A REVIEW OF GUARANTEED PENSION FUNDS IN KENYA

BY

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The project has been presented for examination with my approval as the appointed Supervisor.

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ABSTRACT

Guaranteed Pensions Schemes are operated by insurance companies which also run life insurance product. This schemes have appeared to have evolved from the life insurance products to benefits and contributions schemes as they endeavor to add more value to personal economy and economic freedom. The purpose of this study was to review the guaranteed pension schemes in Kenya. The Primary focus of this research was to establish the benefits of guaranteed pension’s schemes, its limitations and establish measures that can be undertaken to enhance guaranteed pension schemes in Kenya.

This study used descriptive research design. The target populations of this study was 829 that included guaranteed pension schemes listed by the Retirement Benefit Authority of Kenya. This study adopted random sampling method. This involved the selection of 208 individuals using simple random sampling. The sample size of this study was therefore 208 respondents. This study used primary data that was collected using semi-structured questionnaires. Questionnaires collected were edited, coded and data was analyzed using statistical package for social sciences, SPSS. Content analysis was used to analyze qualitative data and the findings were then presented in a prose form. Descriptive statistics included mean, standard deviation, frequency and percentages.

The study established that the pensioners gained strategic value from guaranteed pension schemes through preservation of capital, transfer of investment risk, minimized administrative cost and higher return on economies of scale. On the limitations of guaranteed pension schemes, the study found some variations on the trustee’s involvement on decision making, rate of returns and regulation by government. The study found out that management of guaranteed pension schemes should put into consideration annual inflation rates when deciding on the rate of returns, regular review of schemes, government regulation and more trustee’s involvement in running of guarantee pension schemes.

The study recommended that the trustees should review regularly the funds for investment performance by monitoring the returns declared by the fund each year. Furthermore, the annuity rates during retirement should be reviewed to offer an income drawn down during periods of poor annuity rates in the economy. The study also recommended that trustees of pension schemes should be more strategic in the investment decisions of the fund. This would enable the guaranteed pension scheme to have a broad spectrum of income through running a strategic risk portfolio. On the same note, the study recommended that the minimum rate of
return should be guided by policy from the regulatory body. Lastly, the study recommended that guaranteed pensions schemes should widen their investment and revenue generation strategy.
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DEDICATION

This research project is dedicated to my Wife, Irene Wairimu for understanding and covering for me in many family activities, and my sons, Gideon, Joshua and David King for their willing sacrifice to bear with my long hours’ absence as I worked on the coursework and the project
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The earliest pension fund system can be traced back in Germany which was started by German Chancellor Otto Von Bismarck (Lindert, 1994). The author credits former German Chancellor Otto Von Bismarck for enacting a compulsory savings programme for workers in large firms who were exposed to the socialism ideologies in 1889. Perotti and Schwienbacher (2008) state that the Bismarck retirement fund system was financed through worker and employer contributions, attracted taxation incentives and paid retirement benefits once the worker reached the age of 65. According to Lindert (1994), retirement scheme contributions under this system were invested in financial securities. This system however had no provision for retirement benefits entitlement to personal representatives in case of death, it was mainly restricted to the civil servants and war veterans and many workers did not live to enjoy the retirement benefits as life expectancy was 60 years (Lindert, 1994).

The Bismarck programme was replicated at varying time periods in different countries, for example, Japan 1875, United States 1896, New Zealand 1898, Belgium 1900, Australia 1941, Canada 1966, Denmark 1964, Greece 1978 and United Kingdom in 1948 amongst others (Perotti and Schwienbacher, 2008). Retirement benefits schemes systems developed, economic and political shocks affected their sustainability in different countries (Meyer 2004; Newmann 2005) and so the only institutions that could be trusted to secure retirement funds were the governments with France and Finland following suit (Meyer, 2004). Guaranteed funds majorly invest in bonds and segregated funds in equity. This positive relationship between risk and returns causes a dilemma since to get more returns; retirement funds have to take more risks (Eaton and Nofsinger, 2001). It is therefore suggested that retirement funds adopt appropriate investment strategies that provide higher returns on investments with moderate risks (Eaton and Nofsinger, 2001).

In the recent past, there has been problems created by the pay as you go, (PAYG) system in Sweden (Sunden, 2006). Sunden (2006) reveals a decrease in real pensionable wage as the flat pension guaranteed by the state was not indexed to inflation; an unsystematic and inequitable distribution of contributions through taxes and benefits since contributors contribute for longer periods than they earn the benefits; and labour distortions which
increases pension expenditure. Pecchenino and Polland (2005) reported that the PAYG system had significant public expenditure in the G7 countries and with the increase in the number of retirees however, the system will wane in the long term leaving behind frustrated retirees and huge budget deficits (Pocchenino and Polland 2005). In Uganda, the PAYG system caused increased budget constraints, the local government and the army could not afford the pension benefits and wages could not be increased without raising pensions disproportionately (Herbertsson 2001).

To address the global pension crisis, OECD (2009a:98) advocates for reforms in the pension systems to make them fully funded and hence make the PAYG funds extinct. The OECD argues that by funding the pension systems, workers will be saving for their own retirement incomes and will therefore eliminate intergenerational inequity, reduce old age dependency ratios and remove excessive pension expenditure on the part of the World governments. OECD therefore suggests contributory pension systems that increase the replacement rate (ratio of retirement income to pre-retirement income). To achieve this objective, pension funds must be operationally and financially efficient.

According to Tari (2000), in the ancient times in the African society when communities, tribe and even clan were strong cohesive units, the community would take care of the aged in total welfare. The young energetic working populace would provide for the old. At the family unit level, the young would support their aged parents and grandparents, though the set up was informal, it was intact and operative. Relics of this practice still exist even today and the harambee philosophy is a spin of these traditional practices. But owing to urbanization and modernization, the family ties have been breaking gradually. The tribe or clan is no longer a cohesive unit and individuals seem preoccupied with their own interests. The shift in trend necessitated the establishment of social security systems by states to take care of the aged (Tari, 2000).

The history of formal pension schemes in Kenya is closely associated with the social, economic and political developments towards an industrial society that the country witnessed after the Second World War (Marwa, 1992). The earliest insured pension plans in Kenya were mainly administered from England and were exclusively for the whites. Such plans were informal and discriminatory. It was only in the late 1950s that the colonial government set up a social security scheme along the lines of one existing in England as
well as encouraging the development of occupational pension plans (Angima, 1985). The period after independence saw a steady growth in the number of pension plans owing to the social, economic and industrial growth in the country.

Like most African countries, Kenya established a pension scheme for government employees through enactment of the Pensions Act 1979 Chapter 189 of the laws of Kenya (Republic of Kenya, 1986). The scheme covers those in the service of various ministries, armed forces, police, prisons, national youth service and teachers. The scheme is unfunded, defined benefit and non-contributory except for the widows and children benefits where a contribution of 2% is charged. The benefits provided include; service pension plus commuted pension, service gratuity, marriage gratuity, disability pension, death gratuity, dependents’ pension, compassionate gratuity and annual allowances. The retirement age is 60 years with the exception of judges who retire at 74 years. The scheme was the earliest to be established and was the yardstick for the occupational pension schemes (Republic of Kenya, 1986).

According to Chartered Insurance Institute (1998), occupational pension plans registered significant growth after independence in Kenya. There are several factors that led to the significant growth among them the following; medical science increased life expectancy but not extended working lives, hence people have to be supported for a longer period after retirement. The weakening of the family unit also increased the dependency of the aged on external sources of income. In addition, when people worked in small groups and communities, the relationship between employee and employer was close and of a permanent nature, however the larger units arising out of industrialization reduced the mutual sense of obligation (Chartered Insurance Institute, 1998). It was also evident that cost of pension may be offset by improvement in overall efficiency, by retiring the inefficient by age. Provision of pension also encourages retirement and ensures promotion and regular injection of new energy and ideas. Also, pension dues are more valuable than the highly taxed income, as a proportion can be taken as a tax free sum. Lastly, it was realized that generous employers produce continuous growth and pension provision is good for attracting and retaining high caliber man power (Chartered Insurance Institute, 1998). It was as a result of the foregoing that many employers established occupational pension schemes, notwithstanding that majority were by law contributing to the NSSF.
However, things have changed radically. Pension payouts have been rising at such alarming level and the government has faced challenges. In 2005, there were 156,926 pensioners with a monthly payroll of Kshs 550 million and 8,000 employees going into retirement annually coupled with 5,000 deaths every year in Kenya (Kakwani, 2006). In the year 2005 alone, there were 7,000 deaths of civil servants. It was estimated that by the end of the year 2013, the pension payout would stand at over Ksh 45 billion and over the next decade, the payout was likely to exceed Ksh 500 billion. This was against an estimated government workforce of 600,000 employees. The problem was so acute that maintaining the payroll and the fast growing pension payouts could take up, nearly two thirds of all taxes collected and eclipse hopes for adequate funding in education, health and infrastructure. The pension bill has been increasing at rate of 15% over the decade, rising from Ksh 2.8 billion in 1995 to Ksh 17.2 billion in 2005. This forced the Kenya government to review the civil servants retirement age from 55 to 60 years in an attempt to control the huge pension bill (Kakwani, 2006).

To cater for workers outside the civil service, the National Social Security Fund (NSSF) was established in 1965 by the NSSF Act Cap 258, to operate as national provident fund (Republic of Kenya, 1965). Initially the NSSF was administered as a government department under the Ministry of Labor until 1987 when the law was amended to make the scheme a State Corporation managed by a tripartism of the social partners who constitute the Board of Trustees. The scheme membership is mandatory for workers in the formal sector, hired by an employer with more than five employees. The scheme is financed entirely by employer and employee monthly contributions set at 5 per cent of the monthly wage with a ceiling of Ksh.4000 per month. However over time, the rates of contributions have fallen below the actuarially recommended rates. Though the rates of contributions were reviewed in 2001 for the first time since 1977, they still remain low in maintaining a reasonable retirement lifestyle. Stakeholders were unanimous that the fund had to change if it is to meet the evolving social security needs of the workers (Mogere, 2005)

In Kenya, the Retirement Benefits Industry assets grew by 5.1 percent in the second half of the year 2014 to stand at Kshs.788.15 billion as of December 31st 2014. Compared to the previous year, December 2013, the assets under management had grown by 13.1 percent from Kshs.696.68 Billion to Kshs.788.15 Billion. The amount was composed of the Kshs.681.29 billion held by the fund managers and insurance issuers, Kshs.61.83 billion
internally administered by National Social Security Fund (NSSF) and an additional Kshs.45.02 billion of property investments directly managed by scheme trustees. The assets under fund management included Kshs.79.6 billion of NSSF funds externally managed by the 6 contracted managers. Similar to other periods, Government Securities and Quoted Securities had the majority of investments with the two accounting for 57 percent of total assets under management. (Retirement Benefits Authority, 2015)

The pension fund system in Kenya has been supervised by the independent Retirement Benefits Authority (RBA) since 2000, which oversees the 1997 RBA Act that brought about regulation, protection and structure to the pension fund industry. The RBA continues working to develop the industry and advise the government on pension policy reforms.

1.2 Problem Statement

The earliest retirement benefits schemes to be established in Kenya were insured plans providing guarantees to members on the level of benefits (Angima, 1985). With time the insured plans gave way to benefits schemes which guaranteed a pension based on an actuarial formula targeting a replacement ratio. Since then, many schemes converted from benefits to contribution schemes. In the year 2001, contribution schemes constituted 84% of all occupational schemes and by 2014 the proportion had risen to over 89% (Retirement Benefits Authority, 2015). Contribution plans have become the primary retirement savings vehicle for many employees in Kenya and this continues to grow in importance.

According to Dempster (2011) a practical method of arriving at guaranteed minimum annual rate of returns should have the flexibility to take into account multiple time periods, portfolio constraints such as prohibition of short selling and varying degrees of risk aversion. The tremendous amount of money under management by life insurance companies and pension funds should justify the analysis of rate of return guarantees (Lindset, 2004). Moreover Chirchir (2010) reported that many contribution schemes in Kenya were subject to high charges, inappropriate investment strategies, employer budgetary constraints, poorly designed annuity and income drawdown programmes. In addition, key service providers did not treat DC schemes as single integrated financial product with the long-term goal of securing a reasonable income replacement. Investment managers had no target fund level to achieve and trustees took whatever the annuity rates
offered in the market. Further, the service providers had no incentive to minimize costs to the scheme members.

Several studies have been carried out in the area of retirement benefits such as conversion of DB schemes to DC schemes (Chirchir, 2010); pension choices (Cocco and Lopes, 2004) and effect of insufficient knowledge on retirement savings (Lusardi, 2003). In Kenya, Njuguna (2011) carried out a study on the determinants of pension fund corporate governance while Ngetich (2012) carried out a study on determinants of the growth of individual pension schemes. There has been no specific study addressing the review of guaranteed pension schemes, mainly researching on the benefits, limitations and ways that can improve the schemes in the current economy, which this study ought to undertake. This involved structuring, administration, management and governance of guaranteed pension funds that is surrounded with pertinent concerns that would require a review with an aim to draft suggestions for improvement.

1.3 General Objective

The general objective of this study was to review guaranteed pension schemes in Kenya.

1.4 Specific Objectives

1.4.1 To establish the benefits of Guaranteed Pension Schemes
1.4.2 To establish limitations of Guaranteed Pension Schemes.
1.4.3 To establish measures that can be undertaken to enhance guaranteed pension schemes in Kenya.

1.5 Significance of the Study

1.5.1 Stake holders and Pension Schemes

This study will help the management and owners of pension schemes in identifying areas which they need to improve on in order to improve quality of service to its customers. It helps them to be aware of where, when and how to increase their resources so as to make their services better. The study was also assist the customer care department to be aware of weakness areas and how to improve on these areas so as to improve the quality of service offered to pensioners.

1.5.2 Pensioners
As key stakeholders in the pension fund sector, pensioners were benefit from improved and better service delivery due to the recommendations of this study. The advantages were delightful customer experiences characterized by prompt, effective and delightful service delivery.

1.5.3 Research academicians

The study was of great importance to academicians and future scholars and will provide literature to future research as well as provide basis for future research on guaranteed pension funds in Kenya. The study is also important as it gives researchers exposure to a wider scope of knowledge that they can use in case they need to carry future research on similar topics.

1.5.4 The government of Kenya

The study will be of great importance to the Kenya government especially in the area of regulation. The government has been keen in not only regulating pension schemes managements, but also ensuring that increasing number of Kenyan workers have a retirement income. The study will expose to the government gaps and provide a wider scope of knowledge that they can use in in enhancing regulation and reviews of the governing laws.

1.6 Scope of the Study

The study reviewed guaranteed pension schemes in Kenya. It targeted the guaranteed pension schemes that are regulated by the government, and the sample population of the study was drawn from guaranteed pension schemes listed by the Retirement Benefits Authority, thus the ability to generalize the entire population of similar schemes to represent sufficient scope of the study.

1.5.5 Definition of Terms

1.7.1 Defined Benefits Schemes:

A defined benefit pension plan is a type of pension plan in which an employer promises a specified pension payment, lump-sum (or combination thereof) on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns. (Bodie, 1990)
1.7.2 Defined Contribution Schemes
A defined contribution (DC) plan is a type of retirement plan in which the employer, employee or both make contributions on a regular basis (Bodie, 1990).

1.7.3 Individual Pension Plan (IPP):
Individual Pension Plan (IPP) is a registered, defined-benefit pension plan for an individual or group of individuals whose existence enables a business owner or executive to have a personal pension plan that will pay a predetermined pension income based upon his or her years of service (Chevreau, 2008).

1.7.4 Occupational Pensions Schemes.
Occupational pension schemes are contributory or non-contributory, insured or self-administered pension scheme, usually established by an employer, to which an employee may be eligible to join by reason of his or her employment in a firm or membership of a profession or trade (Tari, 2014).

1.7.5 Guaranteed Pension Schemes
Pension Benefit Guarantee Schemes are insurance type arrangements with premiums paid by pension funds which take on outstanding obligations which cannot be met by the insolvent plan sponsors (OECD, 2009)

1.8 Chapter Summary
This chapter gave an insight of the phenomena under study, as well as a background of the problem statement. It has vividly described the general objective of the study that is to review of guaranteed pension funds in Kenya. The chapter went on to discuss the state of the pension funds in Kenya. The chapter, two, has also outlined the significance of the study as well as its scope and limitations. The next chapter has conducted a critical literature review of the area of study. The literature review was guided by the research questions in the chapter. The chapter also covered empirical literature and provides a summary of literature reviewed while identifying the research gap. Chapter three explains the research methodology, design and the empirical model that was used in evaluating the determinants of scheme design. It also covers definition and measurement of variables, population and sampling procedures, research instruments reliability and validity as well as data collection and analysis procedures. Chapter four covers the response rate, profile of respondents and
sample characteristics and the research model as well as discussions based on the results. Lastly, Chapter five deals with the summary, conclusion, implications, contribution to knowledge as well as limitations and areas for further research for guaranteed benefits schemes.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter assesses literature relating to the research questions. It contains literature regarding the benefits of guaranteed pension schemes, limitations of guaranteed pension schemes, and suggestion for improvement for guaranteed pension schemes in Kenya.

2.2 Benefits of Guaranteed Pension Schemes

2.2.1 Preservation of Capital

According to Kennon (2016), Capital preservation is a term used in the investment industry to describe a very specific financial objective: Protecting the absolute monetary value of an asset as measured in nominal currency. Kennon (2016) further states that, sometimes, but less often, capital preservation is taken to mean protecting the inflation-adjusted purchasing power of an asset so that a given pile of money can still buy the same goods and services by the end of the holding period; that is, you could acquire the same quantity of cheeseburgers, coffee, tires, movie tickets, golf clubs, or tanks of gasoline.” This important need of preserving including the purchasing power of the member contributions, in the case of guaranteed pension schemes is somehow taken care of by the guaranteed minimum rate of return. As indicated above, the underlying principle of guaranteed pension schemes is the all-important purpose of capital preservation. For guaranteed pension schemes, members’ absolute contributions are 100% guaranteed plus the agreed guaranteed minimum rate of return, (Kennon, 2016)

Preservation of capital is a priority for retirees and those approaching retirement, since they may be relying on their investments to generate income to cover their living expenses, and have limited time to recoup losses if markets experience a down-draft. This strategy would necessitate investment in the safest short-term instruments, such as Treasury bills and certificates of deposit (Kennon, 2016).

Ogonda (2006) observed that the risk and return are important considerations in investment practices of pension fund managers in Kenya, as the current income is not the primary objective. However, the most predominant objective is capital preservation. Pension schemes also differ from collective investment schemes as they have minimum funding
requirement and they are established to invest funds to meet pension liabilities, (Ogonda, 2006). That would mean that funds are invested with the expectation that they will be sufficient to pay pension entitlements when they fall due.

The value of capital guarantees that protect the nominal value of contributions in DC pension plans. They are in theory relatively cheap to provide (they may cost less than ten basis points of the net assets accumulated), and address one of the main concerns about DC plans among the general population; people are often deterred to save in DC plans because they feel they can lose even part of the money they put in. Implementing capital guarantees means that the money people contribute to DC pension plans is guaranteed and they will always receive at retirement at least the money they put in. This makes funded pensions at least as attractive as keeping retirement savings “under the mattress” Antolin et al., (2011)

**2.2.2 Transfer of Investment Risk**

In pension schemes, management risk tend to reduce the returns on investment over the long run, creates uncertainty about the value of retirement assets and difficulty in payment retirement liabilities when they become due. These raises question that impact on the governance aspect of retirement funds when irregularities and market volatility lead to losses in the retirement funds (Maurer et al. 2009). These are the driving factors behind guaranteed funds.

Applied to retirement funds, risk reflects any variable that prevents a retirement fund from achieving its intended objectives of providing adequate retirement income (Mangiero, 2006; Yermo, 2007). The impediments to retirement fund objectives may include failure by the sponsors to meet their promises, stock market volatilities and operational inadequacies (Mangiero, 2006). According to Mangiero (2005), “retirement fund risk management implies management of multiple risk types – such as financial, operational and legal risks and assumes the use of derivatives.” Mangiero (2005) thus views retirement fund risks as including both operational and financial uncertainties.

Bikker et al. (2009) concur that retirement funds are instrumental in the transfer of risk from individuals to collectives and hence are better risk managers compared to individual investors since they have incentives to invest long run and bear the long-term risks. The collectivism of the retirement fund members enables them to bear risk that would have been otherwise avoided thus making them more efficient (Bikker et al. 2009).
The above discussion shows that collective approach to risk management is quite critical, thus a pension fund is a good approach to capitalize on available opportunities in the market and maximize retirement savings for its members. Thus, the performance of these schemes is very important and must be managed taking into account all the risk there is in the market.

2.2.3 Minimized Administrative Costs
Guaranteed Pension Funds would also minimize administrative costs by doing away with the need to have the funds trustees along with required service providers doing the day to day running of the pension funds (Hauston et al., 2008). Since the insurance companies are already established professional institutions who are running particular schemes alongside many others and also doing other related businesses, the administrator per scheme and ultimately per member is minimal. Furthermore, since the guaranteed minimum rate of return is already in place, there is no likelihood of administrative expenses ever eating into the member contributions (Hauston et al., 2008).

Depending on how they are set, fees and charges can reduce the net contribution paid into the individual account or the assets accumulated. White House (2001) has noted that, an increase in the annual management charge of 1% of funds under management can reduce accumulated assets by as much as 20% (over a 40-year period). Therefore, the impact of fees can be substantial. Seeking to ensure that costs are not excessive and are fully and transparently disclosed is therefore an important aspect of pension schemes (Whitehouse, 2001).

Mulgan, Reeder, Aylott and Bo’sher (2012) concluded that pension funds reduce the cost of transacting by negotiating lower transactions costs and custodial fees professional asset management costs are shared among many pension funds and are markedly reduced as a consequence. The direct participation costs to pension funds of acquiring information and knowledge needed to invest in a range of assets, as well as in undertaking complex risk trading and risk management are reduced (although costs of monitoring the asset manager remain). One can also tell that costs are minimized during the difficult economic periods when all or most of the other fund managers are returning losses but the insurance companies still return at least the minimum guaranteed return White House (2001).

2.2.4 Economies of scale and Fund Size
One of the controversial issues in retirement fund management literature is the relationship between fund performance and the size of the retirement fund. Research points to a positive
relationship between fund size and fund performance (Bikker and Dreu, 2009; Chen, Hong, Huang and Kubit, 2004; Mahon and Donohoe, 2006; Ahmad, 2009; Vittas, Impavido and O’Connor, 2008; Ardon, 2006). By implication, the bigger the retirement fund the better the performance of the fund (Dahlquist, Engstrom and Soderlind, 2000; Gallagher and Martin, 2005). On the other hand, Chan, Faff, Gallagher and Looi (2004) found no association between the fund size and performance. Empirical studies are therefore still inconclusive on the optimal size of a retirement fund.

The issues of economic and efficient administration of retirement funds and its relation to size were first documented in Caswell (1976). According to Caswell (1976), retirement funds in the construction industry experienced economies of scale that were related to their size. Caswell (1976) defined economic efficiency as consisting of the achievement of predetermined objectives with a minimum expenditure of resources. Economies of scale are defined as the relationship between changes in the physical units of output and monetary costs associated with the inputs. Retirement funds should operate on the appropriate scale; not too big, not too small (Caswell, 1976).

According to Mahon and Donohoe (2006), Blake, Lehmann and Timmermann (2001) and Zera and Madura (2001), significant economies of scale exist in retirement fund administration. They suggest that smaller retirement funds bear excessive operating costs per participant since many of their expenses are fixed. The most important factor affecting retirement fund costs therefore is size determined on the basis of the number of members in the retirement funds (Mahon and Donohoe, 2006).

Large retirement funds are also more efficient than the smaller ones because there are significant economies of scale in paying benefits, keeping records and investing funds effectively (Ghilarducci and Terry, 1999). In large retirement funds technological advances permit a reduction in expenses, internal reorganization produces price advantages and cost reductions. Greater specialization improves efficiency (Ghilarducci and Terry, 1999).

**2.2.5 Pension Fund Returns in Bad Economic Years**

According to Lindset (2004), absolute guarantees usually provide a relatively high rate of return where the market as a whole, or the underlying asset of the contract that has the guarantee embedded, in particular, has a low rate of return. This can make this guarantee rather expensive to the insurance company. Since many financial assets are positively correlated, a low rate of return on the underlying asset of the contract will often coincide
with a low rate of return on the reference portfolio. This will typically make the relative guarantee cheaper than the absolute guarantee, simply because it gives a poorer protection against lower rate of returns (Lindset, 2004).

Insurers and pension funds have various tools to address the risk of persistently low interest rates. First, if they expect a further down slide in interest rates, they can seek to increase the duration of their assets in order to ensure a better duration match between assets and liabilities (Mor, 2015). Second, insurers can alter the terms of new policies (lowering guaranteed rates), thereby progressively lowering liabilities, while pension plan sponsors could close down the plan and offer less attractive terms to new employees. Third, in the case of DB pension funds, pension plan sponsors and where relevant, plan members could increase contributions to the pension fund. Fourth, and as a last resort, insurers and pension funds in some countries may be able to renegotiate or unilaterally adjust existing contracts (Antolin, Schich & Yermo, 2011).

Meerten, Brink and Vries (2011) added that in some countries, for instance, pension plan sponsors or the pension funds themselves have discretion regarding the level of indexation of pension benefits, and in some cases they can also reduce accrued benefits. In this last resort scenario, international diversification could be further promoted, and the adjustment of expectations would call for appropriate communication with the beneficiaries.

### 2.3 Limitations of Guaranteed Pension Schemes

#### 2.3.1 Trustees Involvement in Investment Strategy Decisions

Stanko (2002) defines “investment strategy” as the assortment of investments made by retirement funds. The investment strategy determines the investment mix of the total funds of a retirement fund that aims at having a careful balance between investment risks and returns (Stanko 2002; Eichholtz and Margaritova, 2009). The investment strategy is therefore a plan that guides the choice of the investments that retirement funds make and by extension the returns funds return.

Risky assets (equity investments) generally generate higher returns compared to the less risky ones (bonds) (Eaton and Nofsinger, 2001). Guaranteed funds majorly invest in bonds and segregated funds in equity. This positive relationship between risk and returns causes a dilemma since to get more returns; retirement funds have to take more risks (Eaton and Nofsinger, 2001). It is therefore suggested that retirement funds adopt appropriate
investment strategies that provide higher returns on investments with moderate risks (Eaton and Nofsinger, 2001).

According to organization for economic cooperation and development OECD (2006), the investment strategy varies depending on the type of retirement fund. In the case of a DB, the goal of the investment strategy is to generate the highest possible returns consistent with the liabilities and liquidity needs of the retirement fund. In a DC retirement fund, the main goal of the investment strategy is to generate gains that accrue to individual member account balances in light of the investment goals. The investment strategy thus contributes to the returns obtained on investments, which directly impacts on the financial efficiency of the retirement fund (OECD, 2006).

The appropriate investment strategy should be anchored on four pillars namely: the prudent person rule (ensuring that all investments made are in the best interests of members), diversification (ensuring that retirement investments are not concentrated in a specific asset), maturity matching (ensuring that investments mature as liabilities become due) and it should have a clear statement of investment policies (Kyiv, 2003).

An investment strategy ensures that retirement funds do not act haphazardly in times of stock market volatility (Springer and Cheng, 2006). The strategy ensures that the management is aware of the strategy relating to buying and holding of investments such that assets are purchased when prices are low and short-term ones are disposed of when prices are high (Kake, 2006).

The investment strategy contributes to better re-investment plans (Eaton and Nofsinger, 2001). According to Eaton and Nofsinger (2001), the reinvestment plans involve ploughing back the earnings to the same high yielding assets to take advantage of compounding effect. In addition, the investment strategy should result in savings in the form of taxation on the investment returns generated since it focuses on the more tax efficient investments (Kakes, 2006).

**2.3.2 Trustees Involvement in Returns’ Decisions**

Insurance Companies are registered and regulated by the Insurance Regulatory Authority, a statutory government agency established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya to regulate, supervise and develop the insurance industry. Insurance companies engaged in the pension industry enter into an agency relationship with pension scheme trustees to provide guaranteed fund services. According to an unpublished
paper presented in a Breakfast held in March 2017 by Mr. Einstein Kihanda of ICEA Asset Managers to Association of Retirement Benefit Schemes (ARBS) the Trustees select the guaranteed fund option. The insurance companies then manages investments in accordance with investment policy of the pooled guaranteed fund and in line with the provisions of the Insurance Act. The insurance company is fully responsible for the governance and investments of the funds. Therefore company make all investment decisions and declare the annual rate of return, comprising the minimum guaranteed rate plus bonus rate without any recourse to the trustees.

According to Gale, John and Kim, (2016), a rate of return guarantee is an insurance policy that ensures that the saver receives a certain return on his or her investments. When those investments earn less than the guarantee over a set time period, the saver receives the difference between the actual earnings and the promised amount from the guarantor. If the investments earn more that the guarantee, the investor receives the investment earnings; the insurer (government or private) does not make a payment. Because the trustees, have entered an agency agreement to run the schemes on their behalf in exchange for the guaranteed rate of returns, Gale, et al (2016) say that the trustees are excluded from the decisions on returns with two serious disadvantages as follows. First, the trustees pay for the guarantee by accepting restrictions on their investment portfolio in allowing the insurer to manage the fund and pay a minimum return plus any additional amount that trustees deem appropriate. Secondly, the trustees end up forfeiting possible higher returns for their investments. In exceptionally good years, therefore the insurance pension issuer declares conservatively low annual rate of returns.

Although nothing is published yet, I have established that discussions have been ongoing between Retirement Benefits Authority and Insurance Regulatory Authority with the former asking for details of the process that is used by the guaranteed pension issuers to arrive at the annual rate of returns for the guaranteed pension funds.

2.3.3 The Insurance Companies Level of Returns
A study by Bikker and Dreu (2009) reported that pension fund costs incurred in administration and investment management lead to low retirement benefits and returns on investments since the costs are paid to external consultants. Management of these costs should therefore lead to increased pension fund outputs (higher year end asset values and retirement benefits).
Pension fund returns are achieved in a complicated investment environment that rewards high risk with high returns (Balurdottir, 2000). High risks expose pension funds to greater losses in the event of failure of the stock markets. Pension funds are therefore called upon to set strategies that enable them to achieve returns while carefully considering the risks that they expose members to. Achievement of an acceptable balance between risk and returns in the investment strategy is therefore a distinguishing factor between efficient and non-efficient pension funds (Bikker and Dreu, 2009).

According to Bijl, (2015), to cover themselves from possible adverse economic years in the future, but still be able to guarantee the pension schemes a minimum level of return attractive enough to keep their funds with them, the insurance companies set the guaranteed minimum rates of return rather conservatively low. “Determining the guaranteed minimum rate of return is very important for pension funds and insurance companies since this rate can represent a value and form a potential hazard to the solvency of the company. (Bijl, Firmin 2015). These guarantees could represent a value if the return on the company’s investments is high relative to the guaranteed minimum return. In this case the minimum guaranteed rate is far lower than the market rate of return, therefore the risk associated with these guarantees can be neglected and they do not constitute a threat to solvency. However, if pension funds and insurance companies experience significantly lower returns on their investments, unfortunate events could be triggered.” (Bijl, Firmin 2015). In Italy for instance, Bacinello (2001) found that Treasury Bonds and fixed-income securities earned up to 20% per annum to match the high level of inflation. In this same market environment, commonly guaranteed rate was around 3% per annum. This was a completely inadequate rate, and cause marketability of such products to be seriously jeopardized. According to Hansen and Miltersen (2002), this practice of setting a conservative minimum rate of return and compensating the customer through bonus payments was adapted by most Danish pension funds.

2.3.4 Regulation of the Insurance Companies

According to IOPS (2007) and the OECD (2002), pension fund regulation involves “the oversight of pension funds and the enforcement of and promotion of adherence to compliance with regulations relating to the structure and operation of pension funds with the goal of promoting a well-functioning pensions sector.” IOPS (2007) thus suggests that
pension-regulating institutions be set up to oversee pension funds and enforce the regulations.

Hu, Stewart and Yermo (2007) identified two approaches to pension fund regulation as Quantitative Asset Restrictions (QAR) and the Prudent Person Rule (PPR). QAR involves legally limiting the percentage of assets that can be invested in a specific asset class by a pension fund. The PPR rule involves the legal expectations of the governing body in respect of obligations relating to the investment management function with the requisite level of skill and knowledge and to obtain external assistance where it lacks such expertise (Hu et al., 2007).

Typical components of pension regulation include licensing (restricting and controlling pension funds entry in the industry), governance, investing and disclosure of information to the stakeholders (Eijffinger and Shi 2007). Other modules suggested for regulation in (IOPS 2008b:8) include: monitoring (tracking performance and actions of the trustees and service providers), communication (providing regular reports to the industry and announcing their priorities and compliance strategies), analysis (evaluating financial status of pension funds against benchmarks of the entire industry), intervention (imposing sanctions where there is non-compliance with the pension law) and correction that may be punitive, remedial or compensatory.

The Retirement Benefits Act 3, 1997 gives elaborate investment guidelines for pension schemes. According to the Kenya Subsidiary Legislation, 2017, Part V, 2 and 3 however, says that “Any portion of a scheme fund which is not invested in guaranteed fund issued by an approved issuer shall for the purposes of this regulation be treated as the aggregate market value of total assets of the scheme and be invested without regard to the portion of the scheme fund invested in guaranteed fund. The prescribed investment guidelines shall not apply to an approved issuer with regard to the investment of guaranteed funds, (The Retirement Benefits Act 3, 1997). This gap is left by design owing to the fact that guaranteed pension fund issuers who are largely insurance companies fall under the Insurance Regulatory Authority.
2.4 Suggestions for Improvement of Guaranteed Pension Funds

2.4.1 Consideration of Annual Inflation Rates

According to Pennacchi (1999), the most important and first objective of pension scheme trustees is to preserve the principal capital contributions of the members. Capital preservation in its absolute value as contributed by members is however not very useful. Capital preservation is “an investment strategy where the primary goal is to preserve capital and prevent loss in a portfolio. Preservation of capital is a priority for retirees and those approaching retirement, since they may be relying on their investments to generate income to cover their living expenses, and have limited time to recoup losses if markets experience a downdraft. Pennacchi (1999) says that this strategy would necessitate investment in the safest short-term instruments, such as treasury bills and certificates of deposit.

In summarizing the problems created by the PAYG system in Sweden, Sunden (2000) reveals a decrease in real pensionable wage as the flat pension guaranteed by the state was not indexed to inflation; an unsystematic and inequitable distribution of contributions through taxes and benefits since contributors contribute for longer periods than they earn the benefits; and labour distortions which increases pension expenditure

Pension funds are long-term investors because the obligations the funds are supposed to meet become due over the course of many years (O’Neill 2007). Good returns on investment are crucial to maintain and encourage sustainable pension payments after retirement. O’Neill (2007) recommends the inflation adjusted returns on investment as the best measure of the rates of return and suggests that an efficient pension fund is one that achieves high inflation adjusted rates of return over the years of its existence.

According to Gale, et al (2016), the benefit of capital preservation may become completely useless inflation rate remain above the guaranteed minimum rate of return given by the guaranteed pension funds issuers. As long as inflation is positive, ensuring a real return of “x” percent will cost more than ensuring a nominal return of “x” percent. Pennacchi (1999) identified the insidious effect of inflation on the rate of return from “safe” investments over prolonged periods of time as is the case in guaranteed pension schemes as a major drawback to capital preservation strategy. This necessitate regular reviews of the guaranteed minimum rate of return to ensure it does not remain below the inflation rate.
2.4.2 Review of Guaranteed Minimum Rate of Returns

As indicated earlier, the minimum guaranteed rate of returns for guaranteed pension schemes in Kenya has remained at an absolute 4% since the year 2000. Jia & Le-Ngoc (2011) observes that guaranteed minimum rate of return for guaranteed pension issuers need to be reviewed regularly to take into account both economic performance and inflation trends especially in countries where such rate is set as an absolute as opposed to relative. In most western economies the rate is set relative to other economic indicators. Jia & Ngoc (2011) says that this is for at least two good reasons. First, where the economic performance is good and the minimum guaranteed rate of return is relatively low, this becomes an inducement for the insurance companies to retain higher portion of the real returns. Secondly, in times of very bad years, the insurance companies may be driven into financial crisis by requiring them to pay more than they are able to.

Although we this is not published information, it is known that we have no regulation in Kenya requiring distribution of the retained earnings to except in years where actual performance is below the minimum guaranteed rate, this goes against the spirit of the RBA Act by allowing insurance companies to benefit unduly from the scheme assets. Gale, et al (2011) calls this the cost of the guarantee which he says may take the form of forfeited better portfolio decisions or better returns in better years where the rate is set conservatively low and regular review are not done.

2.4.3 Government and RBA Regulation

Pension fund investments can be controlled through asset class (ceiling on the proportion of specific classes in a pension fund’s portfolio), concentration of ownership (ceiling on the proportion of shares of a company that a pension fund can hold), by issuer (ceiling on the proportion of assets in a fund’s portfolio issued by the same institution), by security (ceiling on the proportion of individual securities in a fund’s portfolio) and by risk (minimum acceptable risk rating of securities) (Srivanis et al. 2000:9). Investment regulation is therefore done to balance the investment risks and returns (Srivanis et al. 2000).

In Kenya, pension funds are required to present annual audited accounts, triennial actuarial valuation of DB schemes, quarterly investment and custodian reports and any other financial information that may be required by RBA from time to time (Odunto 2008:11). The provision of this information ensures pension fund efficiency
through proper and timely provision of reliable financial information (Odundo 2008). Moreover, in Kenya, pension fund investment regulations issued by RBA in 2006 provide maximum investments in various classes of assets as follows: government securities (government bonds and treasury bills) 70%, commercial paper and corporate bonds 30%, quoted equity 70%, real estate 5%, off shore investments 15%, term deposits and cash 30%, guaranteed funds 100% and unlisted equities 5%. These limits in RBA’s view should provide guidelines to pension funds to tame their risk exposure while at the same time increasing their returns.

The Retirement Benefits Act 3, 1997 gives elaborate investment guidelines for pension schemes. According to the Kenya Subsidiary Legislation, (2017), Part V, 2 and 3 however, says that “any portion of a scheme fund which is not invested in guaranteed fund issued by an approved issuer shall for the purposes of this regulation be treated as the aggregate market value of total assets of the scheme and be invested without regard to the portion of the scheme fund invested in guaranteed fund. The prescribed investment guidelines shall not apply to an approved issuer with regard to the investment of guaranteed funds, (The Retirement Benefits Act 3, 1997). This situation is brought about by the overlap of Retirement Benefits Authority as a regulator of Retirement Schemes on the one hand and Insurance Regulatory Authority as the regulator of insurance companies who are the issuers for guaranteed pension schemes on the other.

2.4.4. Fund Efficiency and Governance

According to the RBA Act, 2000, insurance companies issuing pension services take on the responsibilities of the trustees. As such, they are holding the scheme assets in trust and therefore have fiduciary responsibility to the members and beneficiaries of such assets. In view of this, just like the trustees, the insurance companies hold legal title to the trust property (but not beneficial) received from a settlor and designated by the settlor per the trust agreement/deed for the benefit of members and/or beneficiaries. This being the case therefore, we don’t see in Kenya, a requirement of the insurance issuers to make full disclosures of the proceeds of the proceeds of the funds’ asset investments. Of course, it is expected that the insurance companies will recover their expenses for administration, management and other financial services, which as is the case in segregated pension schemes ought to be known and agreed on with the trustees in advance (Lee, 2010).
Pension fund management needs to be efficient because they have administrative responsibilities, they make decisions regarding entitlements and benefits and ensure that the long-term obligations are met in the context of risk and uncertainty (Clark 2003). This suggests that pension funds are like other business organizations in that they have goals and objectives to be realized and so their efficiency can be assessed on the basis of their ability to achieve these objectives.

Although corporate governance has attracted much attention in the recent past, focus has not shifted to governance and credibility of the pension systems as important determinants of guaranteed pension funds (Besley and Prat 2005). Additionally, there appears to be a research gap on the attributes of an effective guaranteed pension fund board of trustees in terms of composition; whether to provide finance education to the trustees or whether to compensate trustees for the services they offer to enhance competence and efficiency.

In empirical models, pension fund governance is measured by the use of board composition and financial expertise of trustees variables (Hsin and Mitchell 1997), plan management practices based on expense ratios (Mitchell and Yang 2005), as well as decisions on whether funds outsource their services (Bikker and Dreu 2009). Additionally, Mitchell and Yang (2005) show that governance variables of a pension fund may also include trustee board composition (proportion of active and retired trustees). Governance of a pension fund is also determined by the pension fund sponsor, be it a public enterprise, private enterprise or a financial institution for an individual retirement fund (Bikker and Dreu 2009). In 2013, The Retirement Benefits Authority (RBA) implemented various policies and initiatives geared towards enhancing development and growth of the pensions subsector. The target was increased pension coverage, where insurance companies are a key player; promote good governance and ensure better risk management for licensees (Kenya Financial Sector Stability Report, 2013). Due to the earlier mentioned overlap however, some of the regulations are not applied on guaranteed pension funds by virtue of being managed by insurance companies.

2.4.5 Trustees Involvement in Running the Schemes

According to The Pensions Authority (2016), a Trustee Handbook by in Ireland, trustees should take great care in selecting the person or organization to whom they delegate a specific function and should monitor and review the actions of that person or organization at regular intervals. Trustees should put a service level agreement in place when delegating
any of their functions to any person or organization. As indicated above in 2.3.2, trustees of guaranteed pension schemes enter into an agency relationship with issuing insurance companies but the said relationship leave them without the option of monitoring or reviewing the actions of the issuers beyond the declaration of the guaranteed minimum rate of return.

According to the Retirement Benefits Act (1997), a trustee is responsible for a retirement scheme fund which represents the security and peace of mind of members looking forward to retirement. The trustee must be knowledgeable and accountable in a number of areas including applicable law, investments, scheme administration and accounting. The Act underscores the importance of the trustee’s need to understand not only the nature of how the trust works, but also the responsibilities that come with the task. Although a trustees may not have to personally comply personally with most of the legislation, they should ensure that the service providers and /or advisors do so on their behalf. The Retirement Benefits Act (1997) Rules and Regulations require that all trustees must be certified.

The Board of Trustees is the highest governing organ of any private pension scheme in Kenya. For this reason, the trustees have fiduciary duties and responsibilities to the beneficiaries of the schemes they are vested with and all other parties, be they committees or service providers derive their fiduciary relationship with the beneficiaries from delegation by the trustee board. This fiduciary relationship as established in the RBA ACT (2000), require that the trustees act prudently, be loyal to beneficiaries, and avoid conflict of interest and not to profit personally from fund assets, among others. Against this background, and unless the issuing insurance companies 100% take the role of a trust corporation, thereby nullifying the need for the pension trustees, the trustees need to still maintain their position at the center of the running of the pension fund activities (Lee, 2010).

The trustee may therefore delegate several functions of the guaranteed fund to service providers including accountants, administrators, custodians, lawyers, fund managers, insurance issuers, and other advisers, but their supervisory role cannot be delegated (ICEA Lion Life Assurance, 2016).
2.5 Chapter summary

This chapter has reviewed literature on the three specific research objectives that shall govern the scope of this study: the benefits of guaranteed pension schemes, limitations of guaranteed pension schemes and suggestion on how to improve guaranteed pension schemes in Kenya. The next chapter will describe the research design and methodology, outlining how data shall be sourced and analyzed for interpretation.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this study was to review guaranteed pension schemes in Kenya. This chapter presents the research design, target population, sampling design, data collection methods, research procedures and data analysis methods that was used in this study.

3.2 Research Design

According to Cooper and Schindler (2014) research design is the comprehensive plan, structure or strategy of collecting data with the aim of obtaining answers to various research questions. It entails what the study is about, the reasons for carrying out the study, the location of the study, the type of data required, the possible sources of the data, the time periods of the study, the sample design, data collection techniques, data analysis methods and the style of preparing the final report. Sekaran and Bougie (2013) noted that there are three types of research design namely; descriptive, explanatory, and exploratory research designs. A descriptive study attempts to describe systematically a problem or provides information about a situation with the aim of showing what is prevalent with respect to the issue. An explanatory study goes beyond descriptive observations and attempts to clarify why and how there is a relationship between variables (Kumar, 2011). In exploratory research, a study is undertaken to explore an area about which little is known for feasibility or pilot study in order to assess if it is worth carrying out a full detailed investigation (Zikmund, 2013).

This study used a descriptive research design to review guaranteed pension schemes in Kenya. According to Kumar (2011), a descriptive study aims to discover or establish the existence of relationships or independence between two or more aspects of situations. A descriptive research design is fitted for this study because an independent variable causes change in a dependent variable. In addition, descriptive design is fit for this study as it establishes a relationship and association between several variables in the same population (Leedy & Ormond, 2015).
The study gathered qualitative data and quantitative data from trustees of guaranteed pension schemes listed by Retirement Benefits Authority. Majority of the data sought was mainly quantitative. This is because quantitative data is always number-based and usually less in-depth but more breadth of information across cutting a large number of cases. It stands out as more objective than qualitative since it provides observed effects of a program on a problem or condition. The researcher can be guaranteed to get fixed responses and various statistical tests in analysis are possible with the use of quantitative data (Ekanem, 2010).

3.3 Target Population

Saunders, Lewis and Thornhill, (2016) defined a target population as the full set of cases from which the sample is taken and which the researcher wants to generalize results from. Zikmund, Babin, Carr, and Griffin (2013) similarly define target population as all elements or people that a researcher would like to study. In other words, a target population comprises of all individuals, events or objects that have common characteristics and from which the researcher wants to generalize results (Cooper & Schindler, 2014). The Target population for this research was drawn guarantee pension schemes in Kenya, which is not homogeneous in nature. The study targeted 829 guaranteed pension schemes. Saunders et al., (2016) recommend that, where no suitable list exists, the researcher will have to compile their own sampling frame to ensure that it is valid and reliable.

3.4 Sampling Design

Sampling design is the method used to find a sample from a specific population and as such it is the procedure that a researcher uses while selecting items for the study’s sample (Cooper & Schindler, 2014). The sampling design comprises of the sampling frame, sampling technique and sample size.

3.4.1 Sampling Frame

Saunders et al. (2016) define sampling frame as the complete list of individuals or entities in the population, from which a probability sample is drawn and to which study findings are to be generalized. The study focused on 829 guaranteed pension schemes listed by the Retirement Benefits Authority of Kenya.
3.4.2 Sampling Technique
Sampling techniques provide a way in which a researcher scientifically selects the elements to be studied. It is a process of selecting representative elements from the whole population in order to generalize the results (Saunders et al., 2016). Sampling techniques can be either probability sampling or non-probability sampling (Creswell, 2014). Probability sampling is a sampling technique in which every member of the population has a known, non-zero probability of selection, whereas in non-probability sampling, units of the sample are selected on the basis of personal judgment or convenience (Zikmund et al., 2013). This study used stratified random sampling technique. According to Saunders et al. (2016) stratified random sampling is a probability sampling technique in which the population is divided into two or more relevant strata and a random sample is drawn from each stratum.

3.4.3. Sample Size
The sample size is a subset of the population or the number of items to be selected from the population to constitute a sample (Creswell, 2014). The sample size of a study is of major concern to the researcher as it aims to remove bias in the selection of the sample (Kumar, 2011). According to Zikmund et al., (2013), a small sample size may not serve to achieve the study objectives and a large one may incur huge cost and waste resources. While choosing the sample size, scientific methods need to be used. Saunders et al., (2016) argue that when the sample size is large, then there is a lower likelihood of error in generalizing the population.

According to Mugenda and Mugenda (2010), the sample picked to represent the population was guided by the formulae below (Yamenes formulae):

\[
n = \frac{N}{1 + N(e)^2}
\]

Where; \(n\) = Sample size, \(N\) = Population size and \(e\) = confidence level (0.06)

The target population for the study was 8200 small business ventures. From the above formulae, the sample size was, \( n = \frac{829}{1+829 (0.0036)} = 208\)
3.5 Data Collection Methods

The study used questionnaire to collect data from employees and trustees of guaranteed pension schemes in Kenya. Christensen, Johnson, and Turner (2014) argue that questionnaires are the most commonly used method of data collection because they enable a researcher to save time, as it is possible to collect a large amount of information in case of large population. However, the authors caution that questionnaires must be kept short and that they are subject to non-response to selective items as well as reactive effects. The questionnaire is divided into various sections and aim to first capture general information about the respondents, and then to solicit specific information arising from the research objectives/questions. The questionnaires was self-administered to the respective respondents who were asked to indicate their response on a five-level Likert scale ranging from 1 to 5 where 1 reflected Strongly Disagree, 2 reflected Disagree, 3 reflected Neutral, 4 reflected Agree, and 5 reflected Strongly Agree.

3.6 Research Procedure

3.6.1. Permission

Permission to conduct this research was granted in stages: initially by the research supervisors and then the Dean, Chandaria School of Business (Appendix D).

3.6.2. Pilot Study

Zikmund et al., (2013) define a pilot study as a small-scale research project that collects data from respondents similar to those that was used in the full study. The purpose of piloting was specially to test the questionnaire and any weaknesses that may exist in it. Bryman (2011) posits that pilot studies are particularly crucial in self-completion questionnaires since the interviewer was not present to clear up any confusion. Further, inappropriate questions and instructions can be identified and corrected. Bryman and Bell (2011) recommend that the pilot should not be carried out on people who might be members of the sample employed in the full study as that may affect representativeness of any subsequent sample. Instead, it is best to find a small set of respondents who are comparable to members of the population from which the samples are taken.

According to Saunders et al., (2016), the pilot sample size should be sufficient to include any major variations in the population that are likely to affect responses, and recommend a
minimum number of 10 respondents. Once data for pilot testing was collected, it was coded and entered in SPSS to test for reliability and validity of the research instrument.

3.6.3. Administration of the Instruments

This study made use self-administered questionnaires. According to Bryman and Bell (2011), with a self-administered questionnaire (SAQ), respondents answer questions by completing the questionnaire themselves. As there is no interviewer in the administration of the self-completion questionnaire, the research instrument has to be especially easy to follow and its questions have to be particularly easy to answer (Saunders et al., 2016).

Bryman and Bell (2011) describe several advantages to using self-administered questionnaires over structured interviews: They are quicker to administer; there is absence of interviewer effects; no interviewer variability; and convenience for respondents. However, self-administered questionnaires have some shortcomings as well and these include: no one present to prompt if needed; cannot probe; have to ensure questions are salient to respondents; difficulties of asking questions in a different way; respondents can read all the questions before they start answering and this means they are not independent of each other; cannot ask a lot of questions; there is a risk of missing data and also poor response rates (Bryman & Bell, 2011; Cooper & Schindler, 2014).

3.6.4. Ethical Considerations

Ethics in research have to do with the appropriateness of the researcher’s behavior in relation to the rights of those who become the subject of a research project, or who are affected by it. In order to advance knowledge and find solutions to problems, it is often necessary to impinge on the rights of individuals and it is necessary for the researcher to give consideration to such ethical issues (Saunders et al., 2016; Zikmund et al., 2013). According to Christensen et al. (2014), research ethics are a set of guidelines to assist the researcher in conducting ethical research and comprise three areas: relationship between society and science; professional issues; and treatment of research participants. Of particular concern in business research are professional ethics and misconduct. Research misconduct includes ‘fabrication, falsification or plagiarism in proposing, performing or reviewing research (Christensen et al., 2014).
3.7 Data Analysis Methods

3.7.1. Data Preparation
The data collected was cleaned up of errors and to remove inconsistencies, incompleteness, misclassification and gaps in the information obtained from the respondents (Kumar, 2011). Missing data is a common problem with questionnaires and can come in several forms: Invalid data is data with entry errors; Incomplete data is missing data needed to make a decision; inconsistent data could result from mistakes of aligning databases; while incorrect data occurs when data is falsified (Cooper & Schindler, 2014).

3.7.2. Descriptive Statistics
Descriptive statistics are measurements that depict the center, spread, and shape of distributions and are helpful as preliminary tools for data description. They help to describe the basic features of the data, to organize and summarize it in a simple way (Cooper & Schindler, 2014; Peck & Devore, 2012). Descriptive statistics make it possible to discern patterns that are not clearly apparent in the raw data through use of graphs, pie charts, and tables for ease of visual explanation. Descriptive statistics include measurement of central tendency and dispersion (Saunders et al., 2016).

There are various measures of central tendency and the choice of which to use is based on certain criteria. According to Kumar (2011), a measure of central tendency is good or satisfactory if it possesses the following characteristics: It should be based on all observations; it should not be affected by extreme values; it should be close to the maximum number of observed values as possible; it should have a definite value; it should be subjected to complicated calculations; it should be capable of further algebraic formulation; and it should be stable with regard to sampling.

3.8 Chapter Summary
This chapter has entirely discussed the items that entail research methodology of the study. The research design was the first to be discussed where the researcher extensively defined what research design is and went ahead to explain the type of design used in the study. The chapter then explained what population means and the target population for the study clarified. The researcher has elaborated details of the sampling design, sampling frame, sampling technique and the sample size for the study. The data collection method for the study was expounded upon including the instruments the researcher used to collect data in the field. A research procedure was also deliberated upon. The chapter has finally defined
data analysis and discussed data analysis methods used in the study. The next chapter discussed the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter brings out the results and findings of the study. The researcher administered 210 questionnaires targeting a sample of 208 guaranteed pension schemes from a population of 829 pension schemes in Kenya. More questionnaires than the actual sample (208) were employed to help increase response rate. Out of the 210 administered questionnaires, 151 questionnaires were completed and returned, giving a response rate of 72% while the rest were not returned. The chapter begins with the analysis and reports on general information with respect to the respondents; the second part follows with reports regarding the benefits of guaranteed pension schemes. The third part covers report on the analysis relating to the limitations of guaranteed pensions schemes. The forth part gives a highlight analysis and report on the suggestions for improvement of guaranteed pension schemes.

4.2 Demographic Information

4.2. Number of Members in Schemes
Majority, 18.5% of the schemes had no members aged 25 years and below, while the minority, 2% had 9 members aged below 25 years as shown in figure 4.1 below.

![Figure 4.1: Number of members for schemes](image-url)
The research found out that majority 11.3% of the schemes had 13 members aged between 26-35 years, while the minority 7% had 5, 14, 21, and 41 members aged between 26-35 years as shown in figure 4.2 below.

![Figure 4. 2: Scheme members between 26 - 35 years](image)

The research found out that the majority 13.2% of the schemes had 18 members aged between 36-45 years of age, while there was a minority of 7% who had 13, 14, 28, 30 members whose age was between the 26-45 years bracket as shown in figure 4.3 below.

![Figure 4. 3: Scheme members between 36 - 45 years](image)

The research also found out that majority 18.5% of the schemes had 40 members aged above 45 years, followed by 17.9% that had 36 members aged above 45 years. However,
the minority 7% had some significant amount of members aged above 45 as shown in figure 4.4 below.

![Figure 4.4: Scheme members above 45 years](image)

### 4.2.1 Level of Education

The research found out that majority of the members of the schemes, 56% had bachelor’s degree, while the minority 43% had post graduate degrees as shown in table 4.1 below.

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bachelor Degree</td>
<td>85</td>
<td>56.3</td>
<td>56.3</td>
<td>56.3</td>
</tr>
<tr>
<td>Post graduate</td>
<td>66</td>
<td>43.7</td>
<td>43.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### 4.2.2 Period of Being in Pension Schemes

The research found out that majority of the members 26.5% have been in a scheme for 6-10 years, while the minority 6% have been in a scheme for less than a year, as shown in table 4.2 below.
### Table 4.2: Period of being a member of a scheme

<table>
<thead>
<tr>
<th>Period of being a member of a scheme</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1 year</td>
<td>9</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>1-5 years</td>
<td>38</td>
<td>25.2</td>
<td>25.2</td>
<td>31.1</td>
</tr>
<tr>
<td>6-10 years</td>
<td>40</td>
<td>26.5</td>
<td>26.5</td>
<td>57.6</td>
</tr>
<tr>
<td>11-20 years</td>
<td>37</td>
<td>24.5</td>
<td>24.5</td>
<td>82.1</td>
</tr>
<tr>
<td>21 and above</td>
<td>27</td>
<td>17.9</td>
<td>17.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

#### 4.2.3 Period of being a trustee in a pension scheme

The research found out that the majority 39% of the schemes had trustees who have been in office for a period between 1-3 years, while the minority 5% have trustees who have been in office for more than 6 years as shown in table 4.3 below.

### Table 4.3: Period of being a trustee in a pension scheme

<table>
<thead>
<tr>
<th>Period of being a trustee in a pension scheme</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1 year</td>
<td>28</td>
<td>18.5</td>
<td>18.5</td>
<td>18.5</td>
</tr>
<tr>
<td>1-3 years</td>
<td>60</td>
<td>39.7</td>
<td>39.7</td>
<td>58.3</td>
</tr>
<tr>
<td>3-6 years</td>
<td>55</td>
<td>36.4</td>
<td>36.4</td>
<td>94.7</td>
</tr>
<tr>
<td>6 and above</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

#### 4.2.4 Fund size of pension schemes

The research found out that in terms of fund size, majority 51% of the schemes have less than 100 Million, while the minority 5% have between 300-400 Million as shown in table 4.4 below.
Table 4.4: Fund size of pension schemes

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Ksh. 100 million</td>
<td>77</td>
<td>51.0</td>
<td>51.0</td>
</tr>
<tr>
<td>Between Ksh. 100 – 200 Million</td>
<td>11</td>
<td>7.3</td>
<td>7.3</td>
</tr>
<tr>
<td>Between Ksh. 200 – 300 Million</td>
<td>17</td>
<td>11.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Between Ksh. 300 – 400 Million</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Between Ksh. 400 – 500 Million</td>
<td>18</td>
<td>11.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Above Ksh. 500 Million</td>
<td>20</td>
<td>13.2</td>
<td>13.2</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.5 Number of Scheme Members

The research also found out that majority 50% of the schemes had below 100 members, while less than 1% of the schemes have more than 500 members as shown in table 4.5 below.

Table 4.5: Number of scheme members

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 100 members</td>
<td>76</td>
<td>50.3</td>
<td>50.3</td>
</tr>
<tr>
<td>Between 100 – 200 members</td>
<td>55</td>
<td>36.4</td>
<td>86.8</td>
</tr>
<tr>
<td>Between 200 – 300 members</td>
<td>19</td>
<td>12.6</td>
<td>99.3</td>
</tr>
<tr>
<td>Above 500 members</td>
<td>1</td>
<td>.7</td>
<td>.7</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.2.6 Minimum Guaranteed Rate of Return in 2016

The research found out that majority 88% of the schemes had a minimum guaranteed rate of return of 4%, while the minority 5.3% have a minimum guaranteed rate of return of 2% as shown in table 4.6 below.

Table 4. 6: Minimum guaranteed rate of return in 2016

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.00</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>4.00</td>
<td>134</td>
<td>88.7</td>
<td>94.0</td>
</tr>
<tr>
<td>9.00</td>
<td>9</td>
<td>6.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.7 Regular Review of Minimum Guaranteed Rate of Return

The research found out that majority 76.2% of the schemes do not have their minimum guaranteed rate of return reviewed regularly, while the remaining 23.8% have had regular reviews of minimum guaranteed rate of returns as shown in table 4.7 below.

Table 4. 7: Regular review of minimum guaranteed rate of return

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>36</td>
<td>23.8</td>
<td>23.8</td>
</tr>
<tr>
<td>No</td>
<td>115</td>
<td>76.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.8 Actual Rate of Returns in Recent Years

The research found out that the majority 23.2% of the schemes had a 13.5% actual rate of return in the year 2012, while 5% if the schemes has 10% actual return in the same year as shown in figure 4.5 below.
The research also noticed some significant improvement in the year 2013, as majority 27% of the schemes had an actual rate of return of 14%, while less than 1% of the schemes had 11% rate of return as shown in figure 4.6 below.

The research found out that, in the year 2014, majority 62% of the schemes recorded a 12% actual rate of return, while less than 1% had either 1.2%, 2.5%, 8% and 15% as shown in figure 4.7 below.
The research also found out that in year 2015, there was a significant drop in returns, as 24.5% of the schemes had a 5% actual rate of return, while 19% had a return of 8.3%, and the minority 5.3% has an actual return of 2% as shown in figure 4.8 below.

**Figure 4.8: Actual rate of return in 2015**

4.3 Benefits of Guaranteed Pension Schemes

4.3.1 Means of Capital Preservation and Loss Prevention
The research found out that majority 55.6% of the schemes strongly agree that Guaranteed Pension Schemes are a good means of capital preservation and loss prevention, while minority 6% disagree are not of the same opinion as shown in table 4.8 below.
Table 4. 8: Means of capital preservation and loss prevention

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>9</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Agree</td>
<td>58</td>
<td>38.4</td>
<td>38.4</td>
<td>44.4</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>84</td>
<td>55.6</td>
<td>55.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.3.2 Transfer of Investment Risk

The research found out that majority 72.8% of the schemes strongly agree that, in guaranteed pension schemes, the members do not bear investment risks. All risks are transferred to the insurance company, while minority 5.3% of the schemes are not of the same opinion as shown in table 4.9 below.

Table 4. 9: Transfer of investment risk

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>6.6</td>
<td>6.6</td>
<td>11.9</td>
</tr>
<tr>
<td>Agree</td>
<td>23</td>
<td>15.2</td>
<td>15.2</td>
<td>27.2</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>110</td>
<td>72.8</td>
<td>72.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.3.3 Minimized Administrative Costs

The research also found out that majority 49/7% of the schemes strongly agree that by running a guaranteed pension scheme, administrative cost are minimized, while just 1% of the schemes disagree are not of the same opinion as shown in table 4.10 below.
Table 4. 10: Minimized administrative costs

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>16</td>
<td>10.6</td>
<td>10.6</td>
<td>10.6</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>1.3</td>
<td>1.3</td>
<td>11.9</td>
</tr>
<tr>
<td>Undecided</td>
<td>9</td>
<td>6.0</td>
<td>6.0</td>
<td>17.9</td>
</tr>
<tr>
<td>Agree</td>
<td>48</td>
<td>31.8</td>
<td>31.8</td>
<td>49.7</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>75</td>
<td>49.7</td>
<td>49.7</td>
<td>99.3</td>
</tr>
<tr>
<td>44.00</td>
<td>1</td>
<td>.7</td>
<td>.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.3.4 Economies of Scale

The research found out that majority 48.3% of the schemes strongly agree that guaranteed pension schemes benefit from the insurance company’s large economies of scale, while 11.3% disagree with the statement as shown in table 4.11 below.

Table 4. 11: Economies of scale

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>17</td>
<td>11.3</td>
<td>11.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Agree</td>
<td>61</td>
<td>40.4</td>
<td>40.4</td>
<td>51.7</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>73</td>
<td>48.3</td>
<td>48.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.3.4 Rate of Return in Drifting Economy

The research also found out that a majority 43% of the schemes strongly believe that during bad economic years, guaranteed pension schemes post higher rates of return that the general market, while 11.3% of the schemes are not of the same opinion as shown in table 4.12 below.
Table 4.12: Rate of return in drifting economy

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>18</td>
<td>11.9</td>
<td>11.9</td>
</tr>
<tr>
<td>Disagree</td>
<td>17</td>
<td>11.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Undecided</td>
<td>9</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Agree</td>
<td>41</td>
<td>27.2</td>
<td>27.2</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>66</td>
<td>43.7</td>
<td>43.7</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4 Limitations of Guaranteed Pension Funds

4.4.1 Trustees Involvement in Investment Decisions

The research found out that majority, 50.3% of the schemes strongly believe that trustees of guaranteed pension schemes are not directly involved in the investment decisions of the fund assets, while minority 5.3% strongly disagree with the same opinion as shown in table 4.13 below

Table 4.13: Trustees involvement in investment decisions

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>9</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Undecided</td>
<td>9</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Agree</td>
<td>49</td>
<td>32.5</td>
<td>32.5</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>76</td>
<td>50.3</td>
<td>50.3</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.2 Trustees Control over Rate of Return

The study found out that majority 58.3% agree that in particularly good years, the trustees of Guaranteed Pension Schemes have no control over the rate of return, while 6% are not of the same opinion as shown in table 4.14 below
Table 4. 14: Trustees control over rate of return

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>9</td>
<td>6.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Agree</td>
<td>88</td>
<td>58.3</td>
<td>58.3</td>
<td>64.2</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>54</td>
<td>35.8</td>
<td>35.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.4.3 Insurance Companies Level of Returns

The study found out that majority 74% of the schemes strongly agree that the guaranteed minimum rate of returns given by insurance companies are set at conservatively low level, while the minority of the schemes which constitutes less than 1% are not of the same opinion above as shown in table 4.15 below

Table 4. 15: Insurance companies’ level of returns

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>1</td>
<td>.7</td>
<td>.7</td>
<td>.7</td>
</tr>
<tr>
<td>Agree</td>
<td>38</td>
<td>25.2</td>
<td>25.2</td>
<td>25.8</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>112</td>
<td>74.2</td>
<td>74.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.4.4 Regulation of the Insurance Companies

The study found out that, majority 41.7% of the schemes strongly agree that statutory regulation of the insurance companies by the Retirement Benefits Authority is usually not close, while minority 12.6% of the schemes are not of the same opinion as shown in table 5.26 below.
Table 4.16: Regulation of the insurance companies

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>19</td>
<td>12.6</td>
<td>12.6</td>
</tr>
<tr>
<td>Undecided</td>
<td>22</td>
<td>14.6</td>
<td>14.6</td>
</tr>
<tr>
<td>Agree</td>
<td>47</td>
<td>31.1</td>
<td>31.1</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>63</td>
<td>41.7</td>
<td>41.7</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5 Suggestions for Improvement of Guaranteed Pension Schemes

4.5.1 Consideration of Annual Inflation Rates
The study found out that majority 63.6% of the schemes strongly agree that the guaranteed minimum rate of returns given by insurance companies need to take to consideration the annual inflation rates, followed by a 25.2% of the schemes as those who agree, and lastly a 10.6% of the schemes strongly disagree with the statement as shown in table 4.17 below.

Table 4.17: Consideration of annual inflation rates

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>16</td>
<td>10.6</td>
<td>10.6</td>
</tr>
<tr>
<td>Undecided</td>
<td>1</td>
<td>.7</td>
<td>.7</td>
</tr>
<tr>
<td>Agree</td>
<td>38</td>
<td>25.2</td>
<td>25.2</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>96</td>
<td>63.6</td>
<td>63.6</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.5.2 Regular Review of Rate of Returns
The study also found out that a majority 75.5% of the schemes strongly agree that the guaranteed minimum rate of returns need to be reviewed regularly to take into account prevailing market realities while a minority 5.3% strongly disagree on the same opinion, as shown in table 4.18 below.
Table 4. 18: The regular review of rate of returns

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Undecided</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
<td>10.6</td>
</tr>
<tr>
<td>Agree</td>
<td>21</td>
<td>13.9</td>
<td>13.9</td>
<td>24.5</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>114</td>
<td>75.5</td>
<td>75.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.5.3 Government and RBA Regulation

The study also found out that a majority 60.3% of the schemes strongly agree that government and RBA Regulation of guaranteed pension schemes issuers need to be enhanced, while a minority 5.3% are not of the same opinion as shown in table 4.19 below.

Table 4. 19: Government and RBA regulation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>1.3</td>
<td>1.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Undecided</td>
<td>10</td>
<td>6.6</td>
<td>6.6</td>
<td>13.2</td>
</tr>
<tr>
<td>Agree</td>
<td>40</td>
<td>26.5</td>
<td>26.5</td>
<td>39.7</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>91</td>
<td>60.3</td>
<td>60.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.5.4 Regulation on Full Disclosure of Reserves

The study also reveals that a majority 80% of the schemes strongly agree that there is need to introduce regulation on full disclosure and distribution of reserves for guaranteed pension scheme issuers, while 5.3% of the schemes disagree on the same opinion as shown in table 4.20 below.
**Table 4.20: Regulation on full disclosure of reserves**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>8</td>
<td>5.3</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Agree</td>
<td>22</td>
<td>14.6</td>
<td>14.6</td>
<td>19.9</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>121</td>
<td>80.1</td>
<td>80.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

**4.5.5 Trustees Involvement in Running the Schemes**

The study also revealed that majority 54.6% of the schemes strongly agree that trustees of guaranteed pension funds need to be more involved in the running of the schemes, while 11.3% of the population strongly disagree that trustees of guaranteed pension funds need to be more involved in the running of the schemes as shown in table 4.21 below.

**Table 4.21: Trustees involvement in running the schemes**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>17</td>
<td>11.3</td>
<td>11.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>1.3</td>
<td>1.3</td>
<td>12.6</td>
</tr>
<tr>
<td>Undecided</td>
<td>1</td>
<td>.7</td>
<td>.7</td>
<td>13.2</td>
</tr>
<tr>
<td>Agree</td>
<td>47</td>
<td>31.1</td>
<td>31.1</td>
<td>44.4</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>84</td>
<td>55.6</td>
<td>55.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

**4.6 Chapter Summary**

This chapter has presented the results and findings of the study. Findings were presented in frequency tables and graphs and figures. The presentation was aligned to the research objectives and covered reports of the benefits of guaranteed pension schemes, limitations of guaranteed pension schemes, and suggestions of improvements of guaranteed pension schemes. The next chapter has present discussions conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter brings out discussions, conclusions and recommendations regarding the study. The chapter is subdivided into five parts. The first part describes methodology, the summary of the findings from the field of study, and results. Part two contains a discussion with regard to the three specific objectives that form the basis of the study. There is a discussion on the benefits of guaranteed pension schemes, limitations of guaranteed pension schemes and the suggestions for improvement of guaranteed pension schemes. Part three follows with conclusions drawn from the study using the findings and results that were obtained in chapter four. Recommendations arising from the study specific objectives are enumerated in the last section of this chapter.

5.2 Summary

The purpose of this study was to review guaranteed pension schemes in Kenya. The study had three specific objectives namely; to determine the benefits of guaranteed pension schemes, to identify the limitations of guaranteed pension schemes and to outline the suggestions for improvement of guaranteed pension schemes in Kenya. The three objectives were examined and tested separately. The study employed descriptive research design to gather the necessary data with a focus on pension schemes in Kenya. Stratified random sampling technique was employed to gather data which was used in the research. Stratified random sampling was chosen because it provides data to analyze subgroups while facilitating the use of different methods in strata thereby enabling the researcher comfortably and easily control sample size in the strata. The method was also preferred since the population from which the samples were picked does not constitute a homogeneous assemblage - there were different kinds of pension schemes operating in Nairobi region.

The population for this study was the 829 guaranteed pension schemes managed by the insurance companies in Kenya registered pensions fund managers as at the end of 2015. The sampling frame consisted of the list all the 829 registered guaranteed Pension schemes as at the end of 2015. To keep fund managers’ (in this case the insurance companies)
influence constant and also mitigate against biased responses, this list was obtained from the RBA rather than the individual insurance companies. A sample size of 208 was selected using a combination of stratified and random sampling so as to ensure that the sample is as representative as possible. The use of this probabilistic sampling technique enabled generalization of the results for the entire population. The probability sampling employed in the study was stratified random sampling since the population from which the samples were picked did not constitute a homogeneous assemblage. Sample questionnaire was subjected to piloting test few weeks prior to administration.

The questionnaire for this study was divided into four main sections. Sections one had demographic data relating to things such as age, number of members in the scheme, level of education, guaranteed rate of return and others. The second section collected information pertaining to the first specific objective on benefits of guaranteed pension schemes. Section three gathered data involving the limitations of guaranteed pension schemes while the fourth section the suggestions for improvement of guaranteed pension schemes. The data which was obtained from the questionnaires was processed through editing and coding in the SPSS. Data analysis for the study involved descriptive statistics mainly for demographics. The demographic data was tabulated by use of frequencies and percentages.

5.3 Discussions

5.3.1 Benefits of Guaranteed Pension Schemes

The research found out that guaranteed pension schemes is a way of capital preservation, as an investment strategy. According to Kennon (2016), Capital preservation is a term used in the investment industry to describe a very specific financial objective: Protecting the absolute monetary value of an asset as measured in nominal currency. Kennon (2016) further starts that, sometimes, but less often, capital preservation is taken to mean protecting the inflation-adjusted purchasing power of an asset so that a given pile of money can still buy the same goods and services by the end of the holding period.

Risk and return are important considerations in investment practices of pension fund managers in Kenya, as it has been shown in this research. However, the most predominant objective is capital preservation. Pension schemes also differ from collective investment schemes as they have minimum funding requirement and they are established to invest funds to meet pension liabilities, Omonyo (2003).
Pensioners are more concerned and interested in the minimum rate of return of guaranteed pension schemes, and that they would prefer regular review of the same, as evident in this research. According to Ghilarducci (2007), minimum-rate-of-return guarantees have also begun to gain importance on another front. As aging populations increasingly put pressure on traditional defined-benefit pension plans, there is a trend toward defined-contribution plans, in order to reduce the risk borne by plan sponsors (be they government organizations or private-sector corporations). Countries such as Australia, Mexico and Chile have moved or are in the process of moving to defined-contribution plans, as are many private-sector employers in the U.S. and the U.K (Ghilarducci, 2007).

Pensioners also believed that minimizing administrative overhead cost can save the pension fund money that could be diverted to returns on investment, so that they can achieve a higher return rate every year. Guaranteed Pension Funds would also minimize administrative costs by doing away with the need to have the funds trustees along with required service providers doing the day to day running of the pension funds (Denise et al., 2008).

Due to economies of scale also, the schemes assets are able to participate in properly diversified investments which makes it possible to minimize risk (Pomorski, 2011). Additionally, when such schemes are faced with sudden withdrawals which would under segregated arrangements threaten the very life of the scheme or throw it into losses (due to termination of investments prematurely), guaranteed schemes still remain stable. This is because of the financial stability and liquidity of the insurance companies (Pomorski, 2011).

Insurers and pension funds have various tools to address the risk of persistently low interest rates. First, if they expect a further down slide in interest rates, they can seek to increase the duration of their assets in order to ensure a better duration match between assets and liabilities (Mor, 2015). Second, insurers can alter the terms of new policies (lowering guaranteed rates), thereby progressively lowering liabilities, while pension plan sponsors could close down the plan and offer less attractive terms to new employees. Third, in the case of DB pension funds, pension plan sponsors and where relevant, plan members could increase contributions to the pension fund. Fourth, and as a last resort, insurers and pension funds in some countries may be able to renegotiate or unilaterally adjust existing contracts (Antolin, Schich & Yermo, 2011).
5.3.2 Limitations of Guaranteed Pension Schemes

The study found out that the majority of guaranteed pension schemes do not give room for their trustees to participate in investment decisions of the fund assets. According to Stanko (2002) “investment strategy” is the assortment of investments made by retirement funds. The investment strategy determines the investment mix of the total funds of a retirement fund that aims at having a careful balance between investment risks and returns (Stanko 2002; Eichholtz and Margaritova, 2009). The investment strategy is therefore a plan that guides the choice of the investments that retirement funds make and by extension the returns funds return.

The research also found out that trustees of guaranteed pension schemes, have no control over decisions on rate of return declared and reserves retained. According to an unpublished paper presented in a Breakfast held in March 2017 by Mr. Einstein Kihanda of ICEA Asset Managers to Association of Retirement Benefit Schemes (ARBS) the Trustees select the guaranteed fund option. The insurance companies then manages investments in accordance with investment policy of the pooled guaranteed fund and in line with the provisions of the Insurance Act. The insurance company is fully responsible for the governance and investments of the funds. Therefore company make all investment decisions and declare the annual rate of return, comprising the minimum guaranteed rate plus bonus rate without any recourse to the trustees. The trustees therefore end up delegating all their responsibilities including the legally inalienable duty of supervision as provided by the Retirement Benefits Act.

The study revealed that the level of returns set by insuring companies are considerable at a low level. According to Bijl, (2015), to cover themselves from possible adverse economic years in the future, but still be able to guarantee the pension schemes a minimum level of return attractive enough to keep their funds with them, the insurance companies set the guaranteed minimum rates of return rather conservatively low. “Determining the guaranteed minimum rate of return is very important for pension funds and insurance companies since this rate can represent a value and form a potential hazard to the solvency of the company. (Bijl, Firmin 2015). These guarantees could represent a value if the return on the company’s investments is high relative to the guaranteed minimum return. In this case the minimum guaranteed rate is far lower than the market rate of return, therefore the risk associated with these guarantees can be neglected and they do not constitute a threat to solvency.
Moreover, the study revealed that statutory regulation by insurance companies and Retirements, Benefits Authority is usually not so close. Typical components of pension regulation include licensing (restricting and controlling pension funds entry in the industry), governance, investing and disclosure of information to the stakeholders (Eijffinger and Shi 2007:1). Other modules suggested for regulation in (IOPS 2008b:8) include: monitoring (tracking performance and actions of the trustees and service providers), communication (providing regular reports to the industry and announcing their priorities and compliance strategies), analysis (evaluating financial status of pension funds against benchmarks of the entire industry), intervention (imposing sanctions where there is non-compliance with the pension law) and correction that may be punitive, remedial or compensatory.

Generally, the study found a gap existing in regulation and supervision of the guaranteed pension funds owing to the overlap between the regulator of Retirement Benefits and that of Insurance Companies. Whereas, RBA is the issues a license to the issuing insurance companies to run guaranteed pension funds, beyond that, they only receive from such issuer’s bi-annual and annual reports. On the other hand, the Insurance Regulatory Authority which regulates the insurance industry is not expressly mandated to regulate or supervise guaranteed pension funds.

5.3.3 Suggestions for Improvement of Guaranteed Pension Schemes

The study found out that the majority of guaranteed pension schemes need to take into consideration the annual inflation rates because of the turbulence on critical sections of the market. Pension funds are long-term investors because the obligations the funds are supposed to meet become due over the course of many years (O’Neill 2007:4). Good returns on investment are crucial to maintain and encourage sustainable pension payments. O’Neill (2007) recommends the inflation adjusted returns on investment as the best measure of the rates of return and suggests that an efficient pension fund is one that achieves high inflation adjusted rates of return over the years of its existence. Poor investment strategies led to achievement of returns that were less than the inflationary rates in Ghana, Kenya, Nigeria, Tanzania, Uganda and Zambia’s provident funds. In contrast the use of proper investment strategy resulted in better performance of the CALPERS (pension fund covering local government workers in California) and TSP (pension fund covering federal government workers in the U.S) (Vittas et al. 2008).
According to Gale, et al (2016), the benefit of capital preservation may become completely useless if inflation rate remain above the guaranteed minimum rate of return given by the guaranteed pension funds issuers. As long as inflation is positive, ensuring a real return of “x” percent will cost more than ensuring a nominal return of “x” percent. Pennacchi (1999) identified the insidious effect of inflation on the rate of return from “safe” investments over prolonged periods of time as is the case in guaranteed pension schemes as a major drawback to capital preservation strategy. This necessitates regular reviews of the guaranteed minimum rate of return to ensure it does not remain below the inflation rate.

It was found out that there no regulation in Kenya requiring distribution of the retained earnings to except in years where actual performance is below the minimum guaranteed rate, this goes against the spirit of the RBA Act by allowing insurance companies to benefit unduly from the scheme assets. Gale, et al (2011) calls this the cost of the guarantee which he says may take the form of forfeited better portfolio decisions or better returns in better years where the rate is set conservatively low and regular review are not done.

Pension fund management needs to be efficient and well governed. They have administrative responsibilities, they make decisions regarding entitlements and benefits and ensure that the long-term obligations are met in the context of risk and uncertainty (Clark 2003). This conforms to the findings, that pension funds are like other business organizations in that they have goals and objectives to be realized and so their efficiency and governance can be assessed on the basis of their ability to achieve these objectives. According to the RBA Act, 2000, insurance companies issuing pension services take on the responsibilities of the trustees. As such, they are holding the scheme assets in trust and therefore have fiduciary responsibility to the members and beneficiaries of such assets. In view of this, just like the trustees, the insurance companies hold legal title to the trust property (but not beneficial) received from a settlor and designated by the settlor per the trust agreement/deed for the benefit of members and/or beneficiaries. This being the case therefore, we don’t see in Kenya, a requirement of the insurance issuers to make full disclosures of the proceeds of the proceeds of the funds’ asset investments.

Finally, guaranteed pension funds have a regulation gap that would need bridging up. This gap is brought about by the inability of Retirements Benefit Authority to regulate them. The Retirement Benefits Act 3, 1997 gives elaborate investment guidelines for pension
schemes. According to the Kenya Subsidiary Legislation, (2017), Part V, 2 and 3 however, says that “any portion of a scheme fund which is not invested in guaranteed fund issued by an approved issuer shall for the purposes of this regulation be treated as the aggregate market value of total assets of the scheme and be invested without regard to the portion of the scheme fund invested in guaranteed fund. The prescribed investment guidelines shall not apply to an approved issuer with regard to the investment of guaranteed funds, (The Retirement Benefits Act 3, 1997). This situation is brought about by the overlap of Retirement Benefits Authority as a regulator of Retirements Schemes on the one hand and Insurance Regulatory Authority as the regulator of insurance companies who are the issuers for guaranteed pension schemes on the other.

5.4 Conclusions

5.4.1 Benefits of Guaranteed Pension Schemes
The study had sought to know the various benefits of guaranteed pension schemes in Kenya. Results revealed that guaranteed Pension Schemes are a good means of capital preservation and loss prevention for capital investments in Kenya. The research also revealed that Guaranteed Pension Schemes, the members do not bear investment risks. All risks are transferred to the insurance company. The research also learned that respondents strongly agree that by running a Guaranteed Pension Scheme, administrative cost are minimized. The research also learned that guaranteed pension schemes perform better in turbulent and uncertain economies, since they post higher rates of return that the general market.

5.4.2 Limitations of Guaranteed Pension Schemes
The research found out that that trustees of guaranteed Pension Schemes are not directly involved in the investment decisions of the fund assets. Further, this research revealed that, in particularly good years, the trustees of guaranteed Pension Schemes have no control over the rate of return. The research also found out that guaranteed Minimum Rate of Returns given by insurance companies are set at conservatively low level. Lastly, research found out that respondents were uncertain that statutory regulation of the insurance companies by the Retirement Benefits Authority is usually not close. This was also demonstrated by a slight deviation from the average to give a variation in responses regarding the uncertainty.
5.4.3 Suggestions for Improvement of Guaranteed Pension Schemes
The research found out that guaranteed Minimum Rate of Returns given by insurance companies need to take to consideration the annual inflation rates, and agreed that the Guaranteed Minimum Rate of Returns need to be reviewed regularly to take into account prevailing market realities.

It was also revealed that that government and RBA regulation of Guaranteed Pension Schemes Issuers need to be enhanced moving forward. There is also an urge to introduce regulation on full disclosure and distribution of reserves for Guaranteed Pensions Scheme issuers, as the research revealed. Lastly, research found out that trustees of Guaranteed Pension Funds need to be more involved in the running of the schemes.

5.5 Recommendations:

The following are the various recommendations from the research study for possible improvements based on the specific objectives.

5.5.1 Recommendations for Improvement:

5.5.1.1 The Benefits/Advantages of Guaranteed Pension Schemes
Trustees of guaranteed pension funds should constantly review fund for performance posted by the guaranteed fund issuers relative to the general economy. Monitoring the investment returns declared by the fund each year by the different issuers and comparing with the rest of the pensions industry will help trustees to make informed decisions. The investment should be within a clear investment strategy set by trustees within regulatory guidelines. In addition, the charges by service providers must be contained since they lower benefits. By ensuring that the guaranteed minimum rate of return set by the government or agreed with issuing insurance remain above the annual inflation rates, the trustees are sure of not only preserving the members nominal capital but also that the fund is growing. Trustees therefore need to blend all the determinants without placing overreliance on one of them.

5.5.1.2 Limitations of Guaranteed Pension Schemes
The trustees of guaranteed pension schemes should at the point of signing the agreement push the issuing insurance companies to be involved in the investment decisions of the fund assets. This would enable the schemes have a broad spectrum of income and a portfolio of
risk that would yield better rate of return for members. Another area of improvement would be in the determination and management of reserves retained during good years. This would assist respective schemes to participate in the sharing of accumulated reserves which would otherwise remain with the insurance companies. Also the guaranteed minimum rate of returns given by insurance companies should change every year and should be guided by policy from the regulatory body so that members are protected from very low rate of returns.

5.5.1.3 Suggestions for Improvement of Guaranteed Pension Schemes

Ensuring that the guaranteed pension schemes are always posting returns above annual inflation rates should be priority for trustees as well as the regulators in order to ensure that the members do not lose especially their capital contribution. This calls for regular review of the guaranteed minimum rate of return in view of the inflation rates and market and industry performance. Government will definitely need to relook at the regulation of the guaranteed pension funds with a view of closing up gaps left behind by the overlap of regulators – Retirement Benefits Authority and Insurance Benefits Authority. This would result with improved efficiency and governance of the guaranteed pension funds rather that leaving all to the discretion of the insurance companies without direct supervision. Of particular importance is enhanced involvement of trustees in the management or at least some level of supervision of the said funds as stipulated by the Retirement Benefits Act. Otherwise, the government would need classify insurance issuers as corporate trustees of occupational pension funds.

5.5.2 Recommendation for Further Studies

Having done the study on the review of guaranteed pension schemes in Kenya, the researcher recommends more research be undertaken because guaranteed pension schemes play a major role in improving the social welfare of Kenyan citizens and the economy through its investments. Critical factors slowing down the guaranteed pension schemes needs to be investigated owing the turbulent industry which also fast growing. This definitely means that some factors are missed out which could have been reviewed. The same can be identified and included in future research by future researchers. The experience gained during this study as shown by lack of many published literature on the subject is that guaranteed pension funds in Kenya have not been well researched.
Future researchers should consider investigating the influence of factors such as government regulations and industry policies on guaranteed pension schemes or other factors either as independent or moderating variables that can influence the benefits of guaranteed pension schemes in Kenya. Then, the results can be compared and a plausible conclusion can be drawn based on facts. A comparative study should be conducted in another country both in the sub-region, the developed and developing world to ascertain the working model for guaranteed pension schemes and their impact on the social and economic welfare of society. This will enable the researchers to compare findings after which a more reliable and accurate conclusion can be drawn.
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https://www.thebalance.com/cash-dividends-vs-share-repurchases-357439


To Whom It May Concern

Dear Madam/Sir,

The bearer of this letter is a graduate student at United States International University pursuing a degree of Master in Business Administration. As partial fulfillment of my degree, I am conducting a research on the “Review of guaranteed Pension Schemes in Kenya. Your organization has been selected to be part of this study. You are kindly requested to assist by responding to the questions posed as truthfully as possible. The information obtained will be treated with the utmost confidentiality and used for the purpose of the study only.

Thanks in advance for your cooperation

Yours Faithfully,

Jechoniah Musembi (Researcher)
Student ID: 236606
APPENDIX II: QUESTIONNAIRE

I am Jechoniah Musembi, a student at United States International University-Africa, am kindly requesting you to assist me to carry out a research on review of guaranteed pension schemes by filling this questionnaire. The information will be purely used for academic research only and will be accorded utmost confidentiality. Do not indicate your details on this questionnaire.

SECTION A: DEMOGRAPHIC INFORMATION

1) Kindly indicate the number of members in your scheme within the age groups below:
   a. Below 25 yrs.  [………]
   b. 26-35 yrs.     [………]
   c. 36-45 yrs.     [………]
   d. Above 45 yrs.  [………]

2) Kindly indicate your highest level of education (Tick appropriately)
   e. Certificate    [………]
   a. Diploma       [………]
   b. Bachelor Degree [………]
   c. Post graduate [………]

3) For how long have you been a member of your current pension scheme?
   a. Below 1 year   [………]
   b. 1-5 years     [………]
   c. 6-10 years    [………]
   d. 11-20 years   [………]
   e. 21 and above  [………]

4) For how long have you been a trustee of your current pension scheme?
   a. Below 1 year   [………]
   b. 1-3 years     [………]
   c. 3- 6 years    [………]
   d. 6 and above   [………]
5) Please indicate the fund size of your pension scheme by ticking against the appropriate category below:
   a) Below Ksh. 100 million [………]
   b) Between Ksh. 100 – 200 Million [………]
   c) Between Ksh. 200 – 300 Million [………]
   d) Between Ksh. 300 – 400 Million [………]
   e) Between Ksh. 400 – 500 Million [………]
   f) Above Ksh. 500 Million [………]

6) What is the current number of your scheme members?
   a) Below 100 members [………]
   b) Between 100 – 200 members [………]
   c) Between 200 – 300 members [………]
   d) Between 300 – 400 members [………]
   e) Between 400 – 500 members [………]
   f) Above 500 members [………]

7) What was your Minimum Guaranteed Rate of Return in 2016 […….%]

8) Is your Minimum Guaranteed Rate of Return reviewed regularly? [Yes / No]

9) Please indicate what the Rate was in the years below:

<table>
<thead>
<tr>
<th>Year</th>
<th>G.RoR</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>[……%]</td>
<td>[……%]</td>
</tr>
<tr>
<td>2013</td>
<td>[……%]</td>
<td>[……%]</td>
</tr>
<tr>
<td>2014</td>
<td>[……%]</td>
<td>[……%]</td>
</tr>
<tr>
<td>2015</td>
<td>[……%]</td>
<td>[……%]</td>
</tr>
</tbody>
</table>

SECTION B: BENEFITS OF GUARANTEED SCHEMES

In a scale of 1 – 5 where: 1 = Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree; and 5 = Strongly Agree, please respond to the following statement circling or ticking the appropriately:

10) Guaranteed Pension Schemes are a good means of capital preservation and loss prevention.

   1 2 3 4 5
11) In Guaranteed Pension Schemes, the members do not bear investment risks. All risks are transferred to the insurance company

1 2 3 4 5

12) By running a Guaranteed Pension Scheme, administrative cost are minimized.

1 2 3 4 5

13) Guaranteed Pension schemes benefit from the insurance company’s large economies of scale

1 2 3 4 5

14) During bad economics years, Guaranteed Pension Schemes post higher rates of return that the general market

1 2 3 4 5

15) Please list below other benefits (if any) enjoyed by your scheme (or others) as a guaranteed pension scheme:
   a) 
   b) 
   c) 

SECTION C: LIMITATIONS OF GUARANTEED PENSION FUNDS

In a scale of 1 – 5 where: 1 = Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree; and 5 = Strongly Agree, please respond to the following statement circling or ticking the appropriately:

16) Trustees of Guaranteed Pension Schemes are not directly involved in the investment decisions of the fund assets.

1 2 3 4 5

17) In particularly good years, the trustees of Guaranteed Pension Schemes have no control over the rate of return.

1 2 3 4 5
18) The Guaranteed Minimum Rate of Returns given by insurance companies are set at conservatively low level.

1 2 3 4 5

19) Statutory regulation of the insurance companies by the Retirement Benefits Authority is usually not close.

1 2 3 4 5

20) Please list below other challenges/limitations (if any) faced by your scheme (or others) as a guaranteed pension scheme:

a) 

b) 

c) 

SECTION D: SUGGESTIONS FOR IMPROVEMENT OF GUARANTEED PENSION SCHEMES

In a scale of 1 – 5 where: 1 = Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree; and 5 = Strongly Agree, please respond to the following statement circling or ticking the appropriately:

21) The Guaranteed Minimum Rate of Returns given by insurance companies need to take to consideration the annual inflation rates

1 2 3 4 5

22) The Guaranteed Minimum Rate of Returns need to be reviewed regularly to take into account prevailing market realities

1 2 3 4 5

23) Government and RBA Regulation of Guaranteed Pension Schemes Issuers need to be enhanced

1 2 3 4 5
24) There is need to introduce regulation on full disclosure and distribution of reserves for Guaranteed Pensions Scheme issuers.

25) Trustees of Guaranteed Pension Funds need to be more involved in the running of the schemes

1) Please list here below any other suggestions for improvement of Guaranteed Pension Schemes not covered above

   a) 
   b) 
   c) 

END

THANK YOU SO MUCH.