applied on the commuted lumpsum for members upon attainment of 50 years or after expiry of 15 years from joining the fund/scheme, or upon early retirement on grounds of ill health or infirmity of body and mind. These rates will apply for the amounts in excess of the tax free of K Shs. 60,000 per full year of service upto a maximum of 10 years (K Shs. 600,000).

Repealed tax bands	Tax Rates	New tax bands	Tax Rates
1 <sup>st</sup> K Shs. 400,000	10%	1 <sup>st</sup> K Shs. 400,000	10%
2 <sup>nd</sup> K Shs. 400,000	15%	2 <sup>nd</sup> K Shs. 400,000	15%
3 <sup>rd</sup> K Shs. 400,000	20%	3 <sup>rd</sup> K Shs. 400,000	20%
4 <sup>th</sup> K Shs. 400,000	25%	Excess above K Shs.1,200,000	25%
Excess above K Shs.1,600,000	30%		

2. Rates of tax applied to pension benefits accessed by members who withdraw from the scheme before attainment of 50 years or before expiry of 15 years from joining the fund/scheme. These rates will apply for the amounts in excess of the tax free of K Shs. 60,000 per full year of service upto a maximum of 10 years (K Shs. 600,000).

Repealed tax bands	Tax Rates	New tax bands	Tax Rates
1 <sup>st</sup> K Shs. 147,580	10%	1 <sup>st</sup> K Shs. 288,000	10%
2 <sup>nd</sup> K Shs. 139,043	15%	2 <sup>nd</sup> K Shs. 200,000	15%
3 <sup>rd</sup> K Shs. 139,043	20%	3 <sup>rd</sup> K Shs. 200,000	20%
4 <sup>th</sup> K Shs. 139,043	25%	Excess above K Shs.688,000	25%
Excess above K Shs.564,709	30%		

3. Rates of tax applied to monthly pension. These rates will apply for amounts in excess of the tax free of K Shs. 25,000 per month (K Shs. 300,000 per annum).

Repealed tax bands	Tax Rates	New tax bands	Tax Rates
1 <sup>st</sup> K Shs. 33,333	10%	1 <sup>st</sup> K Shs. 33,333	10%
2 <sup>nd</sup> K Shs. 33,333	15%	2 <sup>nd</sup> K Shs. 33,333	15%
3 <sup>rd</sup> K Shs. 33,333	20%	3 <sup>rd</sup> K Shs. 33,333	20%
4 <sup>th</sup> K Shs. 33,333	25%	Excess above K Shs.100,000	25%
Excess above K Shs.133,333	30%		



## KENYA POWER PENSION FUND INCOME DRAWDOWN

The Trustees of the Defined Contributions (DC) Scheme established an inhouse Income Drawdown Fund (Fund) in January 2020. The Fund became operational in the same month following approval from the Retirement Benefits Authority (RBA).

### What is an Income Drawdown?

It is an arrangement that allows a member at retirement to draw his/her retirement benefits into regular instalments while the balance remains invested.

### What are the Key Feature of an Income Drawdown?

- a. **Flexibility** – A member has the flexibility of choosing frequency, timing and amount of income withdrawals based on their income requirements
- b. **Duration** – The current legislation provides for a minimum drawdown period of ten (10) years.
- c. **Withdrawable Income** – A member may withdraw an income from his/her drawdown fund subject to a maximum of 15% per annum of the members residual balance.
- d. **Investment Return** – The remaining amount is invested and returns are achieved based on the prevailing market conditions.
- e. **After the 10 year minimum drawdown period**, a member has the following options:-
  - Continue with the drawdown arrangement; or
  - Purchase an annuity; or
  - Access the remaining balance as a lumpsum.
- f. **On death of a member**, the following options are available to the beneficiaries:-
  - Continue with the members drawdown arrangement; or
  - Purchase an annuity with the balance; or
  - Access the remaining balance as a lumpsum

### Advantages of an Income Drawdown

- i. Member's benefits will be retained and paid from Kenya Power Pension Fund as opposed to from an insurance firm.
- ii. Allows a member to benefit from any investment growth from their retained retirement benefits.
- iii. Member can increase or decrease their drawdown amounts depending on their financial requirements.
- iv. Members have the flexibility on how frequent they would wish to access their income.
- v. In the event of death, the members beneficiaries are allowed to inherit the remainder of the benefits.
- vi. Upon attainment of age 65 a member's drawdown income is exempt from taxation.
- vii. Allows a member to purchase an annuity or access their benefits as a lumpsum on expiry of the 10 years minimum period.

### Risks Associated with Income Drawdown

- i. There is a possibility of a **member depleting their funds** before the expiry of the 10 years. This occurs when the member consistently draws more than the investment return.
- ii. **Investment risk:** The retirees are exposed to financial market movements which are characterized by fluctuations.
- iii. **Longevity risk:** There is a risk that a member may outlive their benefits.

### Who should Consider this option?

It is recommended that members who opt for an income drawdown arrangement have substantial retirement benefits and a reasonable understanding of financial and investment risks. A threshold of KShs. 3Million would be considered ideal for income drawdown.

### Other Frequently Asked Questions

**1. Who is eligible to be a member?** All retiring members of the DC Scheme can transfer all or part of their retirement benefits to the Income drawdown fund.

**2. Is there a minimum drawdown amount?** Although there is a maximum drawdown rate of 15%, there is no minimum withdrawal rate.

**3. Can a member have a combination of an annuity and an income drawdown?** Yes, a member can opt to use a portion of their retirement income to purchase an annuity and transfer the rest to an income drawdown fund.

**4. How are the funds invested?** The Income Drawdown Fund is invested as per the provisions of the Fund's Investment Policy Statement (IPS) which emphasizes on preserving members' capital, maintaining adequate liquidity and providing adequate returns

The establishment of the Income Drawdown Plan was partly in response to concerns raised by members about being referred to insurance companies for annuities on retirement. Going forward members will have the option of receiving all their benefits from the scheme that they have always belonged to and can identify with.

Members can get more info about the Kenya Power Income Drawdown Fund from the Scheme's website - [www.kplcpensionfund.co.ke](http://www.kplcpensionfund.co.ke) .



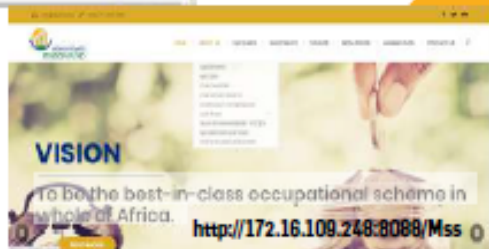
KENYA POWER  
PENSION FUND

## MEMBER SELF - SERVICES

### 1. Web Portal



<http://intranetportal.kplc.co.ke>



### 2. KPPF Mobile App



Android:  
App Store  
Google Play Store

### 3. USSD Service

Accessible via **Code : \*473#**

### 4. Short Code Query

Send the word "**Balance**" to  
**30305**

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