Systech Ltd

FundMaster Response to National Social Security Fund (NSSF) Act 2013

Introduction to the NSSF Act 2013

The National Social Security Fund (NSSF) Act 2013 is an act of Parliament in Kenya that seeks to reform the social security system in the country. The Act was passed in December 2013 and became effective on 1st January 2014. The bill was later challenged in court and came into full operation as a law on 3rd February 2023.

The NSSF Act 2013 aims to address the challenges facing the pension industry in Kenya, including low coverage, inadequate benefits, and poor governance. The Act introduces a number of reforms, including changes to the contribution rates, benefits structure, investment policies, and governance framework.

Under the NSSF Act, employers are required to contribute 6% of their employees' gross monthly earnings. In addition, employees are required to contribute 6% of their gross monthly earnings to the NSSF. This represents an increase from the previous contribution rate of 5% for both employers and employees.

The Act also introduces new benefits, including invalidity pension and survivor pension, an emigration benefit and funeral grant which were not available under the previous system. The Act also increases the retirement age from 55 to 60 years.

In terms of investment policies, the Act allows the NSSF to invest up to 25% of its funds in private equity, venture capital, and real estate. This is aimed at diversifying the Fund's investments and improving its returns.

Overall, the NSSF Act 2013 is an important piece of legislation that seeks to improve the social security system in Kenya and ensure that all Kenyan workers have access to adequate retirement benefits.

Breakdown of the NSSF Act 2013 Contribution Tiers

The NSSF Act of 2013 requires that an employee contributes a percentage of their earning/salary (6%) to NSSF as contributions. This amount is to be matched by the employer.

Tier I Contributions

The amount to be subjected to NSSF Contribution is capped at KES 6000 Lower Earnings Limit (LEL) for Tier I contribution. This will amount to up to KES 360 for Tier I contributions which is solely managed by NSSF.

The table below tabulates Tier I contributions based on salary bands:

Salary (KES)	Tier I Contribution
5000	6% of 5000 = 300
6000	6% of 6000 = 360
10,000	6% of 6000 = 360
> 10, 000	6% of 6000 = 360

In total, an employee earning up to Lower Earnings Limit (LEL) will contribute up to KES 360 as NSSF Deduction/Contribution.

Tier II Contributions

For Tier II contributions, the amount is capped at KES 18000 Upper Earnings Limit (UEL). Therefore, an employee earning above KES 6000, their NSSF Contributions will include Tier II deductions on top of Tier I contributions.

- Contributions below and/or up to KES 6000, will have NSSF Tier II contributions of ZERO (0).

- The net of salary and Lower Earnings Limit (LEL) which is KES 6000 in this case will fall under Tier II Contributions.
- Persons with salary over KES 18000 will use the same rule above.

The table below tabulates Tier II contributions based on salary bands:

SALARY (KES)	Amount Subjected to Tier II	Contribution Amount
5000	0	0
6000	0	0
10000	4000	6% of 4000 = 240
18000	12000	6% of 12000 = 720
20000	12000	6% of 12000 = 720
> 20000	12000	6% of 12000 = 720

Tier I & Tier II Contributions

An employee earning up to the Upper Earnings Limit (UEL) will contribute up to KES 360 for Tier I and up to KES 720 for Tier II totaling to a maximum of KES 1080.

- An employee earning over the Upper Earnings Limit (UEL) will contribute the first Tier I contribution of KES 360 followed by the Tier II contribution of KES 720, this totals to KES 1080.
- Tier I and Tier II contributions are mandatory and by default managed by the National Social Security Fund (NSSF).
- Tier I contributions are managed primarily by NSSF on behalf of the employee (Member).
- Tier II contributions are managed by NSSF, but an employer can apply to opt out and have the Tier II contributions managed by an independent pension administrator on behalf of NSSF.

Tier III Contributions

In the event an employer/sponsor already has an occupational scheme with which they remit their pension, the following scenarios are likely to happen:

i. Scenario 1: The employer/sponsor has contracted out and the scheme manages Tier II contributions (scheme): The administrator creates an independent NSSF scheme to manage the Tier II contributions.
   - In this case, the employer remits both Tier II and Tier III contributions to the pension administrator (the occupational scheme). Here the contributions are split into two. The NSSF contributions are transferred to NSSF Scheme while the net remains in the occupational scheme as the monthly contributions.

ii. Scenario 2: The employer remits all contributions to the occupational scheme where the necessary splitting of the contributions is done.
   - Tier I contributions are channeled to NSSF.
   - Tier II contributions are transferred to NSSF Tier II scheme within the P.A. Scheme.
   - The remainder after the splits goes to the occupational scheme as the members monthly contribution.

Overview of NSSF Act 2013 Implementation in FundMaster

FundMaster is a product from Systech Ltd, a tech company with the highest market share in the Kenyan pension industry in terms of providing state-of-the-art technology solutions for effective pension fund management and administration.

As a key stakeholder in the pension industry, Systech Ltd understands the importance of staying up to date with the latest changes in the pension industry.

This is why we have moved very quickly to configure FundMaster to help our clients, scheme administrators, comply with the NSSF Act 2013 requirements.

FundMaster is an all-in-one software solution that provides pension schemes with a range of tools to manage their funds, investments, and member data. We have carefully configured our software to cater for the implementation of the NSSF Act 2013. We are confident that our solution will help pension schemes comply with the new regulations in a seamless and efficient manner.

One of the key features of FundMaster that we have tailored to the NSSF Act 2013 is the contribution management module. This module enables pension schemes to easily manage their contributions and ensure compliance with the new regulations. With FundMaster, pension schemes can easily calculate contributions based on the new rates set out in the Act and generate reports to facilitate submission to the NSSF.

Another feature that we have customized for the NSSF Act 2013 is the investment management module. This module allows pension schemes to easily manage their investments and ensure compliance with the new regulations. With FundMaster, pension schemes can easily track their investments and generate reports to show compliance with the new regulations.

Additionally, FundMaster provides a member management module that enables pension schemes to easily manage their members and ensure compliance with the new regulations. This module provides a comprehensive view of all members' information, including contribution history, investment history, and personal details. It also enables pension schemes to generate reports to show compliance with the new regulations.

We understand that compliance with the new NSSF Act 2013 can be a daunting task for pension schemes. However, with FundMaster, we are confident that our clients will be able to comply with the new regulations seamlessly and efficiently. Our software is designed to be user-friendly, intuitive, and easy to use, making compliance with the new regulations a breeze.

FundMaster Approach in Addressing the Tiers I & II Contributions Split

For sponsors who have opted out on NSSF Tier II contributions and have identified a pension administrator to manage the contributions fund on their behalf, FundMaster has covered this challenge in the manner explained in the following paragraphs.

From the pension administration end, the system admin will create a new scheme in FundMaster to manage the members for the sponsor. The admin will:

i. Configure the system to allows schemes to manage NSSF Tier II contributions
ii. Create a NSSF scheme with Plan Type NSSF Tier II - On the main scheme (Occupational Scheme)
iii. Set mode of contribution format. In this case there can be three (3) contribution formats that allow employers to remit their contributions:
    a) Combined (Inclusive of NSSF Tier I & II and Occupational Scheme amount)
    b) Net of NSSF Tier I
    c) Net of NSSF Tier I & II
iv. Move the Members, Member Classes, and Cost Center per Sponsor to the NSSF Scheme (Sponsors who have opted out)
v. On contributions, the scheme manager will receive a single contribution batch and payment receipt which is loaded to the main scheme

vi. On contribution posting, check on the contribution format and split contributions accordingly as per the format

vii. In the event the pension administrator only manages the Tier II Scheme, the contributions will be posted in the normal mode.

Conclusion

Systech Ltd acknowledges that the NSSF Act 2013 is an important legislation that seeks to improve how pension funds are managed in Kenya towards better retirement benefits to the working-class citizens of Kenya. As a software development company, we have developed FundMaster as a software solution that is flexible enough to respond to any changes in the pension administration industry. FundMaster enables pension schemes to easily manage their contributions, investments, and member data while ensuring compliance with the new regulation. We are confident that FundMaster will help pension schemes administrators comply with the new regulation seamlessly and efficiently.

How to Set Up New Contributions Configurations in FundMaster

i. **Scheme Setup** >> **Configuration** >> **Contributions Configurations Matrix** >> **NSSF Configs Tab**

a) Manages NSSF Tier II Scheme
b) Select a scheme to manage the NSSF Tier 2 Contributions
c) Is max Registered net of tier I and Tier II Contributions?
d) Membership Statuses allowed to make contributions
e) Save

ii. **Scheme Setup** >> **Configurations** >> **NSSF Limits Config** >> **New NSSF Limit**

a) Fill the form with the defined upper and lower earnings rate with their respective contributions rates
NB: This is a global config

iii. **Scheme Setup** >> **Sponsors** >> **Sponsor List**

a) Select the sponsor
b) Click on Details
c) Update Contracted Out on Tier 2 Scheme config
d) Select the Contribution Format

iv. **Members Register** >> **Existing Members**

a) Select a member
b) Show Details
c) AVC AVCER/Supplementary Contribution Configs Tab
d) New, Details, Remove Certify and Approve