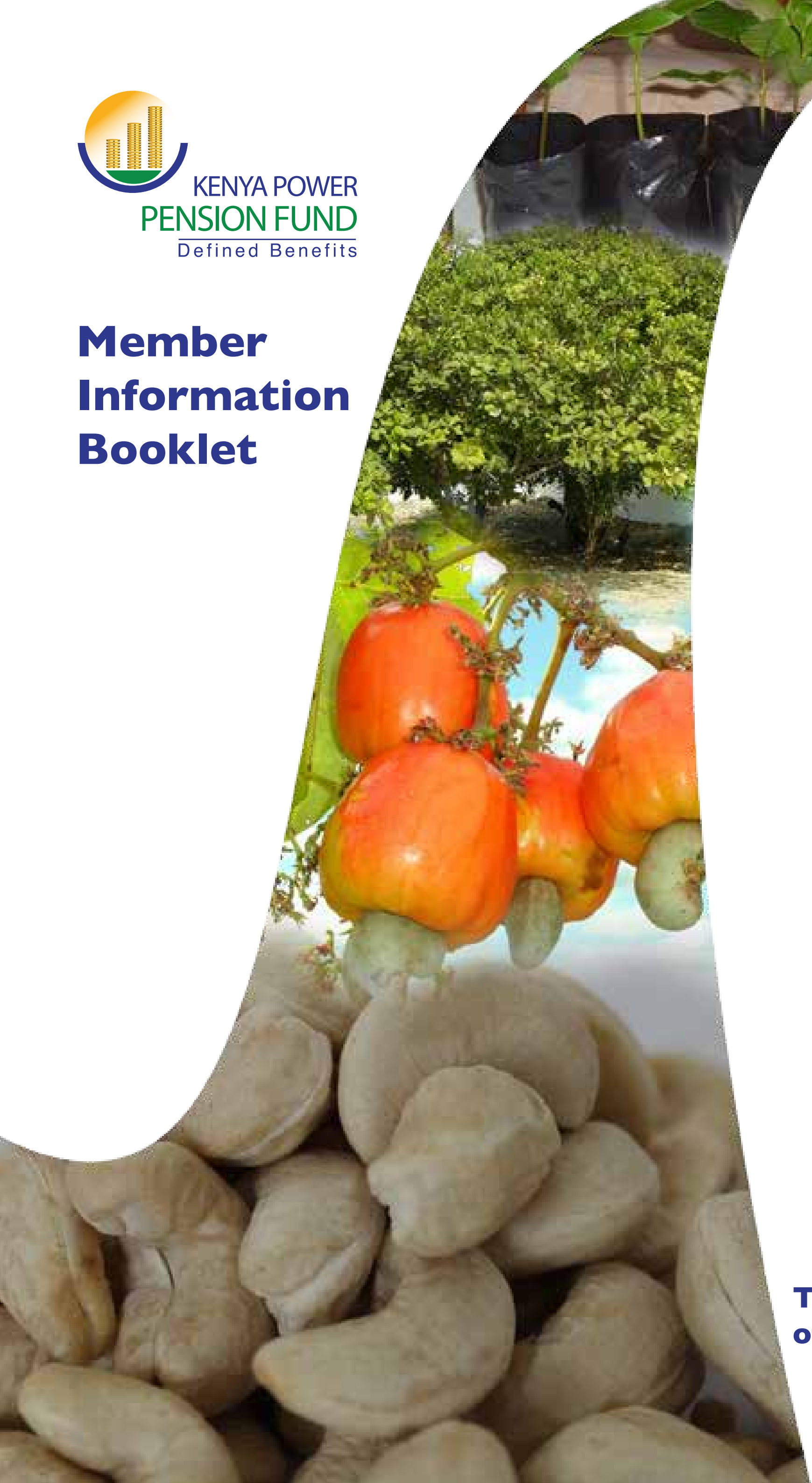
KENYA POWER PENSION FUND
Defined Benefits

# Member Information Booklet



**The product of our seeds**

KENYA POWER
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## Disclaimer

This information booklet is intended at providing you with a general overview of the Defined Benefits Scheme of the Kenya Power Lighting Company. Please note that while every effort and due care has been taken to ensure that the information provided is correct and updated, no liability will be borne by the Board or the management for any errors or omissions in the handbook.

Should there be any conflict between the information provided herein and the Trust Deed & Rules, the later shall prevail.

If you have any questions regarding this booklet, please get in touch with the Secretariat at the contacts here below.

## Scheme Contacts


Kenya Power Pension Fund
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P.O. Box 1548 – 00600 Nairobi, Kenya
Telephone: 020 3201020 Mobile 0711031020
SMS: 30305
Website: www.kplcpensionfund.co.ke
Email: info@kplcpensionfund.co.ke

# PREFACE

The Kenya Power Retirement Benefits Scheme was established under a Trust Deed in January 1970 by the then East African Power and Lighting Company Limited, the predecessor to Kenya Power & Lighting Company Ltd.

Between the years 1970 and 1989, the Scheme was managed by ICEA as an insured pension scheme and its membership comprised mainly the management staff. However in January 1990 the Scheme was transferred to the Trustees for self-management. As at the time of the transfer, the Scheme had a fund value of KShs. 83M.

The Scheme was established by the Sponsor with the main objective being to provide reasonable benefits to employees (members) upon their retirement or to their dependants in the event of death in service.

Besides this core objective, the establishment of the scheme was to also serve the following purposes:
- An incentive through which the employer could attract and retain employees.
- A fund through which employees could save for their retirement.
- A fund through which the employees could enjoy tax relief by virtue of being members of a retirement benefits scheme.
- A boost to the employer's corporate image and public perception.

## Registration

The Kenya Power Retirement Benefits Scheme is registered with the Retirement Benefits Authority (RBA) and approved under the Retirement Benefits Act 1997. In addition, the Scheme is also registered with the Kenya Revenue Authority as an exempt approved Scheme under the Income Act (Cap 470).

## Vision

To be the best-in-class occupational pension scheme in Africa.

## Mission

To deliver value and quality of life in retirement to our members.

## Core Values

- Integrity
- Accountability
- Courtesy
- Efficiency
- Stewardship

# DEFINITION OF IMPORTANT TERMS

### Actuary
This is an expert qualified to assess the funding and solvency levels for pension schemes and insurance companies..

### Actuarial Valuation
An investigation by an actuary into whether or not a pension scheme meets its benefits promises.

### Beneficiaries
A beneficiary is the person or persons dependent on you and whom you nominate to receive your retirement benefit in the event of your death. Beneficiaries are people closely related to you and include your spouse and children.

### Early Retirement
This is a withdrawal on or after attainment of age of 50 years but which is earlier than the normal retirement age of 60 years.

### Entry Date
This is the commencement date and is the first day of the calendar month immediately following or coincident with your being eligible for membership according to the terms and conditions of your employment.

### Final Pensionable Emoluments (FPE)
FPE refers to the Final Pensionable Emoluments, which is the basic salary for the last 12 months of your membership to the Scheme. Since the scheme was closed on 30th June 2006, the FPE is the sum of the basic salaries for the period July 2005 to June 2006. For calculation of retirement benefits, the FPE is normally enhanced by 5% per annum up to the year of exit.

### Normal Retirement Age
This means the 60th birthday of a member where the exact date of birth is known and where it is not known the first day of January in the year in which your sixtieth (60th) birthday falls.

### Salary
This means your basic monthly salary as determined by the employer in accordance with your terms and conditions of employment.

### Scheme Sponsor
This is a term used to describe the founder of the Scheme or the employer. The Kenya Power founder of The Kenya Power & Lighting Company Ltd is the sponsor of our Scheme.

### Trustee
This is an individual person or member of a board who has been given control or powers to manage assets of a scheme with legal obligations to administer it solely for the purposes specified (in a Trust Deed & Rules). Trustees are responsible for ensuring that the scheme is properly administered in accordance with the Trust Deed and Rules.

### Trust Deed and Rules
These are the rules and regulations upon which the Scheme is constituted and managed. The Trust Deed & Rules sets out how the board is to operate, how the assets are to be administered and how the benefits are to be paid.


# MANAGEMENT OF THE SCHEME

## The Board of Trustees

The responsibility of ensuring that the fund is administered in accordance with the Trust Deed & Rules as well as in compliance with the relevant laws rests with the Board of Trustees. The specific roles and responsibilities of the Trustees include the following:

1. To manage and administer the Fund in the best interest of the members and the Founder.
2. To exercise prudence and integrity in managing and administering the assets of the Fund.
3. Exercising care and utmost good faith in executing their Trusteeship duties.
4. Formulation of Fund policies and supervising those to whom functions have been delegated.
5. Being aware of possible conflicts of interest and dealing with them appropriately.
6. To pay from or provide for the payment of such benefits as are prescribed by the Rules to the persons entitled thereto; and
7. To comply with the provisions of the Trust Deed & Rules, Income Tax Act, Retirement Benefits Act and any directions given by the Retirement Benefits Authority (RBA).

The current members of the Board of Trustees are;

Sammy A. Oduori - Chairman
Dr. Ben K. Chumo
Kenneth Tarus
Beatrice Meso
Abubakar Swaleh
Ernest N. Nadome
Kosgey C. Kolil

## The Secretariat

The Secretariat is responsible for among other things implementation of the policies formulated by the Board of Trustees. The Secretariat handles the day to day activities of the Fund and provides liaison with the contracted professional services providers, regulating authorities and business partners.

The duties and responsibilities of the Secretariat include the following:

1. Acting as the point of contact for the Fund.
2. Supporting the Board of Trustees in the performance of its fiduciary and administrative roles.
3. Providing services to the in-service members, deferred members and pensioners.
4. Preparing required reports such as the annual accounts, quarterly administrative and investments reports.
5. Managing investments in liaison with contracted professional services providers.
6. Processing and paying pension benefits.
7. Ensuring compliance with the Fund rules, income tax regulations, and RBA guidelines.
8. Handling communication both from and to the members.

## Professional Service Providers

In accordance with the regulations by the Retirement Benefits Authority, the Trustees appoint the following specialists to assist with the management of the Scheme assets.

### 1) Scheme Fund Managers

To manage the Scheme's assets invested in the equity market as well as in the government securities.

### 2) Custodians

To hold custody of the assets invested in both the equity market and the government securities. The custodian does maintain safe custody of the Schemes critical documents such as the Title Deeds and share certificates.

### 3) Auditors

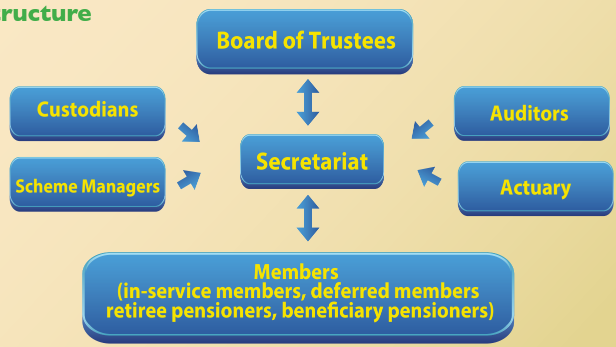
To check and verify the accuracy of financial records and the accounting practices of the Scheme. Auditors do also review and make recommendations on the Scheme's. operational processes and systems.

## The Retirement Benefits Authority (RBA)

Even though not directly involved in the management of the Scheme, the Retirement Benefits Authority is mandated under the Retirement Benefits Act 1997 to:

- Regulate and supervise the establishment and management of Retirement Benefits Schemes.
- Protect the interests of members of the sponsors of Retirement Benefits Schemes.
- Promote the development of the retirement benefits sector
- Advise the Minister for Finance on the national policy to be followed with regard to the retirement Benefits industry.
- Implement all government policies relating thereto.

## The Scheme structure



# THE STRUCTURE OF THE SCHEME

The Defined Benefits Scheme is an employer sponsored retirement benefits arrangement in which benefits payable are calculated using a predetermined formula. The following are the key elements of the scheme.

1. Benefits payable are dependent on a member's basic salary and length of membership to the scheme
2. There are restrictions on how and when a member can access benefits.
3. The sponsor guarantees the payment of promised benefits.
4. Benefits payable are defined by the sponsor and are not dependent on level of contributions or performance of investments. The risks of investments are borne by the sponsor.
5. Member contributions (if contributory) are typically fixed

## Membership

The Defined Benefits Scheme was closed on 30th June 2006. Since this date no new members have been admitted into the Scheme. The Scheme is however active in as far as its administration, reporting and compliance are concerned.

The membership of the Scheme is made up of all in-service employees who were on permanent terms of employment as at the date of closure of the Scheme.

Employees who had retired earlier than the date of closure and do receive pension are also members of the scheme.

The third category of members comprises of employees who withdrew from the Scheme and todate have not collected their full withdrawal benefits. This category of members is commonly referred to as deferred members.

## Contributions

Up to the closure date of 30th June 2006, the contribution rates for the employee and employer were 5% and 10% of employee's basic salary respectively.

Being a closed scheme, neither the members nor the employer makes any contributions into the Scheme.

## Tax on Contributions

Prior to the closure of the scheme, members' contributions up to a maximum of KShs. 20,000 per month were tax free. This limit still exists for schemes that are active.

# SCHEME INVESTMENTS

In order for the Scheme to be able to continue discharging its noble responsibility of providing benefits to members and their dependants in the event of death in service, The Scheme prudently invests all monies received into various investments options that include:

### 1) Kenya Government Securities

A bond (or debt obligation) issued by a government authority, with a promise of repayment upon maturity that is backed by the said government. Government securities are usually used to raise funds to pay for the government's various expenses, including those related to infrastructure development projects. The securities may be in the form of treasury bills or bonds.

### 2) Equity Market

Also known as the stock market, It is one of the most vital areas of a market economy because it gives companies access to capital and investors a slice of ownership in a company with the potential to realize gains based on its future performance.

### 3) Real estate or properties

Investments under this class include land, commercial buildings, and residential housing projects.

### 4) Unquoted Investments

The Scheme has investments in private equities which are not listed in Nairobi Stock Exchange as an avenue for diversification.

### 5) Offshore Investments

These are investments done outside the country.

### 6) Commercial Paper

A two-party written instrument or document such as a check, draft, promissory note, or a certificate of deposit, that manifests the pledge or duty of one individual to pay money to another at an agreed stated terms.

### 7) Corporate Bonds

Corporate bonds are long-term debt instruments issued by companies to raise capital for expansion of business. They are an alternative to issuing new shares on the stock market (equity finance) and have a maturity date falling at least a year after their issue date.

The Fund investments are guided by the requirements of the RBA which issues investment limits on the various asset classes. The Fund also has a duly prepared Investment Policy Statement which besides being aligned to the RBA regulations, lays out the investment strategy of the Fund.

***RBA limits on investments per asset class***

| Categories of Assets | Maximum percentage of total assets of scheme |
|---|---|
| Cash and Demand Deposits | 5% |
| Fixed Deposits, Time Deposits | 30% |
| Listed Corporate Bonds | 20% |
| Commercial Paper | 10% |
| Government Securities and infrastructure bonds | 90%, or 100% in the case of scheme receiving statutory contributions |
| Preference shares and ordinary shares of companies listed in a securities exchange in the East African Community | 70% |
| Unlisted shares and equity instruments | 5% |
| Offshore investments | 15% |
| Immovable property | 30% |
| Guaranteed Funds | 100% |
| Exchange traded derivatives contracts | 5% |
| All listed Real Estate Investment Trusts | 30% |
| Private Equity & Venture Capital | 10% |
| Any other assets | 10% |

# BENEFITS PAYABLE

The Scheme provides various benefits depending on the circumstances under which an employee /member leaves employment.

Benefits payable for the different types of withdrawal are as follows:

### 1) Retirement on Medical grounds

A member who is retired from employment on account of ill health is entitled to a lump sum payment and pension for the rest of his/her life. The level of benefits payable is dependent on employee's membership years as well as the basic salary as at the closure of the Scheme on 30th June 2006.

### 2) Death in Service

If a member dies while in service, his beneficiaries (spouse and a maximum of 4 children) are entitled to a pension and lump sum payment of return of employee contributions. The spouse's pension entitlement is for the rest of his/her life while children earn pension up to the age of 18 years or 23 years if still in school/college.

### 3) Early Retirement

Members aged above 50 years but below 60 years can apply for early retirement. If granted lump sum payment and pension for the rest of his/her life.

### 4) Normal retirement

A member who retires on attainment of 60 years of age (65 for members living with disability) is entitled to a lump sum payment and a monthly pension for the rest of his/her life.

### 5) Death in Retirement

If a member dies in his/her retirement, his/her spouse and children below the age of 18 years or (23 years if still in school) are entitled to a monthly pension. The spouse's pension is paid for the rest of his/her life.

Note:

Guarantee on Pension

Pension entitlement in respect of ill health, early retirement and normal retirement is guaranteed for the first 5 years equivalent to 60months. If a retiree passes on before expiry of the guarantee period, the balance of guaranteed pension is paid to the family as a lump sum.

Pension Increments

The portion of pension that relates to pre-99 service increase at a rate of 3% p.a. The Board of Trustees may from time to time and following an actuarial valuation decide on an increment to the other portion relating to the post 99 service.

### 6) Withdrawal (Resignation, Termination, Dismissal etc)

A member who withdraws following a resignation, termination of services or dismissal from employment, is entitled to a sum equal to 50% of his/her accrued benefits. The remaining balance is deferred until when the member attains early retirement age of 50 years at which point he gets paid a lump sum and pension.

However,

- If a member after resignation joins another scheme that is registered, he or she may apply to have the deferred contributions transferred to the new scheme.

- If a member resigns for reasons of wanting to permanently immigrate out of the country, he/she is entitled to full payment of his accrued banefits.

## Restrictions on Payment of Benefits

The following legal and regulatory guidelines apply to payment of benefits from a retirement benefits scheme.

1. None of the benefits provided by the Scheme can be assigned or used as security to guarantee a loan from any source except for house mortgages as stipulated in the RBA act.
2. The Scheme Trustees cannot recognize any purported charge or assignment and cannot consider or guarantee loans under any circumstances.
3. No loan or any other benefits may be provided by the Scheme to any person.
4. No payment of any member benefit under the fund will be payable to the employer without the written consent of the member.
5. No payment may be made to or in respect of a member whilst in the service of the employer.
6. Benefits must be paid within thirty (30) days on submission of a request for payment
7. Your benefits from the Scheme cannot be assigned or ceded to a third party.

### Formula for Calculation of Benefits

The formula for calculation of retirement benefits relating to either ill-health, early or normal retirement is given as:

(3% x pre99 Service x FPE) + (2% x Post 99 Service x FPE)

Also expressed as:

(1/400* Pre99 Service * FPE) + (1/600* Post99 Service * FPE)

Where:

- Pre99 service is the number of years from date of joining the scheme to 31st December 1999
- Post99 is the number of years as a member from 1st January 2000 to 30th June 2006

- FPE is the Final Pensionable Emoluments i.e. Basic salary for the last 12 months of your membership to the Scheme (July 2005 to June 2006) which is raised by 5% p.a. from date of scheme closure i.e. 30th June, 2006 until date of withdrawal.

### Tax on Payment of Benefits

The Scheme is approved by the Commissioner of Income Tax under the Income Tax Act (Cap.470) – 'The Income Tax (Retirement Benefits) Rules 1994' and its members enjoy certain tax benefits. Under the current tax regulations, monthly pension payments of less than Kshs. 25,000.00 are exempt from taxation.

### Tax on Lump Sum Benefits

Effective 1st January 2010, the tax free cash lump sum is Kshs. 60,000.00 times the number of full years of service as a member of the Scheme subject to a maximum of KShs. 600,000. Lump sum payments above these limits are subject to tax at prescribed rates.

a. On exit before retirement and with less than 15 years of membership in the Scheme, a member will get Kshs. 60,000.00 tax free per year of membership and the benefits will be taxed on the following tax bands;

| Amount in Kshs. | Tax Rate applicable |
|---|---|
| On The First 121,968.00 | 10% |
| On The Next 114,912.00 | 15% |
| On The Next 114,912.00 | 20% |
| On The Next 114,912.00 | 25% |
| On The Balance | 30% |

b. On retirement and for members with more than 15 years of membership in the Scheme, a member will get Kshs. 60,000.00 tax free per year of membership and the benefits will be taxed on the following tax bands;

| Amount in Kshs. | Tax Rate applicable |
|---|---|
| On The First 400,000.00 | 10% |
| On The Next 400,000.00 | 15% |
| On The Next 400,000.00 | 20% |
| On The Next 400,000.00 | 25% |
| On The Balance | 30% |

Example:

An employee who joined the scheme in 1990 and retired on 30th June 2012 and was earning a basic salary of Kshs. 50,000.00 during the last 12 months of membership to the Scheme (July 2005 to June 2006) would have his retirement benefits calculated as follow.

Calculation:

Membership years = 16.5 years Pre 99 years = 10 years Post 99 years = 6.5 years
FPE = (July 2005 to June 2006 Salary)

Calculation FPE (5% annual increment to date of withdrawal) = (600,000*(1.05) ^6years) = 804,057.4
Target monthly pension = (1/400 * Pre99 service *FPE) + (1/600* Post99 service * FPE) = (1/400 * 10 * 804,057.4) + (1/600*6.5 * 804,057.4) = 20,101.44 + 8,710.62 = 28,812.06 p.m. or 345,744.74 p.a.

Since the law allows a pensioner to commute a third (1/3) of his target pension into a lump sum payment, the retiree's pension will be Kshs. 19,208.04 p.m. equal to 2/3 of the target pension with the remaining 1/3 being converted into a cash lump sum payment amounting to KShs.=1,327,617.55

# MEMBER COMMUNICATION

In line with the Trust Deed & Rules as well as the RBA regulations, members are entitled to receiving various forms of communication from the Board of Trustees and the Fund's Secretariat. Communication to the members may be realized through post mail, website or through suitable forums such as the member education seminars and the Annual General Meeting.

## Benefits Statements

This is a document that is normally issued once a year to in-service and deferred members showing accumulated contributions including the interest, and the estimated value of the plan as at the statement date.

## Annual General Meeting

Each year, the Fund holds a one (1) day meeting during which the Fund's audited accounts and the Chairman's report are presented. Other items that may be part of the AGM agenda may include election of Board members. The agenda may further include Trustees remuneration, confirmation of declared interest rates and discussion of issues raised by the members.

## Beneficiaries Nomination Form

This is a form that members use to indicate who their beneficiaries and dependants are. The form is also used when a member wishes to change, or cancel an existing beneficiary. Where a member's declaration of nominees is found either inconsistent or incorrect, Trustees may exercise their discretion in deciding on who to be paid benefits following death of the member.

## Certificate of Information

This is a form that is sent out to the retiree and beneficiary pensioners requiring them to update their records. The form is normally sent out in September and the pensioners are expected to have provided sought information by end of the year.

## Member Education

Every year, the Secretariat with the support of the Board implements a member education program targeted at the in-service members and the retirees. During these meetings, the members get to be updated on the status and performance of the Fund as well as on other issues of importance to them and relevant to the Fund.

## Website

The Fund has an active website, **www.kplcpensionfund.co.ke** from where members and the public can find past and current information about the Fund's business activities. The website provides a one stop source of information on a wide range of issues including management, investments, benefits and service delivery. Additionally the site is a useful channel through which members can raise and forward their queries to the Fund. Links to other related websites are also available in the website.

The site is reviewed periodically in order to ensure relevance of the content to the business as well as to enhance its functionality and security of maintained information. In an effort to enhance service delivery to members, a self-service portable will soon be added.

## SMS Short-code

The Fund does also have an interactive SMS short-code 30305 through which members can query their individual account balances by simply sending the word "Balance" to the number. Responses with details of the member's accumulated contributions are received within seconds of the query being received.

For a member to use this service, he or she must first register by providing their name, staff number and mobile number to the Secretariat. Currently, each SMS costs KShs.10/-.

## Bulk SMS system

The bulk SMS system is another technology based system that the Fund uses to communicate to the members and beneficiaries. Through the system, periodic updates, notifications and brief messages are sent to intended recipients via SMS.

Besides being a cost effective method, the bulk SMS system is a faster and reliable system of reaching targeted members.

# NOTES

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