

PLANNING FOR RETIREMENT: (A CASE OF THE UNIVERSITY OF NAIROBI STAFF)

By

MAGERA SAMMY

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UNIVERSITY OF NAIROBI

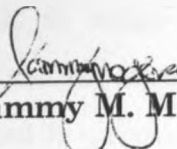
**A MANAGEMENT RESEARCH PROJECT PRESENTED IN
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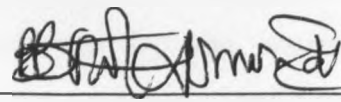
DECLARATION

This Management Project is my own original work and has not been presented for a degree in any other University.

SIGNED:  _____
Sammy M. Magera

DATE: 11/11/99

This project has been submitted for examination with my approval as the University Supervisor

SIGNED:  _____
George Omondi
Lecturer,
Department of Business Administration

DATE: 11-11-99.

ABSTRACT

This study sought to establish whether the employees of the University of Nairobi plan for their retirement and if they do, establish how they do it together with the handicaps they face while planning.

Planning for retirement has been elaborated as a comprehensive process that offers choices and challenges that helps individuals to identify the appropriate standards during retirement. It helps them in developing internal and external support systems that replace those that will disappear when one stops working or moves into retirement and it creates awareness of alternative paths of actions or options for decision making while planning for retirement.

The most consistent remarks made by retired persons is that they wished that they had started planning earlier (Markham Associated, 1998). This is attributed to the fact that for most of the working lives of individuals, they tend to have other priorities such as bringing up a family or building up a career or business. At the same time many of them find it difficult to imagine that they will one day become retired persons for a significant part of their lives.

The Retirement benefits sector in Kenya has not been quite developed and it is estimated to have 140 of financial assets. The enactment of the Retirement benefits authority in 1997 is an avenue that would make Kenyans aware and start addressing the issue of retirement seriously. It embodies a commendable effort to create an authority for the supervision and promotion of retirement benefits schemes and management of the sector and a good starting point should be to raise awareness country wide.

This study revealed that majority of the employees were planning for their retirement with a total of 81% of the employees actually doing something towards their retirement. Only 3% of the employees indicating that planning for retirement is neither important nor were they doing something about it.

It is expected that most individuals spend a quarter of their life in retirement and thus it is vital that they adopt the right attitude and approach to ensure a happy time in retirement. It was revealed that the options that were available for most employees were engaging into business, farming and consultancy work, research or writing books. In order for them to achieve this, they were making savings mostly through their co-operative society which enabled them to make investments, acquire property or even starting up a business.

Regardless of how well the employees may plan for their retirement there are several factors that can threaten or affect their retirement plans. The major factors enumerated were financial constraints due to high inflation, there were also too many financial obligations which they faced such as bringing up of children and their education, the high cost of living and the paying of debts such as loans and mortgages. The employees also feared losing their jobs or being retrenched and also not being able to raise the capital required for the ventures they may have planned. However these factors were seemed to be more of challenges rather than obstacles.

Despite the diverse goals and plans that the employees may have it is important to note that they have made a step forward towards achieving their goals. It is essential that employers and the government take the intelligent steps necessary to encourage employees to plan for their retirement.

It is therefore important to give a serious thought to planning ahead for activities, challenges and opportunities of retirement. There are many decisions to be made which should be considered carefully and on an informed basis. Thus proper planning for retirement could be an important building block for the future and could create a brighter and happier tomorrow.

DEDICATION

To My Parents

Mr & Mrs Gilbert Magera Noru

Thank you for all the Support, Understanding and Encouragement.

And

To all those who have made it possible for me to complete the MBA programme.

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During the preparation of this Project, I have been assisted in one way or the other by many people. First of all I wish to extend my sincere thanks to my Supervisor, Mr George Omondi for his guidance, assistance, effort and time taken in reviewing my work and also his contribution towards the realisation of this project

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1.0 INTRODUCTION

1.1 BACKGROUND

During an individual's working years, income generally means receiving a regular paycheck plus, perhaps, an occasional inflow of dividends, interest, or profits from investments. It has all been rather simple: One keeps working and the paychecks keep coming. With retirement, though, all that changes. Most, if not all, of the income will be derived from other sources, sources that have been building up over the years and have remained largely untapped.

Whether retirement is months or years away, it's never too early or too late to start the important planning that must be done. One needs to evaluate all sources of income, determine how long one can expect to receive income from each source and whether the amount to be received will remain fixed, increase with the cost of living, or fluctuate.

Planning for retirement is thus a comprehensive process of determining and preparing one's requirements for retirement. It also helps to identify the best way to save given the financial situation of an individual. The best time for individuals to begin their retirement planning is when they are young i.e. their youthful period during their employment. In doing so an individual is able to build up a sizeable amount of savings which when invested wisely these savings can grow into a tidy sum. The pensioner can therefore retire to a satisfactory life.

Experts say that the best time to start planning for retirement is the day one goes to work. However these experts will concede that almost no one does that (Crenshaw, 1995). Instead, most Americans wait until middle age or beyond to start taking a serious look at what their lives are going to be like in retirement and all the decisions they need to make before they take their gold watch and head for the door. According to a 1994 survey by the Princeton Survey Research Associates the overwhelming majority of men and women aged 45 – 59 were unprepared for a

financially comfortable retirement. In fact 85% of those surveyed anticipated that they would not have enough to retire at all or will only have enough. Perhaps most seriously, many people are not doing much about their own retirement needs. In fact, the majority of Americans seem to be ignoring the situation.

Unlike Africans, the westerners have developed adequate social security systems to take care of the weak members of the society. Kenya like most African countries do not have a strong national pension scheme, the existing National Social Security Fund is a provident fund that gives a member lumpsum payment upon retirement or withdrawal. Making independent retirement plans is very essential since at retirement an individual is required to pay everyday household bills, maintain standards of living and also to enjoy the extras one has worked hard for, such as travel, hobbies and pastimes.

Delays in planning for retirement is very expensive and can be a great burden in the later years in life trying to make up for lost time. For one to ensure that the current lifestyle is to continue after retirement one must be prepared to give up some of their income when they are still working. The perceived saving by delaying pension contributions pales into insignificance when compared with the reduction in an individuals pension fund value. It isn't really a saving at all but a significant loss. Even if one can't afford to pay much into a pension plan right now, the important thing is to make a start today. The sooner you start the less you will have to pay to fund the ideal retirement needs.

Some Kenyans have a notion in their mind that they raise and educate their children to take care of them in an old age and at most times parents become a bother to their children considering the state of the economy. The increase in dependency levels and accelerated cost of medical and old age security can only be sufficiently provided by a flourishing economy (Thompson 1997). Kenya today needs to take the issue of retirement and pensions seriously. The Retirement Benefits Authority, which was established towards the end of 1997, has a tremendous task.

A good start is to raise public awareness on retirement benefit schemes for workers in the country.

Planning for retirement therefore focuses on what can be done now to realize long term financial goals. It is not a one-time act, but many related ones like budgeting, saving, investing, dependent needs planning and estate planning. These endeavours revolve around one main consideration- the very essence of retirement planning- namely, taking action to accelerate growth of wealth. Whether retirement is months or years away it is never too early nor too late to start the important planning that must be done relative to the source of income. It is important to remember that all the dreams and plans about life in retirement will remain just that if one is unable to afford them.

As Mark Twain once commented “everybody loves to talk about the weather, but unfortunately no one does anything about it”. This quip would seem to apply equally well in retirement planning. One cannot be able do anything about the weather likewise retirement is also inevitable but one can do something about it by starting to plan now

1.2 STATEMENT OF THE PROBLEM

Men never plan to fail, they fail to plan - William J. Siegel

It is estimated that Kenya has a population of about 3 million retired persons and it is likely that more than half of them do not receive a pension payment at all. Theirs could be a life of abject poverty or dependence on handouts from relatives (Business & Finance Nov 98).

The passage of time is indiscriminate and the young will eventually grow old. Psychologically people refuse to accept that they are growing old and before they know it retirement dawns. Many people are shocked by their unpreparedness for this phase of life. In self-deceit and for longer than appropriate they keep procrastinating vital lifetime income. Upon retirement, they find out that the income they have is inadequate for their needs and the calamity of penury in old age rears its head like an ugly monster.

It is expected that an individual spends 25% of their life in retirement and it is vital for one to adopt the right attitude and approach so as to ensure a happy time in retirement.(Markam Associates 1998). Making individual retirement provisions is therefore very essential, because at retirement one will not only need to continue to pay everyday household bills, but will also want to enjoy the extras they have worked so hard for, such as travel, hobbies and pastimes or even a new car. If one doesn't plan ahead their retirement years may be clouded by severe financial problems.

There has been a lot of publicity in the western countries in a bid to create awareness in the importance of planning for retirement. In Kenya and probably many other African countries little is known regarding whether Kenyan's plan for their retirement and if they do, it is also not known how they do it.

In trying to tackle this problem, one may ask the following questions which are geared to setting out the important parts of the topic in a proper perspective.

- why is it necessary to plan for one's retirement?
- how do people plan for their retirement?

1.3 OBJECTIVES OF THE STUDY

The main objective of this study is to determine the major aspects in retirement planning.

The specific objectives are

- (i) To find out the whether the employees plan for their retirement.
- (ii) To determine how they plan for their life after retirement
- (iii) To determine the handicaps they may face in planning for their retirement

1.4 IMPORTANCE OF THE STUDY

1. Retirement planning has been an area that not much emphasis has been placed on thus this study intends to shed some light into this area.
2. The study intends to educate the public on the importance of planning for their retirement in the early years of life
3. The study also intends to increase the body of knowledge in retirement benefits sector especially in retirement planning as well as the curiosity the researcher in knowing why people need to plan for their retirement.

2.0 LITERATURE REVIEW

The retirement benefit sector has not quite been developed in Kenya. Early this year the sector had an estimated Kshs. 140 billion of financial assets. (Business week February 99). Half of these were serviced by the National Social Security Fund (NSSF); the other half is in a variety of schemes some created by individual employees while the others through acts of parliament. The fund management houses account for about 15% while the rest is raked in by the Insurance firms, which have made significant forays into the sector.

Before the Retirement Benefits Authority becomes operational, the pensions and the provident funds are being operated within the constraints imposed by various Acts of Parliament. These include: -

1. The Trustee Act Cap 167. This Act was enacted in 1929 and relates to Trustees.
2. The Pensions Act, Cap 189. This Act was enacted in 1952 and provides for the grant and regulating of pensions and gratuities.
3. The Provident Fund Act Cap 191. It was enacted in 1951 and was meant for certain types of employees
4. The National Social Security Act, Cap 258. This Act was enacted in 1965 and later revised in 1987 to make NSSF a state corporation.

The enactment of the Retirement Benefits Act 1997 is a milestone in the history of the pension schemes in Kenya. For the first time uniform regulation will apply to all players in the industry and the NSSF will become a retirement benefit scheme like any other and be subject to the provisions of the Act. The management of the NSSF and the susceptibility for abuse of member's funds has been a subject for many debates in the past and it will be interesting to watch how the fund adapts itself in the context of obliging to the provisions of the Act. (The Point issue 12).

Most of the studies conducted in the retirement benefits sector have concentrated on the management and cost of pension schemes. This has been largely due to the fact that the retirement benefit sector has had most of its focus on the NSSF. Numerous

reports have been published mostly in the local dailies concentrating more on the activities of NSSF. However there a few reports that have touched on the need of planing for ones retirement especially with the enactment of the Retirement Benefits Act.

Mutegi (1998) indicated that for NSSF to provide reasonable retirement benefits to its contributors, they should encourage employees to pay more statutory contribution and volunteer to increase their monthly Contribution. At the present rate the maximum an individual can get after 20 Years of service is about KShs. 200,000. One of the objectives of the NSSF is to provide security in old age by enabling workers to save for their retirement. The amount that the pensioners receive after a long life toil does not represent any security. Given the cost of living nowadays the money obtained from the fund cannot enable one to get into any serious investment venture (The Point issue 12). The fund, normally gives a lumpsum usually between Shs. 70,000 and 150,000 for most workers(Business & Finance, June 1998), hence offers little or no financial security to the recipient given the prevailing rate of inflation and the state of the economy. Thus, the much publicised social security benefits will more often than not be depleted within the first year and the retirees join the ranks of elderly dependants who painstakingly beg for assistance from the already over stretched extended family. The Managing Trustee of NSSF , recently pointed out that there was an urgent need to raise the amount of contribution to enhance the adequacy of the retirement benefits. He further noted that the monthly contributions should be pegged to a members basic salary and should be as high as possible to enhance the level of national savings and investments.

Mutuma (1997) observed that the benefits sector in Kenya has come of age. With the population being rural and in large part, young, the demographics are quite changing both in profile and distribution. With the rapid urbanisation in Kenya and the extended family support infrastructure is becoming inadequate, people are forced to rely on other non-traditional means of livelihood. Therefore people are

having to save for their retirement and pensions are the most attractive method of such savings. As more people participate in the benefits schemes there is clearly greater need for better management and supervision of this sector

Muigai (1996) observed that it would be necessary for the public to be made aware and educated on the need for joining pension schemes since this would be a way of saving and also contributing indirectly to the development of the economy. He further indicates that the provision of retirement plans constitute a major part in retirement planning and should be included in an employment contract. He concludes that it is necessary for Kenyans to ensure that they are members of an occupational pension scheme or an individual retirement plan so that they can be in a position to prepare themselves for their retirement. The pension industry is a major component of the financial sector which many people ignore until retirement becons or when they have to chase the benefits of departed relatives. Financial experts agree that the sector controls assets in excess of 30% of the Country's GDP (Business Week, 20th May 1997)

People tend to put off their retirement planning because they are too busy trying to meet their immediate financial needs thus they do not consider what will happen in 20 - 30 years. Meeting the monthly bills seems to be important since the retirement date is quite far away and most people tend to be ignorant toward their retirement (Delloite & Touche 1996). As one moves on in life there are many life events that affect the future financial security, these include getting married, starting a family, purchasing a home and also sending children to college. Each of these events affect the ability to plan for future financial security and with proper retirement planning one can overcome these obstacles and ensure financial independence in the retirement years.

In survey after survey, conducted by the Markham associates (1998), revealed that one of the most consistent comments made by retired people is that they wished they'd started planning earlier. The problem is that for most of their working lives

they tend to have other priorities such as bringing up a family or building up their careers or business. At the same time many of them find it difficult to imagine that they will one day become retired persons for a significant part of their lifetime

A recent report by Optimum Research noted that something common to workers is the risk of growing old without having adequate funds to sustain them during their retirement. This problem does not affect the individual only but also collectively harms the economy due to the expenditures by the state to provide goods and services to senior citizens who are unable to support themselves. This is a tough lesson and a fact that many other economies are coming to terms with.

Planning for income security in old age is quite important especially for a country whose demographic structure has about half of its population in the labour force. Kenya is milling out its first generation of post independence pensioners beginning early this decade, its evidently becoming clear that pension planning is taking a dominant position as a matter of concern for many workers(Business & Finance Nov 98). The fate of retirees who had poor pension plans or no pension plans at all has clearly demonstrated the need for planning for after employment life.

The Government ought to require that working age people make provisions for their retirement. One reason for Government intervention is the desire to alleviate poverty, particularly among people who are no longer expected to work. (Thompson,1997). As economies develop, extended family linkage weakens and governments accept the responsibility of ensuring a minimum living standards for the aged. In many countries , public pension programs are the most important tool for discharging this responsibility. Many working individuals who could adequately provide for their own retirement needs are myopic.

Thompson further notes that in the absence of Government mandate, they would not have the foresight or discipline to save for their retirement and by the time they are older and realised their mistake, it would probably be too late. In effect the

Government acts paternalistically to enforce a mandate that people may resent when they are young but will grow to appreciate when they are older.

2.1 RETIREMENT PLANNING

The American Association of Retired Persons define retirement planning as “the process of identifying your wants and needs, developing plans to achieve them, acting on those plans and continually reviewing and revising them as you gain new knowledge and experience.” This kind of planning enables an individual to identify the retirement needs and also ensures that there are enough finances to achieve and maintain it.

Retirement planning offers choices and challenges and it helps individuals to achieve the following: -

- Identifying the appropriate standards of living during retirement; this largely depends on the amount of funds available for retirement
- Identifying valuable community resources
- Redirecting work goals towards new careers, part time employment. Volunteer opportunities, leisure pursuits or any combination of these activities
- Learning how to cope with changes in health relationships and interests
- Understanding employer and government benefits one may receive on or during retirement.
- Developing internal and external support systems to replace those that will disappear when one stops working or moves in retirement
- Becoming aware of alternative paths of action and options for decision making in planning for retirement

Every individual is unique and there is no right answer for everyone, each individual has his or her own perspectives, hopes, expectations and even experiences. It is only the individual who, according to his or her circumstances, can determine their wants and needs and also how well to achieve their retirement goals.

Retirement planning addresses two very important issues:

- The amount of money needed for retirement
- Sources of retirement income.

2.1.1 The Amount of Money Needed For Retirement

It is estimated that an individual will require 60 - 100 % of the pre-retirement income(Golly Jr.1993) . When one is retired the spending patterns are different from the one used when working. Accordingly it is the planned retirement that counts more than the retirement income.

Determining the post retirement expenses guides an individual in knowing how much income they will require. There are certain expenses that an individual may be having now that might not be there in retirement. First there are expenses related to children i.e. food, clothing, education etc. Secondly there is the current savings including retirement savings and thirdly there may be debts such as mortgages, car loan, which ideally should be paid off before retirement.

On the other hand certain expenses may increase. These include utility bills such as electricity and water may increase as one will spend more time at home, travel and hobby expenses will increase and also medical expenses will surely increase.

An important issue to note is that the spending needs to be adjusted for inflation. Therefore when one figures out the amount of retirement spending it will also be necessary to know the amount of income needed for retirement.

2.1.2 Sources of Retirement Income

Before individuals can quantify how much they need to have as savings at retirement, they need to understand the sources and projected amounts of their retirement income.

Possible sources of retirement income include:

- * Employer-provided pension plans
- * Employer-provided savings plans
- * Social Security

* Non qualified retirement plans

* Savings (investments)

• **Employer-provided pension plans.**

If one has a pension plan, they are generally entitled to an annual pension or income when they retire. These benefits are typically based on a formula that includes the length of service with the employer, the age at retirement, and the pre-retirement earnings. In some cases, one may be able to take a lump sum at retirement instead of taking an annual amount.

• **Employer-Provided Savings Plans.**

Many employer-provided savings plans permit the employee to elect to contribute a certain percentage or a certain amount of pre-tax income to a retirement savings account. In some cases, these plans also allow post-tax contributions. Many employers (but not all) make "matching" contributions in cash or employer stock to subsidise these accounts.

Under the terms of many of these plans, one may have significant, if not total, responsibility for investing their contributions. Understanding the importance of electing the maximum contribution amount to these savings plans cannot be overstated. Anytime one has the ability to contribute pre-tax (or post-tax) income to an account, which will grow at a tax-deferred rate, one should do so unless they clearly can't afford to do so. If one's employer matches any portion of the contribution made, it becomes even more important to contribute. Receiving an employer match is same as receiving an annual increase in pay.

• **Non Qualified Retirement Plans.**

Almost any plan designed to increase an employee's retirement income or savings available for retirement can be considered a non-qualified retirement plan. These plans can be provided by an employer, or established by an employee. Because these plans are non qualified, employers who provide these plans do not receive any income tax deduction until the funds are actually paid to, and subject to tax by, employees. Until the funds are paid to employees, there is some risk that the funds will not be available to the employee at retirement. If an individual participates in this type of plan, they may want to consider this risk when determining their

projected retirement income. There may be less risk with employee-funded non-qualified retirement plans, but there is still generally some risk. For example, if one purchases a deferred annuity or a cash value life insurance contract for tax-deferred growth, there is still some investment risk, as well as the risk that the company selling the products will not perform as well as expected.

- **Social Security.**

There is a lot of scepticism as to whether younger workers will ever receive any Social Security income. In fact, many financial planners do not even consider Social Security in their sources of retirement income. As a general rule, if one is in their thirties or forties, they may not want to assume that they will receive any Social Security income (Deloitte & Touche LLP 1996). If one develops a budget without including any Social Security, they are only being conservative.

- **Savings (Investments).**

The excess income that one has after meeting their various expenditures can be considered as savings. Once an individual assumes how much they will be saving each year and how much their savings should increase each year, they can then project the amount of savings they will have at retirement.

It is important to develop an investment strategy so as to maximise of the returns from the savings one is able to make.

2.2 RETIREMENT PLANNING PROCESS

Retirement planning consists of several processes, which need to be followed and addressed carefully. The process of retirement planning can be described as follows:-

- Identifying Personal Goals
- Gathering Data
- Evaluation of Goals and Identification of Obstacles
- Developing Strategies for Goal Achievement
- Designing Implementation Steps
- Reviewing the Progress

2.2.1. Identifying Personal Goals

When defining the retirement goals, the description should be specific and measurable. The goals should also be workable and in the case of several goals, they should be prioritised so that the resources an individual has will be allocated to the most important goal first. By assigning a priority to each goal, its prudent to ensure that secondary goals don't take precedence over primary goals.

2.2.2. Gathering Data

In this process, it is important to understand individual needs. Many planners estimate retirement income needs by using a benchmark of between 70 to 100% of an individuals current spending levels(Deloitte & Touche LLP 1996). To determine the appropriate percentage for retirement, one needs to determine if any of your current expenses will change when one retires?. Will there be travel and leisure expenditures increase? Will the job-related expenses for commuting and clothing change? Will the medical costs increase ? It's generally accepted that many of the routine annual expenses will change during the retirement years. The trick is determining whether those expenses will increase or decrease, and by how much.

Another consideration in retirement planning is inflation. Because people are retiring earlier and living longer, the impact of inflation can be substantial. Both the living expenses and inflation are important in understanding the retirement needs because the planning is for a period of time, not a point in time.

After developing the estimated living expenses over the retirement period, there is need to take an inventory on the sources of retirement income. The retirement funds will probably come from a variety of sources. While one may have little control over amounts that will be paid from some sources, amounts from other sources are completely dependent upon an individuals decisions. For example, the company's pension plan provides benefits commensurate with an individuals salary level and years of service. The same is true for your Social Security benefit. These

benefits are based upon formulas incorporating your age, income, and years of employment.

On the other hand, one can have significant influence over their contributions to company-sponsored savings plans (sometimes known as 401(k) plans). Although the employer must sponsor the plan, and may even provide matching contributions, it's up to an individual to use the plan. To make the most of this savings opportunity, one must be disciplined and establish regular contributions based on a percentage of their income. An individual is also responsible for learning about the available investment options. The contributions are generally portable which means that if one changes the employer, the funds can be transferred to your new employer's plan or rolled into an Individual Retirement Account (IRA).

Finally, an individual has the absolute control over their personal savings programs. They can select their own bank savings accounts or Certificates of Deposit (CD), manage investment mixes in their mutual funds, or select maturities of bonds purchased by their broker.

In analysing the retirement resources, it's important to note that all assets must be converted into a common form, which will reveal the expected income stream during retirement.

2.2.3. Evaluation of Goals and the Identification of Obstacles

Using the data gathered, one can then compare their retirement income needs to the projected income stream generated by their retirement resources. If the retirement resources exceed one's needs, the excess can be used to fund other goals. If there is a shortfall, (or retirement gap) then one is able to quantify the amount needed to fill the gap.

2.2.4. Developing Strategies for Goal Achievement

The first steps of the retirement process quantify the difference between an individual's estimated needs and the projected resources. If there is an excess, one

can develop and prioritise new goals for using the additional funds. These goals may include more retirement travel, earlier retirement, or providing for the college education of their grandchildren. When there is a deficit the individual may be required to re-evaluate their personal goals.

2.2.5. Designing Implementation Steps

After developing and documenting the strategies or alternatives that can be utilised to achieve the set goal, one should then create an action plan that reflects the alternative or alternatives they select to meet their goal. This plan should list the action plan i.e.

- * The action - increase retirement resources.
- * The person who is responsible for completing the action .
- * The completion date - to do on the payday each month.
- * The expected cost - the cost per month (cost per year).

2.2.6. Reviewing the Progress

Once a retirement plan is developed, the process is dynamic. Revising and prioritising the projected goals, one may see changes in the estimated income needs, projected resources, and other assumptions. It's a good idea to review the action plan regularly and if necessary, make changes to ensure that it still meets the needs.

2.3 REASONS FOR STARTING RETIREMENT PLANNING EARLY

There are several reasons as to why it is relatively important for individuals to start thinking and planning for their retirement when they are young. These reasons can be enumerated as follows.

2.3.1 Short Working Life -

If an individual has a short working life there will be will less time to save and build up a healthy retirement fund.

2.3.2 Greater Savings will be required

In the case of one having a short working life and living longer, the savings needed will be much greater. Also the earlier one begins to save the better since one will not have to save more to catch up with the lost time.

2.3.3 Funding the cost of long term care -

This will become more important as reducing state benefits and longevity will result in higher demand for care services.

2.3.4 Reduced benefits and/or higher taxes -

More funds will be needed to allow for possible increased taxes and/or reduction of a wide range of state benefits.

2.4 GUIDELINES FOR SUCCESSFUL RETIREMENT PLANNING

The Hibernian Group of Ireland came up with some guidelines, which they call the ten commandments for successful retirement planning. They list them as follows:-

2.4.1 Know Your Pension and Plan Accordingly

There are four main categories of pension plans in Ireland. They are :-

- Contributory State Pension Plan (PRSI based.)
- Non-contributory State Pension
- Company Pension Scheme
- Personal Pension

The particular type and size of the pension an individual qualifies for will play a major role in the retirement lifestyle.

2.4.2 Get Good Advice

It is vital for an individual to make sure that the pension plan suits their particular needs. The level of contribution one makes is a major determinant of the size of the pension fund on retirement. Ideally the plan should take into consideration the personal circumstances, maximise the tax incentive available well as also meeting the long-term objectives of the individual. Therefore one should seek advice how

flexible the pension plan is as circumstances change in future since these will avoid costly mistakes later on. The pension provider should offer reliable service with regular and constant communication thus keeping the individual in touch with the progress of their retirement plan.

2.4.3 Don't put all the Eggs in one Basket.

The investment performance of a pension fund will affect the pension that one will ultimately receive. Choosing the best fund manager is not an easy task. The decision is difficult as "past performance is not necessarily an accurate guide to future returns".

No two fund managers are alike in terms of the size of the funds that they are managing and their investment styles and, as a result, there may be significant differences between their performance over time. The problem with traditional pension plans the funds were more or less tied to one fund manager as it may have been difficult or impractical to move the assets(definitely a case of all the eggs in one basket). But lately insurance companies offer clients choices between unit linked, with profits and even different fund managers, to reduce risk of poor manager choice.

2.4.4 Consider Additional Voluntary Contributions (A.V.C's).

Successive governments have recognised the need to encourage retirement savings and provide very attractive tax incentives. It is in fact that pension plans are one of the few incentives in which the taxman contributes part of the cost. Therefore A.V.C's enables individuals make the most of tax advantage.

2.4.5 Don't Rely on the State to Provide for Retirement.

The pension that the state provides when an individual retire is meant to prevent poverty but not to provide a comfortable retirement. Therefore if an individual is to depend on this, there will be a substantial drop in the income upon retirement.

2.4.6 Understand the Concept of Risk vs. Reward.

In a defined contribution or a personal pension plan an individual may have a wide range of investment options available. There are a wide variety of unit linked funds whose likely returns is characterised by the performance of the underlying assets.

“Low risk” funds such as cash tend to produce a lower level of return over time than “Riskier” equity based funds. Managed funds tend to try to balance the risk and reward elements to limit downside but not at the expense of long term growth. As a rule, the further away the retirement is the more short term volatile is an individual. The focus may shift to a more cautious approach when retirement is near. It is important for an individual to ask how the pension plan maximises returns and if there are any risk reductions when one approaches retirement.

2.4.7 Never Leave It Too Late.

When people are young they tend to have a misconception that they are still too young to think about pension plans. This happens mostly with people who are not in any company pension scheme. The point note in this commandment is that the earlier an individual starts to make contributions to a pension scheme the easier it will be to provide for a comfortable retirement. Conversely the longer an individual leave it, the harder it becomes.

2.4.8 Don't Leave The Pension Plan To Gather Dust.

Like an investment the pension has to be carefully monitored to ensure that the requirements are met. For example in younger years, it is vital to focus on the effect of premature death on ones dependants therefore its prudent to have adequate Life assurance and Disability cover. As one gets older and the family grows up and moves away then one may focus on the funding required to provide a sufficient income in retirement.

A prudent plan would be to check the pension plan every three years or so, so as the pension plan adopts to the changing needs

2.4.9 Don't Ignore Inflation.

Inflation has been called "the thief in the night" because its effect takes so long before they become apparent. It's prudent to note that a retirement plan can be sufficient at today's levels but over time inflation will affect the purchasing power of the savings. In order to preserve the "real" value of the pension, it is important to build an indexation to the premium and benefits. Individuals in company pension schemes should find out if their pension plans are index linked after retirement.

2.4.10 Consider Life and Disability Cover.

Although the main consideration of a pension plan is to be able to provide a reasonable income in retirement there are a number of valuable benefits, which are available. These are in the form of life assurance and disability cover. In the early years when the family is still young a high level life assurance to provide for them in case of sudden death would be a welcomed idea. This however can be mended later when the family has grown up. It is a good idea to look at the benefits provided or to consider spending part of pension contribution for added peace of mind.

Ideally, these "commandments" are a kind of guideline to ensure that after many years of working there are some reasonable income for retirement.

2.5 COMMON MISTAKES MADE IN RETIREMENT PLANNING

Many people normally give retirement planning some thought but they don't do as much as they would have wanted to do. Often, people base their retirement estimates on several mistaken but commonly held assumptions regarding retirement and various resources. In many cases, the reality of retirement turns out to be quite different from what the common "retirement myths" would lead one to believe.

2.5.1 Myth 1: There is Social Security for support.

Social security was never designed to cover income needs but rather to supplement pensions and personal savings, it is meant for providing for the basic needs. Some experts have estimated that by the time the baby boomers are ready to retire in the next century there may not be enough people left in the workforce to fund social security benefits. That's the more reason why one needs to look into building up retirement savings.

2.5.2 Myth 2: Living costs will be lower in retirement

People tend to assume that the less money will be required in retirement since the living costs will be lower. Many times the opposite is true. The only costs that may end are the mortgage and college tuition. Health costs may increase since one will no longer be covered by the employer-sponsored medical scheme. There may also be the need to travel and engage in leisure activities that may be costly.

2.5.3 Myth 3: There is the company pension scheme

One should not count on the pension as the main source of income. Most pension plans are designed to provide a replacement ratio of about 40 - 60 % of the final average salary. This amount generally will be paid if the person has twenty-five or more years of service with the employer. Under typical circumstances the actual replacement ratio can drop to between twenty and thirty percent of final average salary for many employees.

Naturally each situation is different but many retirees have made a mistake of counting on their pensions only to have to find part time jobs to pay the bills. With the right planning this may not happen.

2.5.4 Myth 4: It's too Late to begin planning for retirement

When one gets old and has not planned for his or her retirement tend to think that its too late to begin. It may not be possible to make up for lost time and opportunity but it is never too late to start saving. Someone who takes retirement at the age of fifty-five may still be growing strong for the next thirty years. Although one will be required to contribute more to the retirement savings than if one had started early.

It can still be possible for one to be ready for retirement if they start now and do what needs to be done

2.5.5 Myth 5: Equity created forms the retirement fund.

Although a house may be an individual's largest investment, residential estates do not always appreciate. Even when home prices increase they usually increase along with other living expenses. Even after selling the house and moving into a smaller unit, capital gain taxes may reduce the amount garnered and one might end up with far less money than expected. Another thing is that when savings are depleted it's not possible to sell the house piece by piece in order to eat. That is why it's important to have liquid assets that will be there when required.

2.5.6 Myth 6: Preserving of savings.

Individuals often think that their main goal is to preserve their savings. Inflation is a money killer and it depletes the principal. To stay ahead of inflation one should avoid preserving money but should build on it. A solid financial plan allows the assets to grow one can keep up with the rising cost of living.

2.6 FACTORS AFFECTING RETIREMENT PLANS

Regardless of how well an individual plans their financial future, there are several unexpected and expected events that can threaten or affect the retirement plans. These include: -

2.6.1 High Inflation

If the inflation is higher than anticipated, it may negatively affect the retirement plan. Inflation erodes the purchasing power faster than the way income grows from dividends and interests. The risk is significant especially when considering the high cost of medical care.

2.6.2 Health of the Family

An unexpected sickness in the family can not only cause emotional distress, but it may also substantially affect the amount available for retirement. On the other hand an individual may actually be healthy and may underestimate the cash needs.

2.6.3 Income Taxes

If the Government changes the tax structure or the taxable income is more than what he or she had planned for. An individual may find him or herself in a higher income bracket that they were in while working. A situation like this makes the individual to have less disposable income than the one they thought they would have.

2.6.4 Pension Mishaps

These can be brought about by the inability for the company pension fund being able to support all of its employees. This can be due to poor investment decision by the fund managers. An individual may properly calculate what to get but the funds might not be there when they need them.

2.6.5 Market Crashes

Many individuals keep money in the stock markets as they get ready for retirement. The market may undergo a severe market, which may create havoc on retirement plans.

Therefore whatever financial plans an individual may develop, it is important to understand and plan for the above mentioned contingencies.

2.7 TOP 10 WAYS TO PREPARE FOR RETIREMENT

The U.S Department of Labor have enumerated ways in which people can prepare for retirement. They are as follows

2.7.1 Knowing the Retirement needs

Retirement can be very expensive, it is estimated that one will need about 70% of the pre-retirement income (for the low income earners 90% or more) to be able to maintain the standard of living when one retires. Therefore it is very essential to understand one's financial future.

2.7.2 Finding out about Social Security Benefit

The Social Security in America pays the average of 40% of pre-retirement income, there it is vital to get as much information as possible from the Social Security Administration.

2.7.3 Learning about the Employers Pension or Profit Sharing Plan.

If an employer offers a plan, it is vital to check and see what the benefits are worth. Most employers in America provide an individual benefit statement upon request. Before changing jobs, one should find out what will happen to their pension. One should learn about the benefits from previous employment.

2.7.4 Contribution to Tax Sheltered Plan

If an employer offers a tax sheltered plan such as a 401(K), its important to sign up and make as much contributions as possible. This is because the taxes would be lower and the company may kick in more and automatic deductions make it easier. Over time deferral of taxes and compounding of interest make a big difference in the amount of money an individual may accumulate.

2.7.5 Ask the Employer to Start a Plan

If the current employer does not offer a retirement plan, suggest that it starts one. Simplified plans can be set up by certain employers.

2.7.6 Putting Money into a Individual Retirement Account

Individuals can put some money into an Individual Retirement Account (I.R.A) and delay paying taxes on investment earnings until the retirement age. If one is not in a plan (or are in a plan and earn less that a certain amount) they can also take tax deductions for their IRA contributions.

2.7.7 Don't touch Your Savings

It is very important to abstain from touching the retirement savings made. One will loose principle and interest and also tax benefits. If one changes jobs, the savings should be rolled over directly into and IRA of the new employer's retirement plan.

2.7.8 Start Now, Set Goals and Stick to Them.

Starting early is very prudent, the sooner one starts saving the more time the money has to grow therefore retirement savings should be a high priority. One should devise a plan, stick to it and set individual goals. One should always remember that its never too late to start.

2.7.9 Consider Basic Investment Principles

How an individual can save can be as important as how much they save. Inflation and the type of investment one makes plays important roles in how much they will have saved or retirement. Its important to know how the pension or savings plan is invested. Financial security and Knowledge go hand in hand.

2.7.10 Ask Questions

This tips are guidelines for pointing one to the right direction, but one will need more information. There are several people one can talk to for instance the employer, bank, union, or a financial advisor. Its important to ask questions and make sure that the answers make sense.

The U.S Department of labour further adds that retirement requires some financial security which does not just happen, it takes planning, commitment and yes money. Less than half of Americans have put aside money specifically for retirement, one cannot retire with security unless they really prepare for it. This means facing up to reality and beginning to take action for tomorrow as well as today.

3.0 METHODOLOGY

3.1 POPULATION

The population of interest in this study will be all the employees of the University of Nairobi. The number of employees as at 1996 was estimated at about 3578. This population was selected due to the following reasons:-

- The University is a reputable public institution employing personnel of diverse disciplines in terms of academics and therefore the findings could be used to make inferences in other public organisations
- The researcher expected to get more co-operation from the university employees than in other public organisations.

3.2 SAMPLE

The population was divided into two main categories namely,

1. Academic Staff and Senior University officials (This category comprised of the all the academic staff, Senior Administrators, Medical Doctors, Senior Accountants and other Senior Officials).
2. Others (This category was comprised of the non Academic staff in the middle level and also those in the lower level. They included accountants, administrative assistants, technical staff, clerks, drivers, messengers and other junior staff).

The study used a sample size of 140 employees which was selected using systematic random sampling. This sample size was considered appropriate due to the finance and time limit. The process of selecting the sample Involved the use of multi-stage cluster sampling which was applied in different stages. In the first stage the population was divided into seven clusters each representing the colleges of the university and the administration. The clusters were selected from the 1996 University of Nairobi Internal directory. In the second stage the clusters were

further categorised into the various departments within each clusters and then a list comprising of the two employment category in various departments clusters was generated. While taking into consideration the population of the employees, a proportionate sample of both employment categories was taken within each cluster and from this a systematic random sample was performed in which case the Nth member within each clusters was picked to yield the sample of 140 respondents.

3.3 DATA COLLECTION

The data used in the study was mainly primary data. The main tool used in the collection of the data was a structured questionnaire. The questionnaire had both open and closed ended questions and it was administered mainly through personal interviews and in a few cases drop and pick method was used.

In preparation of the questionnaire, an initial questionnaire was developed from the literature review as well as discussions with various people and then pre-tested on a few respondents. This was to enable the researcher to capture all the pertinent issues and also make the questionnaire comprehensive.

3.4 DATA ANALYSIS

The main tool of analysis used was descriptive statistics (measures of central tendencies and measures of dispersion). The data from the questionnaires were coded and then a statistical analysis programme (SPSS) was used to analyse the data. Frequencies and percentages were used to summarise the data collected, which was also compared to see whether it converges in particular areas or diverges. Summary statistics including tables and percentages were used to present the findings.

Further statistical analysis was necessary to bring out any significant differences between the various categories analysed and for this purpose cross tabulations were used to bring out trends that would lead to conclusions.

4.0 DATA ANALYSIS AND FINDINGS

The data analysis was guided by the objectives of the study which were to find out whether the employees of the University of Nairobi plan for their retirement, the options available and the handicaps they face when planning for their retirement.

The response rate was 100% since the sample anticipated was achieved.

The data from the completed questionnaires is summarised and presented in form of tables and percentages. The analysis is presented in three stages. The first stage presents data on the demographic characteristics of the respondents, the second presents the views of the respondents while the third stage presents cross tabulations of the various categories to enable various comparisons.

4.1 SAMPLE DEMOGRAPHICS

The tables below give the demographic characteristics of the respondents, which include age, sex of the respondent, marital status, employment category, education level of the respondents and their years of service.

Table 1: Gender of the respondent

Gender of the Respondent	Frequency	Percentage
Male	88	62.9
Female	52	37.1
Total	140	100

From a sample of 140 respondents 62.9% were male while 37.1% were female.

Table 2: Age of the respondent

Age Bracket	Frequency	Percentage
Below 30 Years	32	22.9
30 - 39 Years	56	40.0
40 - 49 Years	38	27.1
50 Years and Above	14	10.0
Total	140	100

The table above indicates the number of respondents in each categories as well as the percentage distribution. The marital status of the respondents was also looked at and from the sample of 140 respondents 70% were married while 30% were single.

Gender by the Age Bracket of the Respondent

The table below shows a cross tabulation between the gender and the age bracket of the respondents.

Table 3: Gender of the respondents by the age bracket.

	Male	Female
Below 30 Years	18 (20.4%)	14 (26.9%)
30 - 39 Years	36 (40.9%)	20 (38.5%)
40 - 49 Years	24 (27.3%)	14 (26.9%)
50 Years & Above	10 (11.4%)	4 (7.7%)
Total	88 (100%)	52 (100%)

There was a similar gender distribution of the respondents across the age brackets. Most of the respondents (40.9 % of the male employees and 38.5% of the female employees) interviewed were in the age bracket of 30 - 39 years. Therefore there was a fair distribution of the respondents in terms of gender and the various age brackets

Table 4: Employment Category

Employment category	Frequency	Percentage
Academic and senior University officials	66	47.1
Middle Level and the lower grades	74	52.9
Total	140	100

The sample was divided into two categories as in the table above. The Academic and Senior Officials were 47.1% while the Other category which forms the bulk of the university employees, comprising of the middle and the lower level staff were 52.9%.

Table 5: Educational Level

Education Level	Frequency	Percentage
PHD holders and Above	42	30.0
Masters Level	14	10.0
Graduate Level	8	5.7
Diploma Level	18	12.9
Certificate level and Below	58	41.4
Total	140	100

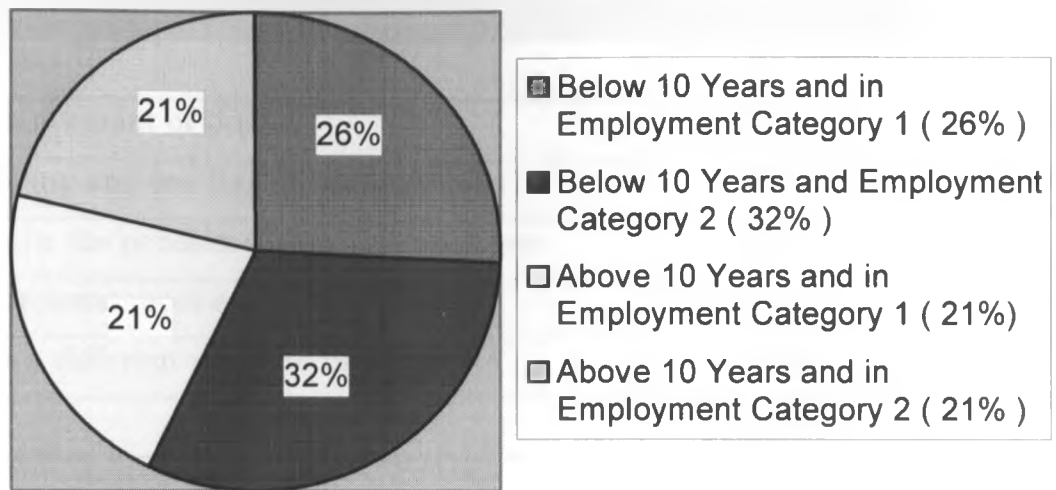
The respondents of graduate level or above constituted 45.7% of the respondent. 54.5% were diploma holders and below. A cross tabulation between the employment category of the respondent and their education level revealed that all the respondents with at least one degree were in the 1st category of Academic and senior Officials. The respondents who were in the first category and were in the level of Diploma and below were 1.42%.

Table 6: Years of Service

Years of Service	Frequency	Percentage
Below 5 Years	38	27.1
5 - 10 Years	42	30.0
11 - 20 Years	28	20.0
21 - 30 Years	30	21.4
Above 30 Years	42	30.0
Total	140	100

Although the sample was selected using a systematic random sample which is stochastic in nature out of the 140 respondents eighty (57.1%) have served the university for 10 years and below while Sixty (42.5%) have been working in the University for more than 10 years.

Chart 1 Employment Category and Years of Service



The pie chart above shows a cross tabulation between the Employment category of the respondents and the years they have served. The respondents who are in the Academic and senior Official (Category 1) and have served the university for less than 10 years are 26% while those in Middle level and lower grades are 32%. Those who have 10 and above years of service and are in the Academic and senior category have the same percentage as those who are in the middle and lower category i.e 21%.

4.2 VIEWS OF THE RESPONDENT

The nature of this study was that it sought to get information from the respondents about planning for retirement thus the questionnaire was designed in form of open and close ended questions and in some cases multiple responses were expected from the respondents. The stage expresses the views of the respondents as regards to planning for retirement.

The study revealed that 88.6% of the respondents indicated that planning for retirement is important while 10% felt that it was not important. 1.4% were indifferent saying that it was in the hands of the Almighty.

Table 7: Importance of Planning for Retirement.

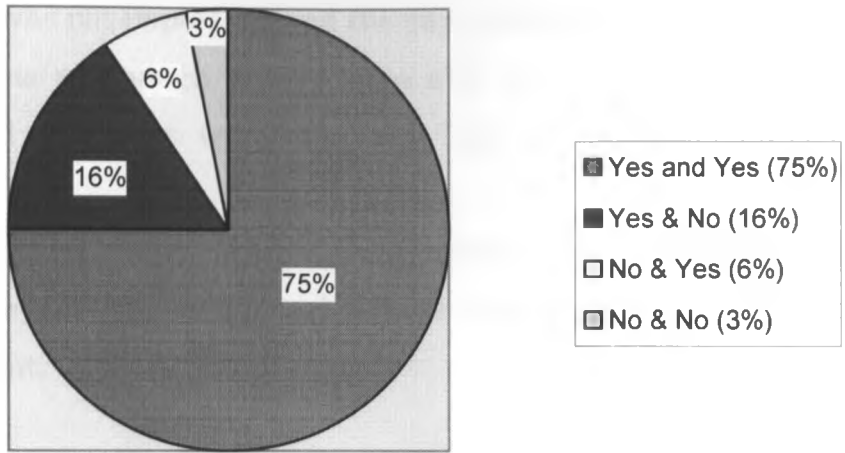
Importance of Planning for Retirement	Percentage
To avoid stress	37.3
To ensure achievement of Goals	31.3
Years are moving and one has to do Something	4.5
Irregularities in the pension scheme management	3.0
Unforeseen circumstances e.g. retrenchment	6.9
Retirement is a different phase of life	20.7
Total	100

The employees observed that planning for retirement is important so as to avoid the stress of leaving employment with no plans (37.3%). The other reasons are that they have goals that they have set for themselves and they need to achieve them (36.2%) and also they consider retirement being a different face of life one has to plan for it since they will be less active as they are now (20.7%).

On a lesser extent few respondents (6.9%) indicated that there are unforeseen circumstances such as retrenchment or chronic illness while others (5.2%) felt that years are moving by and one has to do something for their retirement , there were also those (3.4%) who felt that the pension scheme is poorly managed and that it is important to plan for retirement so as not to rely solely on the employers pension.

In order to establish whether the respondent who said that planning for retirement was important actually did something toward their retirement, the following pie chat was formulated as a cross tabulation of whether planning for retirement is important and whether the respondent has thought or done anything about it.

Chart 2: Respondents thought of retirement and what they have done



The above pie chart shows a cross tabulation between what the respondents have thought of retirement and what they have actually done about it. The chart clearly shows that majority (75%) of the respondents who indicated that they had thought about retirement were actually doing something about it. There were those respondents (6%) who said that they had not thought about retirement but on the other hand they had done something towards their retirement. Therefore a total of 81% of the respondents were either planning or doing something for their retirement. Only 3% of the respondents indicated that planning for retirement was neither important nor were they doing something about it.

It can also be noted from the pie chart that 16% of the respondents observed that planning for retirement was important and also were not doing anything about it.

When asked why they gave the following reasons:

- Some of the respondents (33.3%) said that they were still young to start thinking about retirement.
- Majority of the respondents (41.7%) indicated that retirement was far away and they
- Others (25%) felt that there were so many economic hardships and many financial obligations that planning for retirement was difficult.

Out of the 140 respondents interviewed ten (7.14%) said that planning for retirement was not important and they gave the following reasons:-

- There was not enough money to be able to do any meaningful planning. They indicated that there were too many financial obligations and their salary was meagre
- Some of them never thought that planning for retirement was important since what they do, for instance business was geared for other goals apart from retirement.

Retirement Goals

The retirement planning process involves identification of personal goals that should be both specific and measurable (Delloite & Touche 1996). The following are the retirement goals of the respondents.

- Farming
- Business/ Self employment
- Consultancy, Writing books and doing research work
- Relaxing and or taking care of children
- Community and Charity work
- Politics

There were cases where the respondents had more than one retirement goal. The respondents ranked their goals in terms of their importance and most of the respondents (35.6%) had one of their retirement goals as engaging in business or becoming self employed. 23% wanted to do farming, while 13.6% just wanted to retire and just relax at home. 16.5% wanted to engage in consultancy work, research work or writing books. There were those (6.8%) who had one of their goals as doing charity and community work and a few (3.4%) wanted to venture into politics.

Developing Strategies For Goal Achievement

This is also another stage in planning for retirement process and it involves developing of strategies so as to be able to achieve the goals an individual has. This

involves listing the goals then prioritising them so that the most important goal is achieved first. The respondents were required to indicate whether they had prioritised their retirement goals, 65.5% had done so while 34.5% had not prioritised their goals because they have either just one goal or have not thought about retirement.

The respondents were also required to state the strategies they use to ensure that they achieve their goals and the following options were enumerated.

- Joining co-operative and are making savings
- Started a business or are in the process
- Have made some investments
- Have already acquired a farm or are in the process
- Taken up some insurance policy
- Acquiring the necessary skills and tools

Majority of the respondents have engaged in more than one of the options above with most of them (45.7%) were either making some savings or had made investments. Others (14.7%) had already acquired some property or had a farm while 22.6% had already started a business. 6.1% had taken some form of insurance policy and 4.6% indicated that they were acquiring skills and tools to enable them achieve their goals. There were those respondents (6.3%) who were doing nothing or had not thought about planning for their retirement.

Table 8: The Best Time to Begin Planning for Retirement

Time best time to begin Planning	Frequency	Percentage
Immediately after employment	76	54.3
5 - 10 Years after employment	12	8.6
10 - 20 Years before retirement	24	17.1
5 - 10 Years before retirement	14	10.0
5 Years before retirement	8	5.7
Total	132	100.0

It can be deduced from the from the table above that the majority of the respondents agree that planning for retirement should begin immediately after employment. Crenshaw 1995, observes that the best time to begin planning for retirement is the day one begins to work. He further notes that most people do not do this instead they wait until middle age and beyond before they start.

The same case applies in this study. The respondents were asked when they began planning for their retirement and 58.5% said that they started several years after they were employed, 4.9% after starting a family or after settling down in their jobs while only 36.6% started at the beginning of their employment.

Further analysis through a cross tabulation revealed that out of the 76 respondents who said that the best time to begin planning for retirement was immediately after employment only 26 (34.2%) actually started planning for their retirement at the beginning of their employment.

The respondents who indicated that the best time to start planning for retirement immediately after employment regarded that time as the best since they reckoned that there was more time to save and plan financially for their retirement. The other reason given especially by the respondents who thought that the best time to begin planning was some years after employment was that at that time they would have settled in their jobs, they will have already started a family and catered for some financial obligations and also that at that time they will be able to focus more on retirement since it would not be far away.

The above may be realistic and true but it is one of the common mistakes made in retirement planning. Markham associates (1998) observes that retired persons wished that they had started planning for their retirement early. The problem was that people had other priorities such as raising a family or building up their careers that they tend to put off this vital planning.

Sources of Retirement Income

One of the important issues that planning for retirement addresses are the sources of retirement income. The study revealed that for most of the respondents the following sources were common;

- Own Savings and Investment
- Employers Pension plan
- Employment after retirement

There were others which were common to only a few of the respondent were

- Support from children
- Social Security

The respondents were also required to rank the above sources so as to establish the major sources of their retirement income.

The following table indicates how the respondent ranked them

Table 9: Ranking the Sources of Retirement Income

Source	Rank 1 (%)	Rank 2 (%)	Rank 3 (%)
Social Security	1.6	2.7	4.6
Employers Pension	25.4	38.8	20.9
Own Savings and Investments	57.1	26.9	18.3
Employment after retirement	15.9	21.7	28.9
Support from children	0	6.9	11.6

As seen from the above table, 57.1% of the respondents ranked the major source of retirement income as being their own savings and investment whereas 38.8% of the respondents ranked the employers pension as the second most important source of retirement income.

Gender and Expected most important Sources of Retirement Income

Own savings and investments were expected to be the most important source of retirement income for both genders with 84.1% of the male and 80% of the females citing it as their most important source. There were similar percentages in the other two major sources which were is employers pension plan and employment

after retirement respectively. Therefore there was a similarity in the sources of retirement income in terms of gender.

The sources of retirement income across the employment category were also similar with and the expected most important sources were also the same. Therefore there was no significant difference between the respondent across the academic and senior officials and the other employment category.

Out of the 140 respondent 78.1% indicated that they would continue to work after they retired, When asked whether it would be full time or part time 45% said that they would work full time whereas 55% part time. The response from most of the respondents (71.6%) indicated that retirement was not far away. This shows that most of the respondents are aware of this inevitable stage of life.

Hindrances to Retirement Goals

Planning for retirement is a comprehensive process which spans through out an individuals life and there a several reasons that would make individuals not achieve the plans they have made for their retirement. They include the following

- Death or Chronic illness
- Lack of enough capital
- Loosing their jobs or being retrenched
- Financial Constraints

The response from most individuals was that there were many financial constraints that it was difficult for them to make substantial retirement plans. The state of the economy was also a contributing factor to the financial constraints that the individuals are facing. Lack of enough capital to enable them invest or do what they have planned to do was also noted as a hindrance to actualise their plans.

The pressing financial obligations for most of the individuals are as follows

- Raising Kids and their Education
- Paying of Debts (Mortgages, loans)

- Living expenses
- Saving (for investments or retirement)
- Catering for the extended family

Table 10: The Pressing financial Obligations

Financial Obligation	Frequency	Percentage
Paying of Debts	64	19.5
Raising Kids and their Education	102	31.5
Living Expenses	82	25.0
Saving (for Investments or retirement)	66	20.1
Catering for the extended family	7	4.2

The above table shows how the respondents indicated their most pressing financial obligations. Raising children and their education seems to be the most pressing for most individuals followed by the living expenses and then making saving both for investments and retirement..

It was further revealed that the 76.5% of the respondents actually make some savings where as on the other hand only 23.5% do not make any savings citing reasons such as the money is not enough to enable them to put some aside and that they are constantly in petty debts, others cited the fact that there were too many financial obligations which made it difficult to put some money aside.

Those respondents who make some savings they indicated that their saving are for one or more of the following uses:-

- Unforeseen circumstances / contingencies
- Children's education
- Future Investments
- For retirement

Most of the respondents (36.2%) were making saving for future investments while a good number 23.2% were saving towards their retirement. A similar number of respondents indicated that they were making some savings toward their children's education and for unforeseen circumstances.

On the issue of budgeting a similar percentage (75%) of the respondents indicated that they do some budgeting for the allocation of funds available in order to meet their objectives. The 25% of respondents who indicated that they don't budget said that their earnings were not enough to allow them budget and that their expenses are already known and unavoidable, meaning that budgeting would serve no purpose.

Table 11: The Respondents Confidence.

Respondent Confidence	Frequency	Percentage
Very Confident	58	41.4
Just Confident	44	31.4
Not Confident	32	22.9

As seen above 43% of the respondents were confident that they were doing a good job in preparing themselves for retirement. 31.4% were just confident while 22.9% were not confident.

Despite the fact that 43% of the respondents indicated that they were very confident that they were doing a good job in preparing, most of the respondent were not ready for retirement. out of the 140 respondents eighty three (59.3%) were not ready for retirement whereas 40.7% were ready to retire. When asked when they will be ready they gave the following:-

- When their children are through with their education
- After achieving financial stability
- At a later age

Most of the respondents indicated that they will be ready after a later age since this would make the plans they have for retirement actualise. Others indicated that their children were still young and still in school and that as long as the children are in school they are is some financial burden that is associated. The respondents also indicated that they would want to achieve some financial stability before they retire. This is because with retirement the pay cheque no longer comes and one has to find other sources of income which can be realised through financial stability.

4.3 VIEWS OF RESPONDENTS AND DEMOGRAPHIC CHARACTERISTICS

This section present cross tabulations of the views of the respondents by some of the sample demographics. The cross tabulations enabled comparisons between the various categories and the views, as well as bringing out any significant differences in the analysis.

Gender of Respondents by whether Planning for Retirement is Important

A Cross tabulation between the gender and whether planning for retirement is important revealed that there was no significant difference since most of the male and female employees indicated that planning for retirement was important. This can be shown by the table below.

Table 12: Gender by whether planning for retirement is important

	Whether Planning for retirement is important	
	Yes	No
Male	80 (90.9%)	44 (84.6%)
Female	8 (9.1%)	6 (15.4%)

Employment Category by whether Planning for Retirement is Important

The table below shows a cross tabulation between the employment category and whether planning for retirement is important.

Table 13: Employment category by whether planning for retirement is important

	Whether Planning for Retirement is Important	
	Yes	No
Academic & Senior officers	64 (96.9)	2 (3.1%)
Middle & other Employees	60 (83.3%)	12 (16.7%)

The table above indicates that the employees in both categories indicate that planning for retirement is important. It can be noted that only 2% of the Academic and Senior officials indicated that planning for retirement was important compared to 16.7% of their counterparts. Therefore the bulk of the employees who indicated

that planning for retirement was not important fall in the middle and lower level category.

The marital status of the respondents was also cross tabulated and there were no significant difference in the responses since similar percentages were exhibited.

Gender of the Respondents by the Important Retirement Goals

The table below shows a cross tabulation between the gender and the important retirement goals.

Table 14: Gender by Important retirement goals

	Business / Self Employed	Farming	Consultancy	Others
Male	30 (30.6%)	26 (26.5%)	22 (22.5%)	20 (20.4%)
Female	14 (32.6%)	12 (27.9%)	9 (20.9%)	8 (18.6%)

It is evident from the table that the retirement goals in order of importance are similar thus there seems to be no significant difference in the important retirement goals across gender.

Employment Category of the Respondents by the Important Retirement Goals

The table below gives a cross tabulation of the employment category and the important retirement goals.

Table 15: Employment category by important retirement goals

	Business / Self Employed	Farming	Consultancy	Others
Academic & Senior	18 (26.5%)	16 (23.5%)	23 (33.8%)	11 (16.2%)
Middle level & Others	26 (35.6%)	22 (30.1%)	8 (10.9%)	17 (23.4%)

From the table it is observed that the Academic and Senior University officers have different important goals than those of their counterparts. The Academic and Senior officials have consultancy as their major retirement goal while the middle level and others staff have business and self employed as their major goal. Therefore the

academic staff are more likely to engage in consultancy work and business while the middle and lower level staff would engage in business and farming.

Gender of the respondents by the Most Pressing Financial Obligation

The table below shows a cross tabulation between the gender and the most pressing financial obligations. It can be deduced that the most pressing financial obligation for the male employees is the raising of kids and their education (36.1%), whereas for the female employees it is the living expenses (31.9%).

Table 16: Gender by Most pressing financial obligation

	Living Expenses	Raising of Kids	Paying Debts	Others
Male	48 (28.9%)	60 (36.1%)	30 (18.1%)	28 (16.9%)
Female	30 (31.9%)	26 (27.6%)	22 (23.4%)	16 (17.1%)

Drawing from the table, it can be seen that raising of children and their education, living expenses and paying of debts like mortgages and loans are the most common pressing financial obligations for both the male and female employees. Therefore there is no significant difference in the pressing financial obligations between the male and female employees.

A cross tabulation between the employment category and the most pressing financial obligation also revealed no significant difference since the pressing financial obligations were similar in both cases. This was also evident in the case of a cross tabulation between the marital status and the most pressing financial obligations where no significant difference was encountered.

Gender by the Sources of Retirement Income

The common sources of retirement for both the male and female employees were:-

- Their own savings and investment which constituted of 34.7% of the male employees and 34.6% of the female employees
- The employers pension scheme which constituted of 28.7% of the male employees and 32.7% of the female employees

- Employment after retirement which constituted 18.8% of the male employees and 17.3% of the female employees
- There were also the other sources of retirement income such as social security and support from children which constituted of 17.8% of the male employees and 15.46% of the female employees

This indicates that there were no significant differences in the sources of retirement income since the sources were similar. The results were similar in the case of the marital status and the employment category, which also revealed no significant difference in the sources of retirement income.

Gender by their Readiness for Retirement.

The table below shows a cross tabulation between the gender of the employees and their readiness for retirement.

Table 17 Gender by Readiness for Retirement

	Are the Respondents Ready for Retirement	
	Yes	No
Male	38 (45.2%)	46 (54.8%)
Female	12 (26.1%)	34 (73.9%)

From the table above that most of the female employees indicated that they are not ready for retirement(73.9%) as compared to 53 % of the male employees. Most of the respondents indicated that they would be ready at a later age and also after their children completed their education.

Further analysis through a cross tabulation between the gender and whether they would continue to work after retirement revealed that a larger percentage of the women (87.5%) compared to 74% of the male respondents would continue to work after retirement. This indicates that the male employees are more prepared for retirement than their female counterparts.

Gender and retirement confidence

In terms of gender and the confidence of the respondents regarding retirement issues the responses males were more confident than the females. The male

respondents who were confident or very confident that they were doing a good job in preparing themselves for retirement were 80.9% versus 68% of the females. Likewise only 19.1% of the that males versus 32% of the females indicated that they were not confident.

Employment category and retirement confidence

There was a similar percentage in both the categories since 78.12% of the academic and senior officials versus 74% of the respondents who belong to the other employment category indicated that they were confident regarding retirement issues.

Age bracket and Retirement confidence

The confidence of the respondents seemed to have been building up as they advanced in age. This was revealed by the fact that there was no respondent above the age of fifty who was not confident that they were doing a good job in preparing themselves for retirement. Twenty-two percent of the respondents between the age 40 - 49 years, twenty-six percent between the age of 30 and 39 years and twenty-nine percent below the age of 30 were not confident in what they were doing about their retirement.

Therefore young people are somewhat not confident that they are doing something good about retirement but as they become older they start getting confidence in their plans.

The cross tabulations revealed that there were no significant differences between the sample demographics and the views of the respondents since a lot of similarity was experienced in the analysis.

5.0 CONCLUSION

This chapter summarises and discusses the findings of the study as they relate to the objectives of the study. It also includes the implications and limitations of the study as well as suggestions for further research.

5.1 SUMMARY, DISCUSSION AND RECOMMENDATIONS

Planning for retirement has been defined by the American Association of Retired Persons as the process of identifying an individual's needs and wants, developing plans to achieve them, acting on these plans and continually reviewing them as one gains new knowledge and experiences. This kind of planning enables an individual to identify their retirement needs and also ensure that there are enough finances to achieve and maintain it.

Experts indicate that the best time to begin planning for retirement is the day one starts working, however these same experts concede that almost no one does that (Crenshaw 1995). And unlike Africans, the westerners have developed adequate social security systems to take care of the weak members of their society. Kenya, like most other African countries does not have a strong national pension scheme. The existing National Social Security Fund is a provident fund that offers lumpsum payment upon retirement and withdrawal.

Planning for retirement therefore offers choices and challenges that help individuals to identify the appropriate standards during retirement, which largely depend on the amount of funds that will be available for retirement. It also helps in developing internal and external support systems that replace those that will disappear when one stops working or moves into retirement and also creating awareness of alternative paths of actions or options for decision making while planning for retirement.

In all this, one factor is evident - every individual is unique and there is no right answer for everyone, each individual has his or her own perspectives, hopes,

expectations and even experiences. And it is only the individual who according to his or her circumstances can determine their wants and needs and also how well to achieve their retirement goals.

On the other hand planning for retirement entails several processes that need to be followed carefully; This involves identification of personal goals, gathering of data on issues related to the matter such as the increased cost associated with the activities undertaken after retirement such as travelling, viability of various project and such like data. The process also entails the evaluation of goals and identification of obstacles related to for instance reduction in the various net income earnings. Consequently strategies for goal achievement are developed from which implementation steps are designed. Once these plan(s) are developed the process is dynamic thus there should be revision and prioritising the retirement goals is necessary to ensure that they would still meet the needs at retirement.

It is evident from the literature that Kenya today needs to take the issue of retirement and pensions seriously. This study sought to shed some light on planning for retirement, which is an area, that not much emphasis has been place on. In addition it sought to educate the public on the importance of planning for their retirement and also increase the body of knowledge in the retirement benefits. With this in mind, individuals would be able to avoid the common mistakes that individuals make in planning for their retirement such as their expenses will be lower in retirement, while in reality, other cost such as school fees, mortgages may reduce but health costs may increase. Another misconception that people make is that there is the company pension scheme to fall on without understanding the fact that it only provides a ratio of the salary (Approx. 40 -60%) which is generally paid if the person has twenty-five or more years of service with the employer.

All in all it is never too late nor too early to start planning for one's retirement. As most individuals think, it may not be possible to make up for lost time and

opportunity but what is important is to start the making the important plans that should be made.

The major objective of this study was to determine the major aspects of retirement planning which involved finding out whether the employees plan for their retirement, the options available to them as well as the handicaps faced while planning for their retirement.

The study revealed that majority of the employees made plans for their retirement. It was also revealed that 88.6% of the respondents indicated that planning for retirement was important citing reasons such as avoiding the stress of leaving employment without knowing what to do after retirement, so as to achieve the goals they have set for themselves for retirement and also they considered retirement as a different phase of life and have to prepare for since they would be less active then.

The major options that were available to most of the respondents was engaging in business or becoming self employed, farming, consultancy work, research or writing books, farming, charity or Voluntary work and finally politics. To ensure that their retirement goals are achieve the respondents indicated their strategies for goal achievement as being joining co-operatives and thus making savings which in turn assisted them on acquiring loans to do other things such as investing, acquiring some property or starting up a business, some of the respondents were already doing some business or even engaged in farming, others had taken up insurance policies while others were still acquiring skills or materials pertinent to their retirement goals.

The best time to begin planning for retirement as most respondents indicated was immediately after employment. The only problem was that only less than half of them started immediately after they were employed. Most of them started several years after employment while others after they had started a family or settled down in their jobs. It was also revealed that planning for retirement should be done early

in life as this give the employees more time to save and plan financially for their retirement and thus would ensure a comfortable retirement life.

The study also enumerated some hindrances that would make the employees not achieve their retirement goal and this included major factors such as financial constraints that they were facing. Some indicated that they had been pushed up to the wall with many financial obligations such as raising kids and their education the high cost of living, paying of debts like loans and mortgages. There was also a feeling among the employees of then being faced by lack of enough capital to enable them achieve their goals and also fear of loosing their jobs or being retrenched especially at this time when the government is reducing on its public expenditure thus requiring the public universities to be either self sustaining or undergo some form of restructuring. Despite these hindrances the employees are able to go about with their retirement plans therefore the obstacles can be seen as more of challenges rather than obstacles.

Therefore although there is not much that has been said about planning for retirement in Kenya, it seems that the employees are aware of retirement. They may have diverse retirement goals but at least they have made a step forward by engaging into activities that would enable them achieve their goals. It is critical thus, that the employees need to make plans for their retirement so as to ensure that the dream of a comfortable retirement remains within their grasp. It is also essential that the employers and the government must take forthright action by taking the intelligent steps necessary to encourage employees plan for their retirement.

5.2 RECOMMENDATIONS

- Restructuring of the social security sector so that it can be able to provide adequate security to its members.
- Setting up of Retirement benefits Schemes such that interested parties can freely join and not necessarily rely on the employers provided pension scheme. This would enable members to roll over retirement funds to schemes of their choice in case they move from one employer to another. It would also enable employees to put their funds in schemes whose performance is highly rated.
- Introduction of Individual Retirement Account (IRA) and Employers tax deferred savings plans such as 401 (K) in the U.K. The funding option in these plans in these plans can provide employees loans from their account before retirement for major financial obligation.
- The retirement age should also not be stipulated as it is in the contract but rather it should be the onus of the employees to choose the age they would want to retire at. This would enable the employees work longer if they would not have achieved their goals at the time of retirement or retire early if they want to engage in other activities.
- The employees should be encouraged to engage in other income generating activities provided that those activities do not interfere with their productivity. This involves encouraging them to make meaningful investments through provision of loans and advances, provision of mortgage schemes which would allow the employees not only acquire residential properties but also commercial properties as well. These benefits seem to be dwindling off especially this time when the economy is not doing that well.

- Employees should be prepared psychologically for retirement. In Kenya, employees are not educated on retirement thus there should be efforts to educate them as well as prepare them psychologically.
- There is need to conduct similar studies countrywide in all sectors such that the findings can be used to educate the public in general on better ways of planning for their retirement.

5.3 LIMITATIONS OF THE STUDY

The study was constrained by the following limitations

- There was heavy reliance placed on literature from western world especially the U.S and U.K since the field of study was relatively not much explored locally thus there was not much literature available on the local scenario. The availability of local literature would have been of great assistance.
- The population and the sample would have been increased but due to the costs involved with large samples coupled with the constraint of time this would not have been possible.

5.4 SUGGESTIONS FOR FURTHER RESEARCH

- A similar study could be conducted in the private sector especially due to the fact that they are remunerated better than their counterparts in the public sector to establish whether similar results will be obtained. The study could also be extended to the informal sector especially the jua kali industry.
- A study could be carried out after several years to assess whether the establishment of the Retirement Benefits Authority has created awareness to the general public in the necessity for Planning for retirement.
- This study was based on employees currently working, therefore a study on the persons who have already retired could be carried out to establish whether they achieved what they had planned.



UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA — PROGRAMME
LOWER KABETE CAMPUS

Telephone: 732160 Ext 225
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity Nairobi

P.O. Box 301
Nairobi, Kenya

Date... April 8th, 1999

TO WHOM IT MAY CONCERN

The bearer of this letter... ..MAGERA, SAMMY

Registration No... ..D61/7116/97

is a Master of Business and Administration student of the University of Nairobi.

He/~~She~~ is required to submit as part of his/~~her~~ coursework assessment a research project report on some management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would therefore, appreciate if you assist him/~~her~~ by allowing him/~~her~~ to collect data in your organisation for the research.

Thank you.

Sincerely,

DR. MARTIN OGUTU

Lecturer, and Co-ordinator of the MBA Programme



Appendix ii

QUESTIONNAIRE

1. Gender:-

- Male
 Female

2. College _____
Faculty _____
Department _____

3. Employment Category:- (Please indicate the Position you hold)

- Academic & Senior University Official (_____)
 Other (_____)

4. Education Level _____

5. Age bracket

- Below 30yrs
 30 - 40yrs
 40 -50yrs
 Above 50yrs

6. Marital Status

- Married
 Single

7. Years of Service

- Below 5 Years
 5 - 10 Years
 10 – 20 Years
 20 – 30 Years
 Above 30 years

8. At what age do you plan to retire? _____

9. Briefly explain why you think this is the appropriate age for you to retire?

(i)

(ii)

(iii)

(iv)

10. What would you like to do after you retire or what goals do you have for or retirement?

- (i) .
- (ii) .
- (iii) .
- (iv) .
- (v) .

11. Have you prioritised these goals? _____

12. Rank the above goals (10) in order of importance.

13. What would you do or what have you done or what are you doing to ensure that you achieve your retirement goals?

14. In your opinion what would make you not achieve this goals?

15. Do you consider planning for your retirement important? _____

(i) If Yes why?

(ii) If No why

16 Have you ever thought about planning for your life after retirement? _____

(a) If Yes, have you done anything about it? _____

(i) What have you done about it?

(ii) When did you start doing something about it?

(iii) If No (to 13) why?

17 In your opinion which is the best time or period to start planning for your life after retirement?

- Immediately after employment?
- 5 Years after employment

- 10 – 20 Years before retirement
- 5 - 10 Years before retirement
- 5 Years before retirement
- Other (Please specify)_____

18 Why do you consider that time/period the best?

19 Do you belong to the University Pension scheme? _____

20 Do you have a rough idea of the amount of money you will be receiving in form of pension when you retire?_____

(i) If Yes what made you want to know the amount?

(ii) If No why haven't you bothered to know?

21 Would you like to take your pension as a lumpsum or as monthly payments?
 _____(Briefly explain)

(i) .

(ii)

(iii) .

22 Do you anticipate that the pension you will receive will be enough? Yes/ No

(i) Explain

(ii) If No what steps have you taken or will take to ensure that you have enough income in retirement?

23 Which of the following are the Most pressing financial obligations now?

- Paying of Debts e.g. loans and Mortgages
- Raising Kids & their Education
- Living Expenses?
- Saving for Retirement?
- Others?
- _____
- _____
- _____

24 How would you rank the above i.e From most pressing to least pressing (No. 1 is most pressing and so on)

25 Do you make any or have any savings? Yes / No

(i) If yes what are the savings for?

·
·

(ii) If No why don't you save?

·
·

26 Do you do any budgeting? Yes/No

(i) If Yes explain how you do it?

·
·

(ii) If No why don't you budget?

27 If you were told to retire now, would you be ready for this inevitable stage in life?

(i) If Yes, please explain how ready you are?

·
·

(ii) If No, when do you think you will be ready?

·
·

28 Have you ever thought of how much you will need to save or invest for a comfortable retirement? Yes/No

(i) If Yes give details?

·
·

29 Which of the following will be the sources of your Retirement Income?

- Social Security (NSSF)
- Employers Pension Plan
- Your Own Savings and Investments
- Employment after retirement
- Support from Children
- Others
- .
- .

30 Rank the three main sources from the most important to the least important

- 31 Will you have to continue working after your retirement?
(i) If Yes, will it be full time or part time?
(ii) Will it be for the money or Just to pass time?
- 32 In your Opinion do you think that your retirement is far away? Yes/No
- 33 Are you confident that you are doing or have done a good job in preparing yourself financially for retirement?
- Very Confident
 - Just Confident
 - Not Confident
- 34 Any other information you would like to give?

THANK YOU FOR YOUR CO-OPERATION.

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