STRATEGIC PLAN 2019-2023

Facilitated by Penplan Services Ltd - 0721734279
Table of Contents

1.0 EXECUTIVE SUMMARY ................................................................. 3
  1.1 BACKGROUND ................................................................................. 3
  1.2 CURRENT SITUATION ................................................................. 3
  1.3 STRATEGIC DIRECTION .............................................................. 5

2.0 INTRODUCTION .............................................................................. 9
  2.1 BACKGROUND ............................................................................. 9
  2.2 GOVERNANCE ............................................................................ 9
  2.3 RATIONALE FOR DEVELOPMENT OF THE STRATEGIC PLAN .............. 10
  2.4 PROCESS OF DEVELOPING THE STRATEGIC PLAN ............................ 10

3.0 SITUATIONAL ANALYSIS .................................................................. 11
  3.1 EXTERNAL ENVIRONMENT (PESTEL) ............................................. 11
  3.2 INDUSTRY OVERVIEW ............................................................... 15
  3.3 STAKEHOLDER ANALYSIS .......................................................... 18
  3.4 INTERNAL ANALYSIS ................................................................. 18
  3.5 SWOT ANALYSIS ........................................................................ 26

4.0 STRATEGIC DIRECTION ................................................................. 27
  4.1 VISION ...................................................................................... 27
  4.2 MISSION ................................................................................... 27
  4.3 CORE VALUES .......................................................................... 28
  4.4 KEY AREAS OF STRATEGIC FOCUS AND THEIR RESPECTIVE STRATEGIC GOALS 28
  4.5 OTHER AREAS OF FOCUS .......................................................... 30

5.0 FINANCIAL PROJECTIONS .............................................................. 31

6.0 IMPLEMENTATION OF THE STRATEGIC PLAN .................................. 32
  6.1 CRITICAL SUCCESS FACTORS FOR IMPLEMENTATION ..................... 32
  6.2 ACCOUNTABILITY ...................................................................... 32
  6.3 MONITORING AND EVALUATION OF THE PLAN ............................ 32
  6.4 TRACKING TOOL ........................................................................ 32
  6.5 STRATEGIC PLAN REVIEW ....................................................... 32

7.0 EVALUATION OF RISK .................................................................. 33

8.0 COMMITMENT ................................................................................. 35
1.0 EXECUTIVE SUMMARY

1.1 BACKGROUND

The Kenyatta National Hospital Staff Superannuation Scheme (‘The Scheme’) is a Defined Benefit Pension Scheme established by Kenyatta National Hospital (‘KNH’), hereinafter referred to as ‘Sponsor’, on 1st January 1991 under Irrevocable Trust. Through a sponsor Board resolution dated 15th August 2010, the sponsor resolved to close the scheme to new entrants in compliance with the treasury circular No. 18 of 2010. The Scheme was closed to new entrants on 30th June 2011 and only those members who were aged 45 and above as at 30th June 2011, and who elected, in writing, to continue contributing to the scheme were allowed to do so. KNH established a Defined Contribution scheme known as Kenya National Hospital Staff Retirement Benefits Scheme 2011 under an Irrevocable Trust on 1st July 2011. All members under 45 years as at 30th June 2011 and all new members contribute to the DC scheme. Such members were given an option to either transfer their accrued benefits to the DC scheme or to retain them in the DB scheme as deferred members.

KNH SSS main role is to administer retirement benefits for the benefit of its members by undertaking the following activities:

- Collecting contributions from both the members and the sponsor,
- Investing the contributions prudently and
- Paying benefits to members upon retirement/ exit from Kenyatta National Hospital.

The Trustees are entrusted with the responsibility of managing the scheme and have so far dedicated efforts towards the provision of world-class service to its members and other stakeholders. It is in this regard, that the trustees have decided to develop a strategic plan to guide their course.

This Strategic Plan has been drawn for a period of five years from January 2019 to December 2023. The Plan is a product of a Strategic Planning Workshop held by the Board of Trustees on 24th August 2018 at Fairview Hotel Nairobi during which the Trustees, with the support of a facilitator (Penplan Services Ltd. Consultants), analyzed the current internal situation of the scheme, industry trends as well as the macro-economic, social, political, technological and environmental factors in order to come up with a well-thought out Strategic Plan for the scheme.

1.2 CURRENT SITUATION

The scheme is currently managed by a fully constituted Board of 8 Trustees with relevant skills set. Competence, Cohesiveness, and Team work between the Trustees were identified as major strengths during this review. The Scheme also has a team of competent service providers and the Sponsor’s commitment to the scheme is evident in many ways including the seniority of representation in the Board and timely remittances of contributions.

The Trustees are incorporated with the ministry of Lands to manage succession. However, the scheme is non-compliant with the Market Conduct Guidelines issued by RBA in 2017 as it lacks a governance and authorities manual that outlines the roles, responsibilities and delegated authority limits for various stakeholders.
Currently, members contribute 5% of pensionable earnings while the employer contributes the difference as determined by the actuary from time to time in order to fully fund the Defined Benefit. Currently the sponsor is contributing 10% of the pensionable earnings which is below 14.4% recommended by the Actuary.

From the last actuarial valuation done in June 2018, the scheme had a **deficit of Kshs 3.9 billion with a funding ratio of 65% a decrease from 67% in the 2014 valuation**. The scheme has been receiving transfers from the treasury to reduce the deficit. However, this has not been sufficient considering that average return on investments over the intra-valuation period has been lower than projected (7.4% compared to 10% projection). There is therefore an urgent need to come up with an accelerated remedial plan to fund the scheme to at least 100% over the next 3 years.

The scheme has assets of about Ksh. 7.35 billion (as at 30th June 2018). These assets are invested by the fund managers in accordance with the guidelines laid out by trustees in the Investment Policy Statement (IPS). The estimated time-weighted average return on Scheme’s asset over the last 4 years to 30 June 2018 was 7.4% p.a. This is lower than the assumed rate of return of 10.0% per annum stated in the IPS and in previous valuation.

The tactical ranges in the IPS are quite wide and thus giving managers the space to vary the portfolio risk significantly without making reference to Trustees. Moreover, the scheme has a high concentration in a few direct properties which are illiquid assets. On the other hand, the scheme has significantly reduced its portfolio holding in corporate bonds which is recommendable as they are not easily tradable. However, current allocation to property is above the statutory limits set by RBA. This is likely to get worse as more liquid funds go to paying benefits. Hence the scheme needs to consider reducing its property holding in preference for equities/bonds. The scheme can also consider alternative asset classes like offshore listed equity in order to further reduce the concentration of risk and improve on liquidity given this is a closed scheme.

There is also no clearly defined risk budget in terms of tracking error for quoted equity or average bond duration for bonds, thus making it rather difficult to measure and compare the performance of the two fund managers. There is need to, therefore, review the IPS to ensure these parameters are incorporated.

The scheme has 5,180 members (3772 Active, 468 deferred and 940 pensioners) as at June 30, 2018. Out of the 3772, only 1,100 members are contributing to the DB scheme. The other 2,672 are contributing to the DC scheme. The scheme has uneven age distribution due to its closed nature. The overall weighted average age of the scheme is 49.1 years.

Over the last 5 years, benefit payments being made by the scheme are higher than contributions. There is need to, therefore, consider externalizing the current pensioners to an annuity provider and to amend the Trust need so as to stop adding more in-house pensioners. This is mainly because they require a totally different investment strategy (very conservative – capital protection with liquidity) from active members. There is further a need for the trustees to come up with a long-term strategy/plan for winding down the scheme in such a
way that all members are transferred to another scheme before it diminishes to below critical mass resulting into negative returns/destruction of value.

The scheme is yet to put in place a ‘post-retirement medical benefit’. This is currently a requirement under the performance-based contract system for state corporations. Medical costs have been identified as a significant expense for many retirees and it could take up to 40% of one’s retirement income thus significantly impacting one’s ability to enjoy life in retirement. It is in this regard that the RBA has recently amended the act in order to enable Sponsor and members to make provisions for it in the same way as for pensions. For the scheme to remain competitive/compliant, therefore, it is necessary to embrace this change. This should be done in consultation with Sponsor and in corporation with the DC Scheme.

Finally, there is the ever-present uncertainty about the yet to be implemented new NSSF act. Once this becomes operational it is imperative that both the employer and members will be required to contribute an additional 6% each into the NSSF unless the scheme applies for opting out of ‘Tier II’ contributions to NSSF. The Trustees will also need to amend the relevant clauses in the Trust deed and rules to ensure there is full ‘integration’ with the state scheme.

1.3 STRATEGIC DIRECTION
1.3.1 Vision
During the workshop, Trustees agreed on the following vision statement;

To be a model retirement benefits scheme that continuously provides competitive benefits to members.

1.3.2 Mission
The above vision is to be actualized through the following mission

To safeguard and grow members’ benefits through prudent investments, good governance, effective communication, and provision of excellent services to the members.

1.3.3 Core Values:
- **Integrity**
  *Accountability is personal*
- **Team Work**
  *Going far together*
- **Excellence & Professionalism**
  *Get it right first time*

1.3.4 Strategic Goals and Objectives
In order to operationalize its Mission and achieve its Vision, the Scheme has formulated the following strategic objectives

1. To improve on Scheme Governance and ensure compliance with the 2 RBA Market Conduct guidelines on good governance issued in 2017 by:
   - Launching and implementing this strategic plan,
• Reviewing and updating the Trust Deed and Rules

2. Negotiate with Sponsor and document a remedial plan to eliminate the Kshs 3.9 billion deficit by December 2021.

3. Review the IPS especially in the areas of asset allocation, performance benchmarks, risk management and performance evaluation by December 2019 in order to boost net investment return to at least the 10% (after deducting expenses) projected in the actuarial valuation

4. To improve financial security/welfare of members by developing and implementing a Post-retirement medical scheme in collaboration with Sponsor and DC Scheme by June 2020.

5. To develop a plan for winding down the scheme while optimizing and protecting members accumulated benefits and if possible enhancing such benefits. This needs to be done in stages for ease of implementation and communication to members:
   • Amend the TDR to stop adding new pensioners to the scheme by purchasing annuities for them at the point of exit by December 2019. To do this Sponsor will need to fund the deficit of those members as they exit.
   • Transfer all deferred benefits relating to DC members to the DC scheme by December 2020. To do this Sponsor will need to fund the deficit of those members as they exit.
   • Externalise current pensioners to an annuity provider by December 2022. To do this Sponsor will need to fund the deficit of those members as they exit.
   • Transfer remaining Active members to the DC scheme after funding the residual deficit fully by 2023 after which the scheme can be liquidated.

4.5 OTHER AREAS OF FOCUS
The trustees noted other housekeeping issues that needed their attention to facilitate in achieving the key goals of the strategic plan. These areas include:

i. Pension Increases
   Implement a 3% per annum pension increase as stated in the Trust deed and rules by 30th December 2019.

ii. Enhance member contribution
   To bring the members on board so as to increase their contributions rate to the targeted 7.5% and for the sponsor to match by adjusting Sponsor contributions to 15% by 30th December 2019. If this cannot be achieved we should at least achieve 6% for members (12% Sponsor) so as to qualify for opting out of NSSF once new NSSF Act is implemented.

1.3.5 Financial Projections
We have attempted to compile a 5-years financial projection taking into account the above strategic goals and identifying key milestones in the winding down process.

Key milestones to note are:

- Stop adding new in-house pensioners to the scheme by purchasing annuities for members who are currently in active service at the point of exit by December 2019
- Transfer all deferred benefits relating to active members (who are contributing to the DC scheme) to the DC scheme by December 2020.
- Externalise current pensioners to an annuity provider by December 2022.
- Transfer remaining active members (who are contributing to the DB scheme) to the DC scheme by December 2023

1.3.5 Strategy Implementation and Monitoring
Details on how the Plan will be implemented including a summary of the strategic objectives together with related activities, outputs and timelines are contained in the implementation tracking tool explained in chapter 4 of this plan. The trustees will be responsible for the implementation, monitoring, and evaluation of the Plan. Implementation monitoring will be done through the respective Board Committees and reported to the full board on a quarterly
basis. The Plan will also be evaluated on annual basis to ensure that it remains relevant and feasible. At the expiry of the Plan period, a comprehensive review of the Strategic Plan will be undertaken and results incorporated in the next planning period.

END OF EXECUTIVE SUMMARY
2.0 INTRODUCTION
This chapter provides background information on the Kenyatta National Hospital Staff Superannuation Scheme as well as the rationale and methodology for developing the Strategic Plan.

2.1 BACKGROUND
The Kenyatta National Hospital Staff Superannuation Scheme (‘The Scheme’) is a Defined Benefit Pension Scheme established by Kenyatta National Hospital (‘KNH’) under Irrevocable Trust on 1st January 1991 where the member contributes 5% of pensionable earnings while the sponsor contributes an amount required to meet the balance of the cost of retirement and other benefits as provided by the TDR. The scheme was closed on 30th June 2011 to new entrants and to contributions and accrual of future service for all members aged below 45 years. Only those members who were aged 45 and above as 30th June 2011 and elected in writing, contribute to the scheme and continue to accrue further benefits under the scheme.

All members aged below 45 years and new members were transferred to the new Defined Contribution pension scheme; The Kenyatta Hospital Staff Retirement Benefits Scheme established in June 2011. However, their accrued benefits were not transferred to the DC scheme due to the deficit in the DB scheme.

2.2 GOVERNANCE
According to the TDR, The sponsor may appoint a corporation as the Sole Trustee to administer the scheme or can appoint 3 to 9 individual Trustees of which at least one third shall be elected by members. Currently, the Board has 8 Trustees of which 5 are sponsor nominated and 3 are a member elected. This is in full compliance with both the TDR and the RBA Act.

Moreover, the Trustees have gone a step further and have been incorporated with the Ministry of Lands. This is recommendable as it improves Trustees’ ability to manage succession especially since the scheme owns properties and other assets.

However, the scheme lacks a governance and authorities manual that outlines the roles, responsibilities and delegated authority limits for various stakeholders. The Trustees considered need to develop and implement governance and authorities manual and a Board Charter As well as a Risk Policy manual. These documents will also assist in ensuring that the scheme is compliant with the 2017 market conduct guidelines issued by the RBA.

The scheme administration is done by external Administrators (Minet Kenya) with some coordination functions being carried out by an in-house pension secretariat based in the HR department of the Sponsor. The Sponsor meets the cost of employment for the secretariat. Employees of the secretariat are seconded to the scheme and are answerable to the scheme Trustees through the Trust Secretary. This Secretariat is shared by both the DB and DC schemes.

As at 30th June 2018, the scheme had assets amounting to Ksh. 7.35 billion. These assets are invested by two fund managers and a property manager: Stanlib Kenya Limited and Britam.
Assets Managers (Kenya) Limited with the properties being managed by Ebony Estates Limited in accordance with the guidelines laid out in the IPS.

2.3 RATIONALE FOR DEVELOPMENT OF THE STRATEGIC PLAN
Prior to 2019, the scheme did not have a strategic plan. Due to the changes in the legislative and macro-economic environment in the country and more specifically the developments in the pensions industry, the Trustees felt it was time to come up with a plan to chart the direction of the scheme, in line with these changes taking into account projected trends over the next five year period 2019-2023. Trustees are also cognisant of the closed nature of the scheme and the need to ensure that members’ critical decisions need to be made over the next five years as the age profile of members’ changes so as to protect their benefits.

2.4 PROCESS OF DEVELOPING THE STRATEGIC PLAN
This strategic plan is the outcome of a number of activities that began with an in-depth situation analysis which included the review of various scheme documents: the Trust Deed and Rules, Actuarial valuation report, Investment Policy Statement, Financial statements, Service provider reports and agreements, and the Member’s handbook. It was later followed by a one day trustees’ strategic planning workshop.

The strategic planning workshop began with an analysis of the external environment (PESTEL) followed by a detailed analysis of the pension industry as well as an in-depth review of the scheme itself (SWOT). This was followed by the formulation of the Vision, Mission and Core Values for the scheme.

Once the Vision and Mission had been formulated, the team brainstormed on key areas of strategic focus and developed strategic goals for each area. These goals are to be implemented during the plan period 2019-2023.

To guide implementation of the plan and ensure accountability, a tracking tool was developed to ensure that for each activity there is an agreed deadline and an Action Party/ Champion. This tracking tool will be reviewed every quarter during the quarterly board meetings to ensure implementation is on track. We also developed a robust Risk Matrix to ensure that all the material risks that could impact the implementation of this plan have been identified and mitigations put in place.
3.0 SITUATIONAL ANALYSIS

This chapter provides an assessment of Scheme’s operating environment (PESTEL) as well as a detailed analysis of its internal Operations. The chapter concludes with identifications of the key **Strengths, Weakness, Opportunities, and Threats** (SWOT) that informed our choice of the strategic direction for the scheme.

3.1 EXTERNAL ENVIRONMENT (PESTEL)

PESTEL analysis was applied in assessing the scheme external operating environment:

3.1.1 POLITICAL

There are a number of political factors that need to be noted as having the possibility to impact the pension industry.

Administratively, the pensions’ industry in Kenya falls under the National Treasury which is in turn accountable to the Parliament. The powers of the Treasury cabinet secretary are prominent and manifested in the appointment, removal, and fixing of the remuneration of members of the Retirement Benefits Authority, powers to make rules and regulations, and approval of sources of finance and fees payable to the Authority. The cabinet Secretary often introduces legislative changes that affect the pension industry. These changes are mainly introduced during the formulation of the annual National budget and pronounced through the finance bill.

On the political front, the year 2017 was very eventful characterized by the holding of two presidential elections, the second one resulting from the annulment of the 1st presidential election held on 8 August 2017. However, in 2018 political activities have declined as the country focuses on development. The handshake between President Uhuru and Hon. Raila in March 2018 calmed down the political tension in the country.

Security in Kenya has stabilized. Attacks from Al-shabab have greatly decreased seven years after Kenyan armed forces moved to Somalia to tame terror attacks by Al Shabaab. Security risk posed by land rivalries have also greatly decreased.

The President has led the country in a fierce war on corruption. The Ethics and Anti-Corruption Commission (EACC) and the Directorate of Public Prosecution (DPP) have been empowered to prosecute any individual participating in corruption regardless of their position. Kenya has also received support from international partners; Britain, Switzerland, and New Jersey- in the war on graft through the signing of agreements aimed at repatriation of assets and monies acquired through corrupt deals back into the country. Corruption increases the cost of doing business and slows down economic growth and investment.

President Uhuru and President Trump recently met in America to discuss how to strengthen the relationship between America and Kenya and more so the trade and investments ties between the two countries. This is important to Kenya as the US is Kenya’s second largest export market and biggest source of diaspora remittances which are the biggest foreign exchange earner in the country.

In summary, Kenya’s political environment has stabilized and is supportive of economic growth.
3.1.2 ECONOMIC

Below are some of the macro-economic aspects/ trends/ factors that may directly or indirectly impact the pension industry and the scheme and have resonating long-term effects.

In the last 5 years, Kenya’s economy has expanded by an av. rate of 5.6% p.a outperforming the av. growth rate of the global economy and of sub-Saharan Africa. However, Kenya’s economic growth decelerated to a 5-year low of an estimated 4.8 percent in 2017 but it is projected to grow by 5.5% in 2018. The slowdown in the performance of the economy was partly attributable to uncertainty associated with a prolonged electioneering period coupled with the effects of adverse weather conditions. A slowdown in credit uptake to the private sector also contributed to the deceleration in growth.

Similarly, there was a moderate build-up in inflationary pressures in 2017 mainly due to a significant increase in oil prices, prolonged elections and high food prices due to the drought. Consequently, inflation rose from 6.3 percent in 2016 to 8.0 percent in 2017 thereby overshooting the Central Bank’s upper limit of 7.5 percent. However, in 2018, Annual Inflation is expected to decrease to 4.85% and stabilize at 5% by 2022.

The table below represents the approximate projected GDP growth rate against Inflation:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>4.9%</td>
<td>5.5%</td>
<td>5.8%</td>
<td>6.0%</td>
<td>6.2%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Inflation</td>
<td>7.99%</td>
<td>4.85%</td>
<td>4.99%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

However, the CBK has lowered its benchmark interest rate to 9.0 percent (from 10%) in June 2018. It is the second cut so far in 2018, bringing borrowing cost to the lowest since 2015. On the other hand, the CBK removed the floor capping on deposits. This, in turn, may decrease the average interest rate on deposits.

In the money market, the Kenyan Currency has shown stability in recent years. In 2017, the Kenyan Shilling proved to be remarkably resilient strengthening against most of the major trading currencies. However, it weakened against the Euro and the US Dollar closing at 103.5 against the dollar. In 2018, the Kenya shilling has strengthened and closed the first half of the year trading at 101.15 against the dollar.

The Nairobi Securities Exchange (NSE) 20-Share index rose to 3,712 points in December 2017 from 3,186 points in December 2016. However, noticeable volatility was recorded in the weeks before the election months of August and October 2017. In 2018, the NSE 20 share index has been on a decline losing the first half of the year trading at 3285.73.

According to the 2018/19 budget, fiscal policy for FY 2018/19 aims to support rapid and inclusive economic growth, while ensuring a sustainable debt position. The budget has taken a deliberate path of fiscal consolidation which reduces the fiscal deficit (inclusive of grants) from around 9.0 percent of GDP in the FY 2016/17 to about 4.0 percent of GDP in the FY 2019/20.
On the other hand, Kenya’s public debt crossed the Sh5 trillion mark for the first time in 2018 which is 56.4% of the country’s gross domestic product. The debt pile up is mainly from external borrowing at Sh2.563 trillion while domestic debt is at Sh2.448 trillion. The steep rise in debt means a looming increase in debt servicing obligations, whose ultimate impact is to increase recurrent expenditure and a squeeze on development spending.

As the Vision 2030 celebrates its fifteenth anniversary, the growth of the economy is one of the most notable achievements. The country’s Gross Domestic Product (GDP) was Sh1.3 trillion at the launch of vision 2030 in 2002 and has risen to approximately Sh9.4 trillion in 2018 proof that long-term planning has contributed positively to sound economic policymaking and ultimately to the growth. In addition to the vision 2030 road map, the government has announced that its main focus over the next 5 years will be to pursue a national growth strategy through the ‘Big Four Plan’ (Affordable housing, Affordable health care, Expansion of manufacturing sector, Food security) to deliver accelerated and inclusive economic growth.

In summary, key macroeconomic indicators largely remained stable and therefore supportive of growth. According to the World Bank, growth will remain robust between 2018 and 2021 as a result of sustained expansion in consumer services, urbanization, EAC integration, structural reforms and investment in infrastructure.

### 3.1.3 SOCIAL

We have scrutinized the social environment to assess the factors that are likely to affect the pension industry in general and the scheme in particular.

Currently, the population of the country is about 51 million with projections of approx. 60M by 2025 compared to about 36 million ten years ago. The population growth rate is about 2.52%, with 26.7% of the population living in urban areas. There has been an increase in the country’s life expectancy over the years. The current life expectancy is 66.7 years (68.9 years for females and 64.4 for male). With the increasing life expectancy, there is a need to ensure our members do not outlive their retirement income.

The growing population in the country is putting pressure on the economy and its resources. Kenya experiences high unemployment rates. According to the World Bank report, Kenya’s Unemployment Rate was 11.5% of the total labor force in 2017 with the largest unemployment rate recorded in the age cohort 20–24 yrs. These leads to most young people not saving for retirement.

Most Kenyans live a ‘today only’ lifestyle. The Retirement Benefits Authority (RBA) has expressed concern over the poor retirement savings culture among Kenyans. However, there has been an increase in retirement savings in Kenyans in 2017 due to awareness on pension products and services made by RBA and industry players although, it is still below the targeted 30% recommended in the 2030 Vision blueprint.

Some Surveys show that Kenyans retiring at age 55 and above live on about 22 percent of their pre-retirement salaries, against the global market’s recommended standard of 67 percent. Only one in every seven working Kenyans is fully confident about their financial well-being.
after retirement, 86% risk sinking into poverty upon retirement. As a scheme we should work at ensuring our members sustain their current living standards after retirement.

3.1.4 TECHNOLOGICAL
Technology is diverse and constantly changing due to new innovations. These new innovations may affect the operations of the pension’s industry favorably or unfavorably.

Kenya has one of the fastest growing ICT industries in the region, a niche that could be worth more than a billion dollars in the next few years. It is also regarded as the regional leader in ICT in East and Central Africa and considered as one of the top innovation hubs in sub-Saharan Africa.

Mobile penetration rose by 1.7 percentage points in 2017 to reach 90.4 percent. We seem to be on the fast track towards a future where the cell phone will be the main platform for all transactions including banking, pensions etc. The scheme should take advantage of this and incorporate it as a channel of communication with its members.

Subsequently, the number of Kenyans accessing and using the internet on the rise. The latest sector statistics by the Communications Authority of Kenya (CA) estimated that the total internet subscriptions increased by 10.2 percent to stand at 29,624,474 up from 26,880,471 during the FY 2016/17. Mobile data remains the key contributor to data/Internet subscriptions at 99 percent.

Kenya is also a leader in digital payments in Africa. More than 16 million transactions happen on Mpesa every day and over 36 million mobile money accounts are registered across all available platforms.

These technological changes are an indication that the country is becoming more ‘tech savvy’ and there is a need for us to align our investments in the same direction. The scheme can take advantage of these developments to improve the administration system, member communication, and benefit payments as well as to enhance paperless transactions.

3.1.5 LEGISLATIVE
In most of the years, it has been necessary to amend the TDR to take into account changes introduced during the reading of the annual budget, usually in June.

The 2018 finance Bill introduced a number of amendments to the tax regime to mobilize revenues to finance the Government’s KES 3 trillion budget. These new tax laws have not targeted the pensions industry directly however they may affect pensions indirectly.

On the other hand, the 2017 finance bill had a number of amendments targeting the pensions industry. These include

- Approval of trustees’ remuneration by members during the annual general meeting after every three years.
- Section 26 was amended that no person shall be a trustee of any scheme fund if such person does not comply with guidelines and practice notes issued by the Authority.
o Section 34 was amended to include A penalty of KES 100,000 for late submission of statutory returns and an addition of KES 1,000 for each day or part during which the offense continues

o Regulation 15 was amended to state that the deadline for the submission of the quarterly contribution record has been extended from the 10th day to the 15th day after the end of the quarter.

o Regulation 8 was amended to provide that trustees will now be required to meet at least once every six months.

Other regulations include:

o The National Social Security Fund Act, 2013 (the “Act”) was published in the Kenya Gazette on 3rd January 2014. The new NSSF act provides for mandatory contributions of 6% employee and 6% employer. (More details on this are given in section 3.2 below). Failure to introduce certain clauses in the TDR integrating the NSSF and the scheme might compel both employer and employee to make these contributions in addition to what is being contributed currently.

o RBA also introduced the Market conduct guidelines on good governance practices in the management of schemes and treating customers fairly (TCF) for retirement benefits schemes.

The scheme should ensure it is complaint with the new regulation to avoid penalties from the authority.

3.2. INDUSTRY OVERVIEW

The key stakeholders in the pension industry are; the Retirement Benefits Authority (RBA), pension schemes and service providers.

<table>
<thead>
<tr>
<th>Scheme Type</th>
<th>Civil Service Scheme</th>
<th>National Social Security Fund</th>
<th>Occupational Schemes</th>
<th>Individual Schemes</th>
<th>Umbrella Schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td>578,900</td>
<td>2.1M</td>
<td>466,612</td>
<td>146,000</td>
<td></td>
</tr>
<tr>
<td>Legal Structure</td>
<td>Act of Parliament</td>
<td>Act of Parliament</td>
<td>Trust Deed</td>
<td>Trust Deed</td>
<td>Trust Deed</td>
</tr>
<tr>
<td>Membership</td>
<td>All civil servants</td>
<td>Formal sector employees / self-employed persons</td>
<td>Formal sector workers in companies that have schemes</td>
<td>Individuals formal/informal sector join voluntarily</td>
<td>Multiple unrelated employers</td>
</tr>
<tr>
<td>Funding</td>
<td>Non-funded</td>
<td>Funded</td>
<td>Funded</td>
<td>Funded</td>
<td>Funded</td>
</tr>
<tr>
<td>Regulation</td>
<td>Exempt from the Authority</td>
<td>Subject to the Authority</td>
<td>Subject to the Authority</td>
<td>Subject to the Authority</td>
<td>Subject to the Authority</td>
</tr>
</tbody>
</table>

RBA is a statutory body established under the Retirement Benefits Act 1997. The act gives the authority the mandate to license, supervise and monitor the pension industry in Kenya.

The pension scheme system includes; the public service pension scheme, the National Social Security Fund (NSSF), occupational, Umbrella and individual pension schemes. Most SME
employers who cannot afford to run an independent pension scheme are opting for umbrella schemes instead of the stand-alone occupational scheme as a way of tapping into economies of scale.

The industry also has service providers; administrators (30), custodians (11), investment/fund managers (22) and actuaries (14) who are registered under the provisions of the Retirement Benefits Act. There are other categories like pension consultants that are yet to be captured in the RBA registry.

The retirement benefits assets under management grew by 18.34% from Ksh 912 B in Dec 2016 to Kshs. 1,080.1 B in Dec 2017. This is a significant increase from about 50 billion in 2000 when the RBA came into force. Below is a summary of 2017 assets managed by the big five fund managers:

```
<table>
<thead>
<tr>
<th>Fund</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAAM</td>
<td>60,669.60</td>
</tr>
<tr>
<td>GenAfrica</td>
<td>153,169.70</td>
</tr>
<tr>
<td>Pinebridge</td>
<td>162,729.90</td>
</tr>
<tr>
<td>OMAM</td>
<td>120,047.00</td>
</tr>
<tr>
<td>Stanlib</td>
<td>134,716.80</td>
</tr>
</tbody>
</table>
```

Despite the rapid growth in the industry, only around 20% of the working population is currently saving for retirement by way of pension schemes.

There have been a number of developments in the pension industry. They include:

- **Expansion of asset classes** that pension funds can invest in by including Private Equity and Venture Capital funds (up to a maximum 10% allocation), Inclusion of REITs, infrastructure bonds and derivatives. Below is a table of the updated asset allocation limits.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>RBA Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Demands benefits</td>
<td>5%</td>
</tr>
<tr>
<td>Fixed term deposits</td>
<td>30%</td>
</tr>
<tr>
<td>Commercial papers &amp; corporate bonds</td>
<td>30%</td>
</tr>
<tr>
<td>E.A government bonds</td>
<td>90%</td>
</tr>
</tbody>
</table>

  
  Its main objective is to ensure that members of schemes, sponsors, trustees, service providers to a scheme and other stakeholders clearly understand their rights, roles, duties, and obligations within the confines of the law and good practices.

- **Market Conduct Guideline No. 2/2018 - Guideline On Treating Customers Fairly (TCF) For Retirement Benefits Schemes**
  
  Its main objective is to raise the standards in the way service providers treat their customers to ensure they are protected from unconscionable conduct in the products offered to them and increase their confidence in the industry.

Post-Retirement Medical: The Retirement Benefits (Occupational Retirement Benefits Scheme) (Amendment) Regulations, 2016, amended regulation 14 to insert a new paragraph 2A that allows members to make an additional voluntary contribution towards a medical fund to be accessed on retirement. Provided the funds are segregated and shall be invested as per the investment policy of that fund. To compliment this, the performance contracting guidelines for public institutions in Kenya outlined that state corporations need to set up post-retirement medical schemes for their members.

NSSF: The National Social Security Fund Act, 2013 (the “Act”) was published in the Kenya Gazette on 3rd January 2014. The new NSSF act seeks to increase the amount of contribution.

- The act includes an option of opting out of NSSF, in cases where the employer already has a private retirement benefits scheme that meets the criteria for opting out. Some of the conditions being: the scheme has to be registered with KRA as a tax-exempt scheme and must provide benefits in the same manner as provided in the act.

- The act has not been implemented as yet after COTU and other trade unions went to court to stop the implementation of the Act. The case is still in court hence the act is yet to be implemented. However, the scheme should ensure it is ready to opt out as soon as the Act is implemented.
### 3.3 Stakeholder Analysis

In executing its mandate, the scheme collaborates with a broad spectrum of entities including but not limited to:

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Role Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>The National Treasury</td>
<td>Provides executive oversight over RBA and the industry. The treasury should provide the political goodwill and support for the pension industry to effectively discharge its mandate.</td>
</tr>
<tr>
<td>Regulator (RBA)</td>
<td>Facilitate cooperation on areas of information sharing, financial sector stability, consumer protection, trustee development programs, and members’ education.</td>
</tr>
<tr>
<td>Financial Sector Regulators that include: Central Bank of Kenya (CBK), Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA) and Sacco’s Societies Regulatory Authority (SASRA)</td>
<td>Facilitate cooperation on areas of information sharing, financial sector stability, and consumer protection and investor education.</td>
</tr>
<tr>
<td>Sponsor</td>
<td>Designs the scheme (sets contribution rates etc.), appoints trustees, makes monthly contributions and exercises the oversight role on the scheme.</td>
</tr>
<tr>
<td>Administrator</td>
<td>They manage every day to day activities of the scheme.</td>
</tr>
<tr>
<td>Fund managers</td>
<td>They promulgate analysis and research on potential investments and advise on investment and manage investment portfolios on behalf of the scheme.</td>
</tr>
<tr>
<td>Custodians</td>
<td>They hold in custody funds, securities, financial instruments or documents of title to assets registered in the name of the scheme.</td>
</tr>
<tr>
<td>Consultants</td>
<td>Provide expertise in specific areas usually on a temporary basis.</td>
</tr>
<tr>
<td>ARBS</td>
<td>Plays the industry lobby role for all retirement benefits schemes in Kenya.</td>
</tr>
</tbody>
</table>

### 3.4 Internal Analysis

#### 3.4.1 Sponsor

Kenya National Hospital was founded in 1901. In 1987, its status was changed to a State Corporation through Legal Notice No.109 of 6th April 1987. It is currently the largest referral and teaching hospital in the country employing over 6,000 staff.

The hospital is administered by an 8-person board of directors with its chairman being appointed by the President. Its current chairman is Retired Inspector General Kimaiyo. The principal of the College of Health Sciences of the University of Nairobi and representatives from the Ministry of Finance and from the Ministry of Health, also sit on the board.

The Board has four standing committees, which meet quarterly under the terms of reference set by the Board. The Board has delegated authority for the conduct of the day-to-day operations to the CEO and is assisted by a 16-person Organization Management Team. At
cabinet level, KNH reports to the Cabinet Secretary for Health who is responsible for the general policy and strategic direction of the Hospital.

The Sponsor policy on managing the pension fund is partly informed by the need to comply with the government’s directives for example with regard to conversion from DB to DC. The sponsor is very committed to meeting its obligations with regard to remittance of pension contributions and in appointing senior members of its management team to join the Trustee Board.

However, the sponsor has not increased its contribution rate to 14.1% as advised by the actuary so as to fund the deficit. Moreover, the Sponsor has yet to formulate a policy on post-retirement medical care even though this is a requirement under the performance contracting deadline.

The financial stability of the Kenya National Hospital is crucial for the survival of the Kenyatta Superannuation scheme. The management challenges the hospital is currently facing are expected to be resolved and as such not to adversely affect the long-term stability of the Sponsor over the plan period. However, being a state-owned corporation, the institution enjoys government support and this mitigates some of the going concern risks.

3.4.2 SCHEME GOVERNANCE

The scheme is managed by 8 Individual Trustees – 5 sponsor nominated and 3 Member elected. Members can elect one-third of the Trustees with Sponsor nominating the other two thirds. The Trustees in office at the time of the workshop were:

**Sponsor Appointed Trustees**

i. Dr. Simeon Monda - Chairperson  
ii. Mr. Calvin Nyachoti – Trust Secretary  
iii. Dr. David Kimaiyo  
iv. Dr. Thomas Mutie  
v. Mr. Eliphas Choge

**Members Elected Trustees**

i. Mr. Jared Owiny  
ii. Mr. Wycliffe Lisalista  
iii. Ms. Ruth Mbithe

The Trustees composition has changed since the Trust deed was amended and it is, therefore, necessary for all new Trustees to have signed a deed of adherence.

The board of trustees has delegated the internal day to day running of the scheme to the pensions secretariat employed and paid by the sponsor. The secretariat is curved out of the HR department and deployed to the scheme. This is a shared resource between the DB and DC schemes.

The scheme’s external service providers include:

**Administrator** – Zamara Actuaries, Administrators & Consultants Ltd.

**Fund Managers** – Stanlib Kenya Limited & Britam Asset Managers (Kenya) Ltd.
3.4.3 DOCUMENT REVIEW

3.4.3.1 TRUST DEED AND RULES (TDR)

The TDR is registered with the RBA as per the RBA regulations.

The TDR provides for individual trustees. The scheme can have a minimum of 3 and a maximum of 9 trustees, of which at least one third are member elected. The trustees are incorporated by the Ministry of Lands to manage matters to do with Trustee liability, succession, and ownership of land. This should also be incorporated in the TDR.

The TDR sets contributions of the member at 5% of the pensionable salary while the sponsor contributes an amount required to meet the balance of the cost of retirement and other benefits as provided by the TDR. Currently, the sponsor is contributing 10% of the pensionable salary.

The TDR establishes that trustees may serve for a maximum of two terms of three years each. The deed, however, does not provide guidelines on staggering retirement of Trustees in order to manage succession better. This could be dealt with in a governance manual.

TDR should be reviewed and updated to:

- Correct anomalies identified during the situation analysis
- Reflect the current legislation.
- Allow for the establishment of a post-retirement medical scheme and needs to be amended to include it.
- Have provisions regarding contributions to NSSF. This needs to be integrated to ensure members don’t have to make excessive contributions once 2014 NSSF act becomes operational.
- Take into account the proposal made in this strategic plan e.g. Externalization of pensioners.

3.4.3.2 ACTUARIAL VALUATION REPORT

<table>
<thead>
<tr>
<th>Accrued Liabilities</th>
<th>2014</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kshs 'M'</td>
<td>Kshs'M'</td>
</tr>
<tr>
<td>Future benefits to pensioners</td>
<td>664.00</td>
<td>1,698.70</td>
</tr>
<tr>
<td>Past service benefits for active members</td>
<td>7,739.10</td>
<td>9,251.90</td>
</tr>
<tr>
<td>Contingent Liability</td>
<td>63.60</td>
<td>85.00</td>
</tr>
<tr>
<td><strong>Total accrued (past service) liabilities</strong></td>
<td><strong>(8,622.70)</strong></td>
<td><strong>(11,284.30)</strong></td>
</tr>
<tr>
<td>Value placed on scheme assets</td>
<td>5,802.60</td>
<td>7,364.20</td>
</tr>
<tr>
<td><strong>Actuarial Deficit</strong></td>
<td><strong>(2,820.10)</strong></td>
<td><strong>(3,938.10)</strong></td>
</tr>
<tr>
<td>Funding level</td>
<td>67.3%</td>
<td>65.1%</td>
</tr>
</tbody>
</table>

As per the actuarial valuation done in 2018 by Actserv, the scheme had a funding deficit of Kshs 3.94 billion which is 65.1% funding level. This is lower than the minimum funding requirement of 100% prescribed in the Retirement Benefits Regulations as amended in 2009.
Currently, the scheme is receiving special contributions from the treasury to reduce the deficit however this is not sufficient. The Sponsor should increase its contribution rate to 14.4% of pensionable salaries in order to fund the deficit in the next 3 years as recommended by the actuary. Alternatively, the sponsor can make lump sum payments of Kshs 1.732 billion per annum as recommended by the actuary.

The trustees in consultation with the actuary should prepare a statutory remedial action plan detailing how the Scheme will close the deficit and file it with the Retirement Benefits Authority.

3.4.3.3 LATEST FINANCIAL STATEMENTS

The scheme had total assets of Kshs 7.3 billion as at the year ending June 2018 an increase from Kshs 5.29 billion in 2014. The scheme assets are growing mainly due to good net returns.

The scheme has attained good returns on investment except for 2016 during the construction of the Westlands road apartments. In addition, the stock market performed poorly with NSE closing the year at 3,186 points. However, the scheme is slowly recovering with an average net return of approximately 9.5% in 2018.

Current Asset allocation
The scheme has adopted a medium risk to aggressive risk portfolio. Growth assets which include equities and property make 59% of the portfolio while capital preservation assets; Government securities, corporate bonds, and fixed deposits make 41% of the portfolio. Taking into account the weighted average age profile of the scheme which is approximately 49.1 years, the scheme should adopt a more conservative investment strategy with at least 70% of the scheme portfolio in safe/ more liquid assets.

In addition, since the scheme is closed to new members, it calls for an investment strategy with more focus on more liquid investments. A greater allocation to Government bonds and bank deposits will improve liquidity. The scheme should consider diversifying away from property and corporate bonds which are highly illiquid into alternative asset classes like offshore listed equity in order to further reduce concentration risk.

As at the year ending June 2018, the property allocation was above the scheme’s tactical limits and RBA limits. This poses a huge concern as the percentage of the property allocation will continue to increase as more liquid funds go to paying benefits. Trustees should consider disposing of part of the property.

Contributions have increased over the years to Kshs 155.9 million in 2018 from Kshs 50 million in 2014. It is however noted that since the scheme is closed to new entrants, the normal monthly contributions will soon start decreasing as more contributing members continue to retire. Similarly, the benefits paid over the last five years have been significantly higher than the contributions. This is expected to continue rising over the plan period. The scheme is also receiving special contributions to reduce the actuarial deficit. However these contributions have not been consistent with no transfer done in 2017. These contributions are from the Treasury through the sponsor.

**Scheme Membership**
As of 30th June 2018, the scheme had 3772 active members with most members between the ages of 45-49. However, as shown in the above chart, only 1,100 members between the ages of 50 & 60 contribute to the DB scheme. The remaining 2,672 members between the ages of 27 – 54 were initially members of the DB but were transferred to the DC scheme since they were below 45 years as of 2011. They currently contribute to the DC scheme but remain as active but non-contributing members of the DB scheme as their accrued benefits prior to June 2011 are still in the DB scheme due to the deficit at the time of transfer. The trustees are considering transferring the benefits to the DB scheme once the deficit is funded.

As shown in the diagram below (projecting normal retirement age for original members only), the schemes active membership is rapidly diminishing.

By 2026, all contributing members will have attained the normal retirement age of 60 years. This will mean that the scheme will be paying out benefits with no contributions coming in hence relying fully on investment income to grow the scheme. As a result, the fund value will soon reduce to below critical mass resulting in negative returns.

It is in this regard that the trustees are considering ways of winding down the scheme while optimizing the member’s benefits and if possible to enhance the benefits. This can only be achieved when the scheme is still has a large asset base.
3.4.3.3 INVESTMENT POLICY STATEMENT

The IPS was last updated in May 2016 by Zamara Actuaries, Administrators & Consultants Ltd. The scheme’s investment objectives are:

- To maintain a minimum annual rate of 10% per annum net of all investment and administrative costs.
- To outperform the agreed investment return benchmark over three rolling periods.

Tactical ranges prescribed in the IPS are in some cases too wide. A maximum standard deviation of 10% age points is recommended. The tactical allocations should also be specific to each asset class. The allocations should be done factoring in the size of the fund as well as the members’ age profile.

Being that the scheme is closed to new entrants and the average age of members is around 45 years, it may call for an investment strategy with more focus on more liquid investments. The scheme should look at diversifying away from property and corporate bonds which are illiquid assets to more liquid assets such as government bonds, bank deposits, local and offshore listed stocks. Currently, the scheme faces the risk of property going totally overweight as the contributions received by the scheme continue to diminish while benefits being paid out increase. Currently, property allocation is already above the tactical and RBA limit.

Lastly, there is a need to introduce a 5% tracking error for stocks and a 5-8 years average duration benchmark for bonds. This will make assist in measuring fund managers performance and make comparability between the two managers easier.

3.4.3.4 FUND MANAGER’S REPORT

The scheme uses a multiple manager structure with the aim at increasing competition between the two managers and increase scheme returns. The scheme has two fund managers and a property manager:

- Stanlib Kenya Limited
- Britam Asset Managers (Kenya) Ltd
- Ebony Estates Limited (Property Manager)

![FUND MANAGERS PERFORMANCE](chart.png)
The performance of both managers is comparable with Stanlib performing better in 2017 and Britam slightly outperforming Stanlib in 2018.

The fund managers’ reports are too long with a huge part of the report focusing on the macroeconomics other than performance against benchmarks. Moreover, the reports simply show rates of return without providing notes and explanations on performance and compliance.

Currently, the comparability between the two managers is difficult as they have a free format reporting. It is in this regards that the Trustees are considering introducing a reporting template focusing on performance against set benchmarks. The template will also assist in:

- Standardization in performance reporting to assist in comparing the two managers. The report needs to focus on performance vs. benchmark and other relevant terms of the Investment Management Agreement
- Benchmarks will include risk parameters
- Placing more emphasis on variance analysis and explanations
- Include a couple of slides from the secretariat on comparison between the performances between the two fund managers.

3.4.3.5 PROPERTY MANAGER’S REPORT

The scheme owns four direct properties Chemilil Rd, Ngong Rd, Waridi court and Westlands road. These properties are managed by Ebony Estates Limited.

Chemilil Rd., Ngong rd., and Waridi court have had positive returns over the last three years with almost 100% occupancy rate, however, Westlands road has had negative returns in 2016 and 2017 and currently is at 50 % occupancy rate. The trustees noted that the main issue affecting the Westlands property is the faulty plumbing system and have hired an expert to address the issue.

Due to the closed nature of the scheme, the trustees are considering reducing its property allocation by disposing of a property. The trustees are further open to the idea of ceding some property to the DC scheme as a way of transferring the accrued benefits of DC benefits that
have been deferred in the DB Scheme. This was considered a win-win for both schemes since the DC scheme is young and would benefit from exposure to property.

In order to ensure maximum returns from property, there is a need to set KPIs in all areas such as occupancy rates, rent receipts, arrears, repairs, and maintenance. Frequent market comparison analysis should also be done to ensure above-market returns.

### 3.5 SWOT ANALYSIS

The SWOT analysis provides an overview of the Scheme’s internal and external environment that enables identification of the organizational Strengths, Weaknesses, Opportunities, and Threats. The outcomes of the SWOT analysis are presented in the table below.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Size of the fund (Approx. 7.4B)</td>
<td>• The scheme is closed to new entrants</td>
</tr>
<tr>
<td>• Reasonable diversification of investment</td>
<td>• Scheme deficit of approx. 3.9B</td>
</tr>
<tr>
<td>• Reasonable investment returns (though below valuation assumptions)</td>
<td>• Illiquidity of some assets – (Property and corporate bonds)</td>
</tr>
<tr>
<td>• Competent Board of Trustees</td>
<td>• Low levels of deficit funding contributions</td>
</tr>
<tr>
<td>• Stability of the sponsor.</td>
<td>• Secretariat not fully trained. (Have not attended the TDPK)</td>
</tr>
<tr>
<td>• Competent service providers</td>
<td>• Low-income replacement ratio partly attributable to the low level of consolidation of earnings.</td>
</tr>
<tr>
<td>• Timely remittances of monthly contributions</td>
<td>• Not well-documented governance Structures and Policies.(Governance and Authorities manual, Board charter, Risk policy)</td>
</tr>
<tr>
<td>• Government support</td>
<td>• Wide tactical ranges in the IPS could open Trustees to high investment risk.</td>
</tr>
<tr>
<td>• Sponsor commitment as depicted by timely remittance of monthly contributions as well as the nomination of senior members of management to the Board.</td>
<td></td>
</tr>
<tr>
<td>• Good oversight by RBA.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Transferring deferred benefits of DC members by ceding property.</td>
<td>• Lack of proper Integration with NSSF Act– currently the scheme cannot opt out.</td>
</tr>
<tr>
<td>• Requirement under performance contract for public sector for schemes to set up post-retirement medical schemes.</td>
<td>• Economic instability caused by rising national debt and corruption.</td>
</tr>
<tr>
<td>• Fast growing pension industry-especially annuity providers.</td>
<td>• Recent management challenges facing the Sponsor (KNH).</td>
</tr>
<tr>
<td>• Fast growing technology sector.</td>
<td>• Litigation by members regarding formula applied to determine final pensionable salary (use of an uplift factor instead of actual salary).</td>
</tr>
<tr>
<td>• New investment classes- 10% of assets allowed in the new investment classes.</td>
<td></td>
</tr>
<tr>
<td>• Investing in offshore investments</td>
<td></td>
</tr>
<tr>
<td>• The expanding infrastructure network in Kenya</td>
<td></td>
</tr>
<tr>
<td>• Market conduct guidelines legislation to support strengthening governance.</td>
<td></td>
</tr>
</tbody>
</table>
4.0 STRATEGIC DIRECTION

This chapter covers the strategic direction of the Scheme after taking into account the above Swot analysis and it includes; the Vision, Mission, Core Values, Key areas of Strategic focus and their respective Strategic goals and Objectives.

4.1 VISION

To be a model retirement benefits scheme that continuously provides competitive benefits to members.

- One way of gauging competitive benefits is whether or not the standard of living of members has dropped after retirement. Retiring members should be able to afford at least the same standard of living they enjoyed before retirement.
- We can also gauge competitiveness by observing other aspects for example; members having a very strong financial base at retirement e.g. a retirement home and/or a post-retirement medical insurance policy.

4.2 MISSION

To safeguard and grow members’ funds through prudent investments, good governance, effective communication, and excellent service provision to members.

The above mission can be explained/ or simplified using key building blocks or pillars that support the realization of the vision. These are:

- Prudent Investment Management
  This entails diversification of investments to ensure we gain maximum returns while mitigating the risks that could erode our asset values. To do so, Trustees will closely manage the entire investment process from the formulation of IPS to manager selection all the way through to monitoring of quarterly performance. They will in particular review the IPS to ensure that stretched benchmarks are set and monitored. They will also ensure that asset allocation is matched properly to the risk profile and liquidity of the fund as contributions continue to dwindle. As the size of the scheme gets smaller Trustees will seek other options like externalization or outsourcing of members or transfer to DC scheme. This will ensure the scheme does not contract below critical mass size.

- Good Governance
  This entails putting in place a robust governance structure with well-documented governance processes, systems, practices, and procedures. The trustees will ensure the scheme is compliant with the market conduct of good governance issued by the RBA. It also includes having proper accountability (performance contracts, performance benchmarks etc.) for all stakeholders including Trustees, Sponsor, Secretariat, and service providers

- Effective Communication and excellent provision of Services to members.
  The scheme shall ensure there is Relevant, Accurate and Timely reporting to members and also continuously educate them to ensure member awareness on key issues affecting
the scheme. The trustees shall also ensure good service delivery to its members as per the market conduct guidelines issued by RBA on treating customers fairly.

4.3 CORE VALUES
To fulfill its mandate, pursue the Vision and accomplish its Mission, the scheme will be guided by its core values of:

- **Integrity** – *Accountability is personal*
  We shall conduct our business with openness and transparency.

- **Team Work** – *Going far together*
  We shall work with all stakeholders in order to achieve the best outcomes to safeguard and grow members’ benefit.

- **Excellence & Professionalism** – *Get it right first time*
  We shall endeavor to be the best in what we do the first time and where possible exceed expectations. We shall dedicate all efforts in ensuring provision of world-class service to our members and other stakeholders.

4.4 KEY AREAS OF STRATEGIC FOCUS AND THEIR RESPECTIVE STRATEGIC GOALS
For a strategic plan to be effective, we have to direct our efforts and limited resources to a few carefully selected areas where our efforts shall produce the greatest impact. The following were identified as the key areas of strategic focus during this plan period. Goals were developed for each area of focus and for each goal we came up with key initiatives required to achieve the goals. The strategic goals are Specific, Measurable, Attainable, Relevant and Time-bound (SMART).

4.4.1 AREA OF FOCUS: SCHEME GOVERNANCE

**Goal:** To improve on Scheme Governance by putting in place a strategic plan, updating the TDR and developing a Governance and Authorities manual together with a Board Charter and a Risk Management manual that clearly define Structures and Policies of the schemes by June 2019.

i. Finalize and issue the strategic plan by 31st December 2018.

ii. Review the TDR to take into account contents of this strategic plan (e.g. externalization of pensioners, annuity purchase for all new retirees etc.) and any other recent changes in regulations (e.g. opting out of NSSF, and 2017 and 2018 Financial bill changes) by 30th June 2019.

iii. Develop and issue a Governance and Authorities Manual by 30th June 2019. The manual will address good governance guidelines issued by RBA. It will also set financial limits and clearly define all levels of delegated authority

iv. Develop a Board Charter for the Trustees by 30th June 2019. The Board charter will address how trustees are appointed and removed, their roles and responsibilities and that of the board committees.
v. Develop a Risk Management manual by 30th June 2019. The manual will list all probable risks that the scheme may face and provide comprehensive risk management processes, framework, and strategy to mitigate them.

4.4.2 AREA OF FOCUS: FUNDING THE DEFICIT

**Goal:** Negotiate with Sponsor and document a remedial plan to eliminate the Kshs 3.9 billion by December 2021.

i. Negotiate with the sponsor on how to fund the deficit by June 2019
ii. Document a working remedial plan to fund the deficit by June 2019
iii. Complete funding the scheme deficit by December 2021

4.4.3 AREA OF FOCUS: REVIEW THE IPS (ASSET ALLOCATION AND PERFORMANCE BENCHMARKS)

**Goal:** Review the IPS especially in the areas of asset allocation, performance benchmarks, risk management and performance evaluation by December 2019 in order to boost investment return (after deducting expenses) to at least the 10% projected in the actuarial valuation.

i. Develop revised asset allocation (consider further diversification like Offshore equities, Private equities etc. and cut down on exposure to corporate bonds and property), set revised performance benchmarks and issue revised IPS by December 2019.
ii. Develop a template to facilitate reporting on the performance of the fund managers by December 2019.

4.4.4 AREA OF FOCUS: POST-RETIREMENT MEDICAL SCHEME

**Goal:** To improve financial security/welfare of members by developing a Post-retirement medical scheme by 30 June 2020

i. Obtain prudential guidelines on setting up of PRM from RBA by 30th March 2019
ii. Engage the sponsor HR to discuss and agree on how Sponsor and Scheme can implement the post-retirement medical cover by 30th April 2019.
iii. Obtain Sponsor Support and appoint an expert to assist in due diligence and implementation. The expert should develop the most suitable and cost-effective solution for the members and get it approved by Trustees and Sponsor by 30th June 2019
iv. Carry out member education by 28th February 2020
v. Tender for the service and select service provider by 30th March 2020.
vi. Implement the Post-Retirement Medical scheme by 30th June 2020.

4.4.5 AREA OF FOCUS: WINDING DOWN THE SCHEME

**Goal:** Winding down the scheme while optimizing and protecting members’ accumulated benefits and if possible enhancing such benefits.

i. Amend the TDR to stop adding new pensioners to the scheme by purchasing annuities for them at the point of exit by December 2019. To do this Sponsor will need to fund the deficit of those members as they exit.
ii. Transfer all deferred benefits relating to DC members to the DC scheme by December 2020. To do this Sponsor will need to fund the deficit of those members as they exit.
iii. Externalise current pensioners to an annuity provider by December 2022. To do this Sponsor will need to fund the deficit of those members as they exit.
iv. Transfer remaining Active members to the DC scheme after funding the residual deficit fully by 2023 after which the scheme can be liquidated.

4.5 OTHER AREAS OF FOCUS

The trustees noted other housekeeping issues that needed their attention to facilitate in achieving the key goals of the strategic plan. These areas include:

- **Pension Increases**
  Implement a 3% per annum pension increase as stated in the Trust deed and rules by 30th December 2019.

- **Enhance monthly member contribution**
  Currently, members are contributing at 5% of the pensionable salary which is considered very low. Trustees should bring the members on board to increase their contributions to at least 6% as the sponsor is willing to match up the members’ contributions to 12%. This is absolutely necessary if members are to have the option of opting out of NSSF. It should also be aligned to DC for ease of possible transfer later. This can be achieved through member education and awareness by December 2019. Sponsor may need to consider a one-off adjustment to salaries to take care of the 1% additional contribution.
5.0 FINANCIAL PROJECTIONS

The model used to project the financials over the plan period assumes that:

- Investment return is inflation plus 3% as stated in the IPS;
- Inflation is 7% over the plan period;
- Increase in salary is 7% as stated in the actuarial valuation report;
- Accrued benefits per member is calculated as total assets/total number of members;
- The pensions will increase at 3% and decrease at 4% attrition rate;
- The sponsor will make deficit contributions of Kshs 1.733 billion to fund the deficit by 2021 as recommended by the Actuary;
- The scheme will stop creating new pensioners in 2019;
- The scheme will transfer the deferred benefits for DC members by end of 2020;
- Current pensioners will be externalised to an annuity provider by end of 2022; and
- Remaining active members will be transferred to the DC scheme by end of 2023.

### Key Numbers

| Year | Total Members | Deferred Members | Contributing members | Pensioners | Inflation | Increase in salaries | Investment return | Expenditure increase | Contributions | Withdrawals/ Exits | Payments (Withdrawals) | Payments (Pensions) | Transfer of DC benefits to DC scheme | Externalization of current pensioners | Transfer of active members to DC scheme | Return on Investments | Net return After expenses and Tax | Net return on Investment Before Tax | Net assets available for benefits at start of the year | Net assets available for benefits at end of the year |
|------|---------------|------------------|---------------------|------------|-----------|--------------------|------------------|----------------------|---------------|---------------------|-------------------------|------------------|-------------------------------|-----------------------------|-----------------------------|-------------------------------|--------------------------------|--------------------------------|
6.0 IMPLEMENTATION OF THE STRATEGIC PLAN

6.1 CRITICAL SUCCESS FACTORS FOR IMPLEMENTATION
The scheme has identified the following critical factors that it will need to observe for the successful implementation of the Strategy:

i. Leadership and commitment;
ii. Understanding of the Strategy by all those who are either directly involved in its implementation like the Trustees and service providers as well as other key stakeholders whose support will be critical e.g. the Sponsor and the Unions;
iii. Effective communication between all stakeholders on activities and outcomes;
iv. Timely implementation of activities;
v. Appropriate governance structure and allocation of resources as identified for each activity;
vii. Effective translation of strategic plan targets to smaller working team plans and individual work plans and targets; and
viii. Regular review, performance oversight, monitoring measurement, and reporting.

6.2 ACCOUNTABILITY
Accountability is the expectation that each stakeholder will be responsible for the results achieved in performing the assigned tasks in a timely and efficient manner.

The Board will be in charge of policy formulation, and general monitoring and evaluation of the Plan’s implementation.

6.3 MONITORING AND EVALUATION OF THE PLAN
Monitoring the implementation of the strategic plan constitutes systematic tracking of activities and actions to assess progress. Progress will be measured against specific targets and schedules included in the plan. This will be followed by analyzing and reporting of information to various users. This helps them to remain alert to any short-falls or deviations and taking early corrective action.

Effective monitoring also helps to identify difficulties and problem areas, and to take immediate remedial action, thereby ensuring that targets are achieved. Regular reporting at all levels is necessary for follow-up and record keeping.

6.4 TRACKING TOOL
The tracking tool was developed by PENPLAN Services Ltd to facilitate effective implementation of the strategic goals for schemes by assigning each action item an end date and a champion and using traffic lights to indicate implementation status at the end of each quarter. It is a simple tool which, if used properly can deliver the desired results within the plan period.

6.5 STRATEGIC PLAN REVIEW
The Strategic Plan will be reviewed annually and at the mid-term to ensure that it remains relevant and feasible. The annual review will evaluate the year’s progress and indicate the extent to which the scheme has implemented the Plan. This should form part of the
performance evaluation score card for Trustees. A comprehensive review of the strategic plan will be undertaken at the end of the third financial year.

### 7.0 EVALUATION OF RISK

In this section, the specific initiatives/ activities required to achieve each goal are analyzed to identify risks that are likely to arise during the implementation of the initiative, and some risk mitigation measures are proposed.

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Risk</th>
<th>Mitigation</th>
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| i. To improve Scheme Governance by putting in place a strategic plan, developing Governance and Authorities manual, Board charter and Risk management manual that clearly define Structures and Policies. | • Delays in developing these documents  
• Not adequate coverage  
• Failure to cure all shortcomings | • Hire an expert/ pension consultant  
• Ensure there is a strict deadline set for delivery  
• Review all documents before sign off  
• Involve all stakeholders |
| ii. Negotiate with Sponsor and document a remedial plan to eliminate the Kshs 3.9 billion | • Coming up with a remedial plan might take too long as it entails negotiations between the trustees and sponsor.  
• Implementation of the remedial plan may stall as it needs input from different players (Treasury, sponsor etc.) | • Form a committee that deals specifically with the funding issue  
• Constant follow up by the committee  
• Get sponsor sign off for the plan |
| iii. Review the IPS especially in the areas of asset allocation, performance benchmarks, risk management and performance evaluation. | • The Asset consultant might take too long to review the IPS particularly the performance benchmarks and asset allocation ranges.  
• Property exceeding Tactical and RBA limits could lead to penalties. | • Investment Committee to set strict deadlines and monitor.  
• Diversify investments.  
• Investment Committee to come up with strategies to ensure the property is within the allocation limit. |
| iv. To improve the Security/welfare of members by developing a Post-Retirement Medical scheme. | • RBA may not approve of mandatory contributions.  
• Members may be unwilling to make additional contributions towards a PRM.  
• Members may fail to understand the new product. | • Consult with RBA.  
• Consult with Sponsor to make PRM contributions compulsory.  
• Member education on benefits of PRM. |
| v. Winding down the scheme while optimizing | • Complexity in winding down the scheme | • Hire an expert/ consultant to guide the scheme on the |
and protecting members’ accumulated benefits and if possible enhancing such benefits.

| and protecting members’ accumulated benefits and if possible enhancing such benefits. | • Members may be resistant to externalization.  
| • Delay in asset transition/loss of value during the transition | • Members may be resistant to externalization.  
| • Educate members about the benefits of externalization.  
| • Ensure that all communication regarding externalization is reviewed by the legal advisor to ensure that trustees cannot be held liable.  
| • The transition may be done in phases. |

| vi. Sponsor Support | • Lack of sponsor support in implementing the strategic plan. | • Lack of sponsor support in implementing the strategic plan.  
| • Hold a joint workshop to update the sponsor on the plan and sign it off for sponsor support. | • Hold a joint workshop to update the sponsor on the plan and sign it off for sponsor support. |
8.0 COMMITMENT
We confirm that this strategic plan has been discussed and approved by the following Trustees of Kenyatta National Hospital Superannuation Scheme. We commit to implement the actions therein:

Mr. Dr. Simeon Monda (Chairperson) ..............................................................
Mr. Calvin Nyachoti (Trust Secretary) ..........................................................
Dr. Thomas Mutie ..........................................................................................
Dr. David Kimayo .........................................................................................
Mr. Eliphas Choge .........................................................................................
Mr. Jared Owiny ............................................................................................
Mr. Wycliffe Lisalista ...................................................................................
Ms. Ruth Mbithe ............................................................................................

SPONSOR SUPPORT
As Sponsor of the above scheme, KNH is committed to support the Trustees in all their endeavours towards the full implementation of the above Plan

Signature...........................................................................................................

Managing Director