[SUGGESTED DRAFT BOARD PAPER FOR PRESENTATION TO THE PARLIAMENTARY SERVICE COMMISSION]

PARLIAMENTARY SERVICE COMMISSION

STAFF RETIREMENT BENEFITS ARRANGEMENTS

Proposed Modifications to Retirement Benefits Scheme to Adjust for Prior Service Benefits

Introduction and Background

The Parliamentary Service Commission operates a retirement benefits scheme for its permanent and pensionable staff. The Commssion's Pension Scheme was set up with an effective date of 1 July 2000 and was established as part of the delinking of the Commission from the mainstream Public Service in 2000.

The Pension Scheme was initially established on a defined benefits basis, but, following a review in 2007, the pension arrangements were modified to a defined contribution basis in 2008.

The Pension Scheme provides pension benefits in respect of the Commission pensionable employees' future service from 1 July 2000. The responsibility of the pensionable employees' pension benefits in respect of their past service with the Commission before 1 July 2000 remains with the Government of Kenya under the Public Service Superannuation Arrangements ("PSSA") governed by the provisions of the Pensions Act ('Cap 189').

It must be noted that the pension benefits in respect of this prior service are based on the Civil Service payroll salary scales as at that date. Whereas at the time of setting up of the Commission Pension Scheme, the Commission salary scales were significantly higher than the corresponding Civil service scales at that time, over the years, the salary scales under the

Civil Service have been significantly increased with the result that the significant differential in salary scales that applied at the outset has been narrowed.

The level of overall benefits for Commission staff who transferred from the Civil Service is severely impacted by the prior service benefits being based on the Civil Service salary scales at the date of delinking rather than the Commission scales applying at retirement. Further, since the salary scales in the Civil Service have been increased, Commission staff who have a significant period of service before 1 July 2000 are being severely disadvantaged.

There is thus considerable dissatisfaction amongst the staff on the level of their pension benefits.

The purpose of this paper is to motivate for an adjustment to be made to the Commission Pension Scheme benefits such that the overall benefits for those who transferred from the Public Service in 2000 are not less than had they remained under the Public Service Pension Scheme on the Commission rather than the Civil Service salary scales.

Actuarial Computations

The Trustees of the Commission Pension Scheme asked the Scheme Administrators and Actuary to advise on modifications to the Pension Scheme benefits to address and mitigate the impact of the imbalance referred to above.

A number of different options were considered for this purpose including

i) Setting up a 'top- up' scheme to provide benefits to cover the salary differential between the Civil Service salary scales at date of delinking and the current Commission salary scales;

ii) Providing additional benefits under the Pension Scheme to cover the prior service salary differential;

iii) Providing a minimum defined benefit underpin in the Pension Scheme to ensure the overall benefits are 'no worse off' than had they remained under the Public Service Pension Scheme but on the Commission salary scales;

iv) Reverting the Pension Scheme back to a defined benefit scheme with mirror image benefits to the Public Service Pension Scheme and covering the prior service salary differential benefits.

Given the Government's recent introduction of a defined contribution structure for its pensionable staff and the satisfactory contribution structure under the Commission's current Pension Scheme, it is proposed that the Pension Scheme remains on a defined contribution basis, but provides a minimum guaranteed benefit for staff who transferred from the Civil Service to the Commission's service in 2000 such that their overall benefits (from the Commission Pension Scheme and the Public Service Pension Scheme) at the date of retirement are not lower than those that would have applied had they remained under the Public Service Pension Scheme.

Strictly speaking, the underpin ought only to apply to those staff who had prior service benefits under the Public Service Pension Scheme. However for simplicity and ease of administration, it is proposed that the underpin also apply to Commission staff who joined after 1 July 2000 but before the changeover to the defined contribution basis in 2008. .

The actuary has advised that the total additional liability as at 30 June 2009 in order to provide the minimum guaranteed benefits is estimated at K Shs 395m. If this additional liability is covered over a period of six years from 1 January 2010, then the additional annual monetary contributions required from the Commission is estimated at K Shs 90m.

It is also proposed that the cost of the insured death benefits which is currently met separately by the Commission be met from the Pension Scheme resources with effect from 1 January 2010.

The Pension Scheme Trust Deed and Rules need to be amended to reflect the proposed modiciations. Further the Trust Deed also needs to be amended to incorporate the changes that have been introduced in the Retirement Benefits Act and Regulations in the past three years. A draft of the Deed of Amendment is attached for the Commission's perusal. The document will need to be executed by the Commission and the Trustees of the Pension

Scheme and submitted to the Retirement Benefits Authority and the Kenya Revenue Authority.

Approvals Required

The Commission is invited to note the contents of this paper and:

1. Approve the retention of the Pension Scheme on a defined contribution basis, subject to the introduction of a minimum defined benefit underpin benefit;
2. Approve for the additional liability of introducing the defined benefit underpin to be met through additional yearly contributions to the Pension Scheme of K Shs 90m payable for six years from 2010;
3. Approve for the cost of the insured death benefit to be met from the Pension Scheme resources rather than met separately by the Commission;