

**A SURVEY OF PENSION COVERAGE OF INFORMAL SECTOR
WORKERS IN NAIROBI COUNTY**

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

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DEDICATION

I dedicate this work to my family for the sacrifice they made for me to complete this project. Their love, care, concern, support, encouragement and enthusiasm inspired me to achieve this goal.

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I take this opportunity to thank God for good health and for bringing me this far. I also want to extend special gratitude to my supervisor Herick Ondigo for the great partnership we made. His guidance, encouragement and patience in reading, correcting, re-reading and refining this work are commendable.

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LIST OF ABBREVIATIONS

ILO	International Labour Organization.....	2
RBA	Retirement Benefits Act	2
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NSSF	National Social Security Fund	4
NCC	Nairobi City Council	6
PAYG	Pay-As-You-Go	11
UK	United Kingdom	16
IMF	International Monetary Fund	23
DBS	Defined Benefit Scheme	24
DCS	Defined Contributions Scheme	24
IRA	Individual Retirement Account	29
OECD	Organization of Economic Cooperation for Development	32
DWP	Department of Works and Pensions	33
NPSS	National Pension Saving Schemes	33

ABSTRACT

Everyone needs money to live on when they retire or can no longer work. The reality, however, appears to be that few people spend time thinking about long-term savings for their days of retirement. Another striking reality is that because more people are living longer, the period of retirement could be as much as a quarter of one's life-span hence the need for a reliable pension plan. In Kenya, like any other country in the world, low pension coverage in a big challenge among the informal sector works. Although many studies have been done on area of social security and pension coverage, little is known on the extent of pension coverage in Nairobi country. This study therefore sought to establish the extent of coverage by retirement benefit schemes of informal sector workers in Nairobi County and to investigate the factors that determine coverage by retirement benefit schemes of informal sector workers in Nairobi County, Kenya.

This study used a descriptive survey design. Stratified sampling method was used to pick small scale traders from each of the five categories namely second hand clothes dealers, small shops and Kiosks, Jua Kali Artisans, hawkers, small producers and providers of domestic and industrial goods and services. The sample size for the study was 100 respondents. Primary data was collected using questionnaires. Data was analyzed using descriptive statistics such as mean scores, percentages and frequencies. The findings of the quantitative data were presented in tables, figures and charts. Content analysis was done to process qualitative data and results were presented in prose.

The study revealed that only a small extent of the informal sector workers in Nairobi County was covered by retirement benefit/pension schemes. The factors that determine pension coverage to informal sector workers were found to be lack of financial education among the public, government policy, individual perception on retirement benefit/pension schemes and pension reform initiatives. The study further found out that the major challenges faced by retirement benefit/pension scheme included; poor management, political influence, lack of profitable investment opportunities, lack of information, lack of participation by the public and corruption. The study also revealed that most informal sector workers in Nairobi County (the respondents) attached importance to retirement benefit/pension schemes only to a little extent.

The study recommends that the government, RBA and NSSF undertake extensive education campaign to educate informal sector workers on the importance of membership to retirement benefit/pension schemes as a means to secure old age. The study further recommends necessary policy and institutional reforms to make access to retirement pension services easily accessible to informal sector workers.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

One of the fundamental global problems facing social security protection today is the fact that more than half of the world's population which includes workers and their dependants are excluded from any type of social security protection. Non-coverage is greatest in Sub-Sahara Africa and South Asia, where more than 90 per cent of the population are not covered at all. A major contributing factor towards decreasing and low levels of social security coverage in these regions is the trend towards greater in formalization or flexibility in labour market conditions, which in essence leave majority of workers outside the realm of social protection systems (McKinnon and Sigg, 2001).

The situation is more complicated in developing countries where a large majority of non-covered and poor workers are employed in the informal economy. The informal sector in Kenya employs over 75 per cent of the work force today. The output of this sector contributes considerably to the economic output of the country. The sector however, remains on the whole, unaccounted or underestimated. The income and continued employment of the informal sector worker is usually varying and uncertain. The uncertainty in their work reflects the uncertainty of markets, the recession or boom, the needs and whim of an employer, the political situation, changing policies and other factors. In summary, the economic security of workers in the informal sector is dependent on a variety of factors over which they have no control. Unlike the formal sector employees who are shielded from economic insecurity by an employer or an institution, the informal sector workers have to face the risk on their own. Continuity of work and a reasonable income is the top priority in their lives (Willmore, 2006).

Employment, however, is not just about work and income. During the working life, a worker has to meet many personal, social and family needs – and with growing commercialization, these needs are met mainly from their income, which in itself is uncertain. There are also times of personal crisis such in retirement and droughts, where the worker has to spend but at the same time is not able to earn an income. These are challenging times when social security assistance will be very necessary.

The informal sector worker thus needs adequate savings or social security initiatives to act as a cushion against economic uncertainties (Martin and Whitehouse, 2008).

The urgent issue for pension reform in Africa is not only the need to introduce social protection systems - to help alleviate demographic pressures and poverty amongst the African populace. In addition, there is a vital need for reform of existing pension systems in the region. Coverage of these systems is low (under 10 or often under 5 percent of the population) and usually only for civil servants or a minority of relatively highly paid workers in formal sector employment, making for highly regressive systems, with cross-subsidies required from indirect taxes as pension payments from these systems frequently exceed contributions. The need for efficient pension arrangements in the region is undoubted – though the challenges for introducing them remain great (notably the large informal sector of workers) (Willmore, 2006).

Pensions play an important role in poverty alleviation of the elderly - one of the most vulnerable groups in any society, particularly older women. Yet, according to the International Labour Organization (ILO) (2002), only one in five workers is covered by adequate social security schemes, whilst the World Bank (Willmore, 2006) point out that 85% of the world's population over 65 has no retirement benefit at all. In sub-Saharan Africa less than 10% of the older population has a contributory pension (Palacios, & Sluchynsky, 2006).

Basic, social support can be implemented via public pension arrangements. Indeed social protection is increasingly considered as contributing to the development process in the same way as health and education (van Dullemen, 2007). Irrespective of the type of arrangement, in addition to reducing poverty amongst the elderly, providing pensions has also been shown to have implications for broader society, as benefits are shared with household members – for example via providing food, clothing and school materials for grandchildren.

1.1.1 Retirement Benefit Authority (RBA)

Modern pension systems trace their roots back to late 19th century in Germany, when the Bismarckian social welfare system was introduced. Nowadays, pensions have spread and established around the globe, including in both developed and developing countries. Though the type of pension system varies, all play an important role in providing necessary income to elderly

populations and in alleviating post-retirement poverty among the poorest sectors of society. However, despite the continued evolution and development of modern pension system over the past century, one issue which is yet to be resolved is how to extend such structured pensions arrangement to informal sector workers (van Dullemen, 2007).

In Kenya, the Retirement Benefits Act No. 3 of 1997 establishing the Retirement Benefits Authority (RBA) was enacted by Parliament in 1997. According the Act, the objectives of RBA include regulating and supervising the establishment and management of retirement benefit schemes; protecting the interest of members and sponsors of retirement benefits schemes; promoting the development of the retirement benefits industry; advising the Minister for Finance on the national policy to be followed with regard to the retirement benefits industry; and implementing all government policies relating thereto. RBA has been involved in several initiatives to achieve these objectives which include; public education campaigns to educate workers on benefits of early saving for retirement and to educate scheme members and trustees on their rights and obligations; promoting expansion of the coverage of retirement benefit schemes since existing schemes cover less than 15% of the labour force; and seeking greater tax incentives for retirement benefit schemes. The RBA ultimate objectives are to protect member benefits and to accelerate domestic savings and economic growth. The two objectives have been split into social and economic agenda (RBA, 2010).

The RBA social agenda aims at reducing old age poverty; educating citizens on importance of saving for retirement during working life; safeguarding the retirement savings of members through effective regulation and supervision of schemes and service providers. The RBA economic agenda aims at encouraging greater savings for retirement; increasing asset base of the retirement Benefits industry through encouraging adoption of prudent management principles; spurring development of the country's capital markets by ensuring professional investment of scheme funds; and provoking development of new capital market instruments by requiring schemes to diversify their investment portfolio. According to the December 2009 RBA investment report, total investments in the Kenyan economy by retirement benefit schemes amounted to KShs. 314 billion of which KShs. 231 billion was held and managed by fund managers and KShs. 83 billion by the National Social Security Fund

(NSSF). In 2009, RBA in an attempt to extend coverage by retirement benefit schemes launched a package targeting informal sector with a contribution of KShs. 20 per day (RBA, 2010).

1.1.2 The Informal Sector

The dualist school, popularized by the ILO in the 1970s, subscribes to the view that the informal sector is comprised of marginal activities – distinct from and not related to the formal sector – that provide income for the poor and a safety net in times of crisis (ILO, 1972; Sethuraman, 1976; Tokman, 1978). According to this school, the persistence of informal activities is due largely to the fact that not enough modern job opportunities have been created to absorb surplus labour, due to a slow rate of economic growth and/or a faster rate of population growth.

The structuralist school subscribes to the view that the informal sector should be seen as subordinated economic units (micro-firms) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms. In the structuralist model, in marked contrast to the dualist model, different modes and forms of production are seen not only to co-exist but also to be inextricably connected and interdependent (Moser, 1978; Castells and Portes, 1989). According to this school, the nature of capitalist development (rather than a lack of growth) accounts for the persistence and growth of informal production relationships.

The legalist school subscribes to the view that the informal sector is comprised of determined micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration (Soto, 2000). According to Soto et al, micro-entrepreneurs will continue to produce informally so long as government procedures are cumbersome and costly. In this view, unreasonable government rules and regulations are stifling private enterprise. More recently, Soto has championed property rights as a means of converting the informally-held property of informal entrepreneurs into real capital (Soto, 2000).

The il-legalist school, popularized by neo-classical and neo-liberal economists across the decades, subscribes to the view that informal entrepreneurs deliberately seek to avoid regulations and taxation and, in some cases, to deal in illegal goods and services. This perspective is associated with the view that the informal economy is an underground or black economy. According to this school of thought, informal entrepreneurs choose to operate illegally – or even criminally - in order to

avoiding taxation, commercial regulations, electricity and rental fees, and other costs of operating formally (Maloney, 2004).

Current re-thinking of the informal sector, popularly now referred to as the informal economy, suggests the need for an integrated approach that looks at which elements of dualist, structuralist, legalist, and il-legalist theories are most appropriate to which segments of informal employment in which contexts. Clearly, some poor households and individuals engage in survival activities that have – or seem to have – very few links to the formal economy and the formal regulatory environment (dualist school); some micro-entrepreneurs choose to avoid taxes (il-legalist school) and regulations (legalist school); while other informal units and workers are subordinated to larger formal firms (structuralist school) (Chen, Martha, Vanek and Carr, 2004).

For the purpose of this study, informal sector will mean small scale enterprises both in production and service industries and in the context of current re-thinking. Their goods and services are not accurately recorded in the government figures and accounting mainly because of poor record keeping and failure to declare for fear of paying taxes. The informal sector which is not generally taxed commonly includes self employment and trading in goods and services such as blacksmith, second hand clothes dealers, small shops and kiosks, Jua Kali Artisans, hawkers, small producers and providers of domestic and industrial goods and services among many others. The term ‘informal economy’ has come to be widely used to encompass the expanding and increasingly diverse groups of workers and enterprises in both rural and urban areas operating informally.

1.1.3 Nairobi County

Nairobi County is the new administrative unit that covers the area that previously consisted of Nairobi province. The area was an essentially uninhabited swamp until a supply depot of the Uganda Railway was built in 1899, which soon became the railway's headquarters. The city was named after a water hole known in Maasai as *Ewaso Nyirobi*, meaning "cool waters". It was completely rebuilt in the early 1900s after an outbreak of plague and the burning of the original town. The location of the Nairobi railway camp was chosen due to its central position between Mombasa and Kampala. It was also chosen because its network of rivers could supply the camp

with water, and its elevation would make it cool enough for residential purposes (Nairobi City Council, 2010).

Today, Nairobi County, which is also the capital city of Kenya, is divided into eight (8) main administrative divisions which are Central, Dagoretti, Embakasi, Kasarani, Kibera, Makadara, Pumwani and Westlands. Most of the upmarket suburbs are situated to the west of Nairobi, where most European settlers resided in colonial times. These include Karen, Langata, Lavington, Gigiri, Muthaiga, Runda and Highridge, although Kangemi and Dagoretti are lower income areas. The city's colonial past is commemorated by many English place-names. Most low and lower-middle income estates are located in eastern Nairobi. These include Kariokor, Dandora, Kariobangi, Embakasi and Huruma. Many Somali immigrants have also settled in Eastleigh, nicknamed "Little Mogadishu" (Nairobi City Council, 2010).

The Nairobi County has only one local authority, Nairobi City Council (NCC). Nairobi Province was not divided into districts until 2007, when three districts were created. The province was further divided into "divisions" which were further divided into "locations". Nairobi County has eight constituencies, which follow the same boundaries with the previous administrative divisions. Constituency names sometimes differ from division names such that Starehe Constituency is equal to Central division, Langata Constituency to Kibera division, Kamukunji Constituency to Pumwani Division in terms of boundaries (Nairobi City Council, 2010).

According to the Nairobi City Council financial budget for the year 2010/2011, the Council received KShs. 870 million from business permits in 2009/2010 and projects to receive KShs. 1.3 billion in the year 2010/2011. This is an indication of the vibrant business environment and growing business as well as employment growth in both formal and informal sector of the country's economy.

1.2 Statement of the Problem

Everyone needs money to live on when they retire or can no longer work. The reality, however, appears to be that few people spend time thinking about long-term savings for their days of retirement. Another striking reality is that because more people are living longer, the period of retirement could be as much as a quarter of one's life-span. When people retire or can no longer

work, they will still need to pay bills and have money to meet financial and social obligations (Kakwani & Subbarao, 2005).

Looking at how a gloomy retirement without adequate income can be, there is always the need to put in place an appropriate pension scheme that will ensure brighter retirement period for all workers. Pension schemes that have been operated in many developing countries so far have, besides their limitations, also failed to consider the plight of workers in the informal sector, who constitute the bulk of the working population in these countries (Martin & Whitehouse, 2008).

Pension reform around the world in recent decades has focused mainly on the formal sector. Consequently, many of those working in the informal sector have been left out of structured pension arrangements, particularly in developing countries – a serious problem given this group are often low income earners, vulnerable to economic volatility and change. However, since the turn of the millennium, efforts in a range of countries have increasingly highlighted improving pension coverage for informal sector workers (van Dullemen, 2007).

Both the international community and national governments have realized the increasing importance and urgency of extending the pension system to cover the informal sector. Indeed, a range of different policy initiatives have been undertaken, aiming to tackle this problem given the country-specific conditions and environments (Hu & Stewart, 2009). In order to increase coverage and encourage more of the old-age population to join the formal pension system, the authorities are considering several options. Firstly, the introduction of a 'zero' pillar has been proposed, which will provide a universal minimum pension to the population over 65. Secondly, there have also been proposals to introduce a mandatory element into the voluntary occupational and individual schemes and to create a fourth pillar in the form of tax incentives for family support and the purchase of a home (Odundo, 2008).

Despite these efforts, available literature shows that low pension coverage still characterize the informal sector workers world over including Kenya. This situation raises questions on the factors that determine coverage of informal sector workers' by retirement benefit schemes. Mutua (2003) did a survey of the extent of compliance with the Retirement Benefit Act by retirement benefit schemes in Kenya. Wanjiku (2004) studied the effect of the RBA Act (no. 3 of 1997) on the

management of insured retirement benefit schemes in Kenya. There is no known study that has been done on the extent of coverage by retirement benefits schemes of informal sector workers in Nairobi County. This study, therefore aimed to fill this gap by surveying the extent of coverage by retirement benefits schemes of informal sector workers in Nairobi County, Kenya.

1.3 Study Objectives

1. To establish the extent of coverage by retirement benefit schemes of informal sector workers in Nairobi County.
2. To investigate the factors that determine coverage by retirement benefit schemes of informal sector workers in Nairobi County.

1.4 Importance of the Study

This study is helpful in educating all the stakeholders, including trustees of retirement benefits schemes, policymakers, investors, service providers, academicians and others on the extent and potential for coverage by retirement benefit schemes of the informal sector workers. Equally, retirement benefits schemes assist in mobilizing financial savings into productive investments, thereby linking them to the financial sector development.

Among the major stakeholders who stand to benefit from this study's findings is the government. The government will find the findings of the study useful in formulating policies with respect to extending pension coverage to the informal sector or self employed. The informal sector workers will also benefit as the study addresses an issue that is gaining global attention and that affects workers at a personal level in their old-age. For the academicians, the study will be beneficial in adding to the body of knowledge in the area of retirement benefit schemes coverage of the informal sector and self employed.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter commences with an overview of evolution of social security. The chapter then moves to highlight the theoretical background to pension reforms and the current state of coverage and the problem of non-coverage. The policies that have been used to achieve the extension of coverage have also been looked into. Experiences on the rate of contribution and retirement benefits in a number of countries have also been examined. The chapter ends with a discussion on regulation and supervision.

2.2 Retirement Benefits Schemes

One area of life that has undergone a radical change is that of social security, particularly the guarantee of security from poverty in old age. In the traditional African society, social security systems were assured. These took the form of practices and social norms that ensured that disadvantaged members of the society such as the elderly were taken care of by other members of the society. The socio-economic changes brought about by the pursuit of a Western style of development are increasingly leading to a breakdown in traditional systems of old age security (Kakwani and Subbarao, 2005).

Fortunately, the capitalist economic system has brought with it other ways of ensuring old age security, the principal one being membership of a retirement benefit scheme which provides payments to retirees in the form of pension or lump sum payments. A retirement benefit scheme can therefore be looked at as a form of insurance for which you pay premiums while you are working against the predictable risk of a period without earnings later in life. The scheme guards against the risk of poverty in old age through ensuring that retired members of a scheme are able to provide for themselves in retirement (Heller, 1998).

The first known arrangement that bore a close resemblance to a pension scheme had its origins in America in the 1900s in the form of a securities exchange company which offered to double money put into it in 90 days. This arrangement, however, proved to be a scam in which many people lost

their money. It saw the creation of a fund into which persons who accepted the offer contributed (Odundo, 2008).

In the initial stages of the offer as more and more people signed up the promised return on investment was easily paid. However, as the numbers of people signing up decreased payments to the latter entrants proved impossible due to diminished funding. To this day, the Pay-As-You-Go (PAYG) system of pensions remains the main form of pension provision in the industrialized world. Under the scheme, many times a worker's benefits exceed his contributions into it meaning that such schemes have continued to be sustained mainly due to the robust health of the economies of industrialized countries as will be seen later. Workers in many of the industrialized countries are therefore adequately catered for in their old age by this over generous pension system. In many low-income developing countries where the economy cannot sustain a pay-as-you-go pension system the state has nevertheless had to come up with some other scheme to guarantee old age security (Masilela, 2005).

Schemes must have Scheme Deeds and Rules which are legal documents that set them up and provide regulations for their day to day running. Private sector retirement benefit schemes are of two types namely occupational retirement benefit schemes and Individual retirement benefit schemes. An occupational retirement benefit scheme is an arrangement that an employer establishes to provide retirement benefit for its employees. Such an employer is referred to as a sponsor or founder. Private retirement benefit schemes may further be classified into pension schemes or provident schemes. In both these schemes members make contributions into a fund during the period they are in employment. However, the difference between the two is in the manner in which benefit are eventually paid out. In a pension scheme, benefit is paid out in the form of periodic payments (usually monthly) to a member upon retirement. This sum is referred to as the pension. In the case of a provident fund a member's benefit is paid in the form of a single lump-sum amount (Kakwani and Subbarao, 2005).

Generally, it is considered safer for purposes of old age security for one to receive a pension after retirement as opposed to receiving a one-off payment in the form of a lump sum. This is because the latter may be poorly invested by a retiree and hence lost. Members of a retirement benefit scheme who are retiring and are paid a lump sum may therefore consider purchasing an annuity, which will

entitle them to monthly pensions. An annuity is an arrangement provided by institutions such as insurance firms by which upon the payment of a specified sum to the firm providing the annuity the person making the payment is entitled to receive periodic payments until the occurrence of a specified event like the person's death (Masilela, 2005).

Pension schemes can again be further classified into defined benefit schemes and defined contribution schemes. In a defined benefit scheme the benefits to be provided to a retiring member of a scheme will be based on specified criteria, which take into account a retiring members final salary and his pensionable years of service. The monthly pension to be paid to the retired member is therefore computed as a proportion of a member's final salary, which proportion depends on the number of years worked with the employer. Hence, the longer a person has worked the greater the benefits he will receive (Vittas, 1993).

In a defined benefit scheme, members' contributions will normally be constant although the employer's contribution will vary depending on advice that the scheme receives from an actuary regarding the ability of the scheme fund to meet its liability given its assets. This means that the employer underwrites the benefits and may therefore be required to increase contributions to meet liabilities as set out by the actuary. The Kenyan law requires actuarial review of defined benefits schemes at least once in every three years (Masilela, 2005).

In a defined contribution scheme a member is personally responsible for the eventual pension benefit that he receives since the benefits received depend on the contributions that a member has made into the pension fund during his working life together with earnings thereon. Normally the contributions to be made into the scheme, whether by employers or employees, are fixed and specified with no need for regular variation of the employer's contribution as the employer is not under an obligation to undertake that the defined benefit payable exists as is the case in the defined benefit scheme. In a Defined contribution scheme the value of the eventual benefit received from it depends on the accumulated contributions and earnings thereon by the time the member is eligible to receive the benefit. This dependence on benefits received under a defined contribution scheme on investment earnings rather than a defined amount has resulted in Defined Benefits schemes being generally thought of to offer superior benefits to employees with much less risk (Masilela, 2005).

2.3 Theories of Social Security

Several theories have been advanced in relation to social security. The following are in understanding the background to the development of social security.

2.3.1 Myopic Prodigality Theory

The theory assumes that parents were not looking forward enough when they were young. According to this theory, people make “mistakes” when they are young and they save too little. Diamond (1977) suggests several possible “reasons” for this: people may lack the information necessary to judge their needs in retirement; people may be unable to make effective decisions about long-term issues because they are not willing to confront the fact that one day they will be old; and they may simply fail to give sufficient weight to the future when making decisions so, in essence, they may act “myopically”. As a result, it may be desirable for the government to act paternalistically and force citizens to save.

Diamond (1977) suggests that the solution to the prodigal father problem is a fully funded program, and one that need not be administered by the government. We believe that the solution may involve a pay-as-you-go program since, when the program is first created, it is too late to force the first old generation to save and (presuming society still wants to help the poor old) revenue is immediately needed to pay them. However, this reasoning cannot explain why even the richer members of the initial old generation would receive subsidies. As a forced savings program, it may explain why benefits are not means-tested - the program is not designed to redistribute, just to ensure people leave some of their resources for their old age. Feldstein (1985) states that, as opposed to the social security programs used in practice, the optimal solution to the prodigal father problem involves means-testing and a low level of retirement benefits.

2.3.2 Rational Prodigality Theory

The rational prodigality theory seems to be exactly the opposite of myopic prodigality theory: parents were forward looking to such an extent when they were young that they anticipated not only their needs for retirement, but how their children and others in society would react to those needs (Laitner, 1988). In particular, they expect society to aid them in desperate situations even when those situations are self-induced. For example, society may feel it intolerable to have destitute

elderly citizens around. Realizing this, some younger people may not bother to save for their old age, knowing they will be “bailed out”.

2.3.3 Misguided Keynesian Theory

Thomas Sargent (in Feldstein 1998, p. 306) suggests that social security was created to purposefully reduce national savings in a moment in which aggregate demand was low (the Great Depression) and, following the Keynesian prescription, consumption needed to be stimulated. The point is based on the belief that social security programs tend to reduce national savings (Feldstein 1998). This theory is consistent with the fact that social security is usually run by the government. Keynesianism also explains why proof of disability is not required.

If the Keynesian explanation is modified by assuming that policy-makers are wrong to believe in Keynesianism (as Sargent, 1998 suggests), then forced savings can improve welfare in the long run. If life expectancy grew or workers increased their demand for early retirement, the Keynesian policymaker might decrease the government retirement age in order to counteract the corresponding increase in private savings. This is a prediction consistent with real world social security policy and one that few (if any) other theories can explain. Unlike many of the efficiency models, redistribution from young to old is efficiency enhancing (because it reduces savings) in the Keynesian analysis.

On the adverse side, this theory encounters problems in explaining the strong retirement incentives generated by social security (which, presumably, tend to increase savings, Feldstein 1974). Nor can discouraging savings explain why so many countries give special treatment to retirement savings or why some social security programs began as funded systems (such as Chile’s original social security program, Germany’s original program, one of the original French programs, the first U.S. social security law passed in 1935 and Sweden’s first system).

2.6 Theoretical Backgrounds of Pension Reform

Willmore (2006) contends that coverage by pension schemes in Africa is low and include 10% or often under 5% of the population thus necessitating pension reform to among other objectives achieve wider coverage. Varying theories of pension reform have been introduced in the literature, but the approach to pension reform could be summarized in four directions: From a pay as you go (PAYG) plan to a funded plan; from defined benefit (DB) to defined contribution (DC); from a

publicly managed pension to privately managed pension; and from a singular scheme to a multi-pillar scheme. First, a transformation from a PAYG plan to a funded plan seems to be considered a prerequisite for pension reforms. Reformists always condemn the PAYG plan as responsible for a dramatic increase of pension expenditures. Under the PAYG plan, retirees collect their pension benefits as promised. The current workers take the responsibility to pay for the pension benefits. As the population is getting older, the current workers have to pay a higher social security tax. Therefore, pension reform advocates have considered PAYG a Gordian knot to be cut off: Get rid of the PAYG, and establish a new financing plan by which retirees can take responsibility for their pension benefits (De Mesa et. al., 2006).

Second, pension reform advocates have criticized the DB plan that always goes along with PAYG. Under the DB plan, no matter how much they have accumulated their social tax in their account, retirees collect their pension benefits as promised. According to pension reformists, pensioners have to collect their pension benefits on the basis of their contribution to their social security accounts, a so-called DB plan. In this context, the DB plan has to be transformed into the DC (De Mesa et. al., 2006).

Third, pension plans have been recognized as publicly managed systems. No matter how they have lived when they were young, workers have been taken care of after retirement. In the Western states, the tradition of pension originated in the tradition of the Beveridge and Bismarck plans (Bonoli, 2005). The former has contributed to establish poverty prevention policies, while the latter has influenced the introduction of social insurance plans. Both are publicly managed plans under which governments have to take final responsibilities for the retirees' pension benefits. These two traditions have been criticized. Why should governments be responsible? People can take care of themselves by accumulating their savings. Employers also can share in the responsibilities. Therefore, a privately managed protection plan for retirees has been introduced in this context (Bonoli, 2005).

Finally, pension plans have been transformed from a singular publicly managed scheme to a multi-pillar scheme. There is an extreme example, e.g., Chile, which replaces the publicly managed pension plan with a privately managed scheme (de Mesa et. al., 2006), but a multi-pillar scheme has been adapted by most countries conducting pension reforms. According to the multi-pillar scheme, a

universal basic pension or a social security pension has to be publicly secured by governments for the minimum livelihood and, in addition, a complementary privately management protection scheme has to be established in order to secure adequate retirement income for retirees. The complementary scheme is categorized into the second pillar and the third pillar. Both pillars work on a privately managed basis, but the second pillar usually is designed as a mandatory scheme while the third pillar is voluntary. The four directions have not always run parallel with one another. The reverse directions sometimes have been shown in the literature. Also, no one direction has been dominant over the other ones. Instead, several directions have been combined and employed as their own arguments by academics and as their reform programs by practitioners. In addition, some countries have adopted parametric reforms while others have systematic reforms (World Bank, 1994).

2.7 Factors that Influence participation in retirement benefit schemes

A number of factors come into play in influencing participation by individuals in retirement benefit schemes. In a study conducted by Guariglia (2000), he identified several factors that contributed to individual participation in retirement benefit schemes in the United Kingdom (UK): Age, educational background, occupation, gender, number of children, marital status, homeownership, individual expectations of future financial position.

According to surveys conducted in America, the Individual Retirement Accounts (IRAs) have tended to attract households that have higher-income, are more educated, and married households. However, even among households with the similar income brackets, education background or marriage status exhibit variation in saving habits. In addition, there are other factors such as pension education, alternative investments, government policies and existence of employer based occupational schemes (Martin and Whitehouse, 2008).

Individual Age

The young cohorts purchase retirement benefit schemes to take advantage of compound interest effect which increases the financial value of contributions. The interest on interest return is highest the longer the savings. On the other hand, purchase of Retirement benefit schemes increases with age. The necessity to keep old age savings for financial security in retirement becomes more vivid as individuals grow old (De Mesa, 2006).

Saving culture

Individuals and households with a higher propensity to save and keep other forms of saving have a higher propensity to make additional voluntary contributions for retirement in Retirement benefit schemes. Such individuals generally start saving at an earlier age enabling them accumulate more assets. Individuals with no pension savings are most likely not to have other forms of savings (Masilela, 2005).

Income levels

Individuals with higher incomes and financial assets besides having the capacity to save place a higher discount factor for the future and would therefore save for retirement. Low income earners have a low capacity to save and low discount factor for the future. They would place higher present value for consumption (Palacios, 2006).

Education Attainment

In general and in particular saving practices rise with educational attainment. The more educated the individual the more appreciative of role of saving for retirement. Education attainment is specific to saving for retirement because the more educated individuals the more appreciative and the more their understanding on importance of keeping savings for retirement (Palmer, 2000).

Pension Education

Education campaign is a communication that seeks to influence behavior. The benefits of saving for retirement as a wise choice, if well articulated, have positive outcomes in retirement savings. A few hours of general pension education increases the tendency to save a lot, although the effects diminish or reverse with time (Palacios, 2006).

Employer Links

Retirement benefit schemes are affordable alternative options for employers to enjoin their employees to the retirement benefit schemes. Employees caught up in such a predicament can then save for their retirement benefits. On the other hand, employers provided pension schemes as incentive to individuals to make voluntary contributions. As a sign of good will, employers double up members contributions by matching employee contributions in occupational schemes.

2.8 Encouraging participation by the Informal Sector in Retirement Benefit Schemes

2.8.1 Flexible terms for Informal Sector Workers

In the year 2009, the Ministry of Labour published the obligations under National Social Security Fund (NSSF) Act Cap 258. The ministry was reminding all employers that it is mandatory under the National Social Security Fund (NSSF) Act Cap 258 for any person or body, be it religious, private or public with one or more employees to register with the Fund within 21 days from the date of becoming an employer. Following the Kenya Gazette Notice No. 159 of 30th October, it became mandatory for all employers including employers of one to four employees to remit contributions to NSSF. The effective date of the contributions was 1st November, 2009 (Republic of Kenya, Ministry of Labour, 2009).

One of the main reasons why informal sector workers do not want to participate in voluntary pension systems (and in some cases even comply with mandatory schemes) is that they find the strict criteria involved too onerous, e.g. in terms of contribution requirements, vesting policies and requirements on governance structure of pension fund itself etc.. In order to encourage participation of this particular group of population, it may therefore be necessary to relax some requirements to a level which is consistent with the situation relating to informal sector workers. Indeed when governments start to address informal sector coverage, many of their reforms feature such increased flexibility (Gleckman, 2001). For example, in China informal sector employees are required to join the mandatory public pension scheme. However, due to lack of incentives and relatively high contribution rates, as well as lax enforcement powers of the labour ministry, very few comply with this requirement. In view of this problem, in many local regions across the country, restrictions have been modified to encourage participation. Specifically, the contribution rates for the system have been reduced from the standard 28% of earnings (20% from employer and 8% from employee) to 20% (of which 8% will be directed to an individual account). Meanwhile, in terms of voluntary private pensions in China, the central government has also been working to encourage the set-up of additional pension schemes among small and medium sized enterprises. In this context, compared to the standard pension arrangements which normally apply to the large state-owned enterprises in China, simplification and flexibility will be the main features of the new pension products (e.g. easier application procedures and faster assessment processes) (Gleckman, 2001).

In Chile and in other developing countries where there is a large agricultural sector, in order to encourage participation of the temporary and/or seasonal workers (most from the agricultural sector), flexible contributions are allowed. In other words, when there is a good harvest, due to good weather conditions and/or advances in fertilization technology, farmers can make larger pension contributions than normal. However, if bad weather conditions prevail (e.g. flooding or pest problems) farmers may not have sufficient funds to meet their basic needs, let alone to put aside extra money for pension contributions (Gleckman, 2001). Even during a period when weather conditions are relatively stable, it is still common in the agricultural sector for farmers to receive income from goods/crops during a specific period of the year (or for agricultural workers to only be employed for a specific season), making their earnings during the year highly volatile. Hence it can make sense to allow for irregular contributions which correspond to the income pattern of such seasonal industries and workers.

In addition to flexibility in terms of contributions, flexibility in terms of withdrawals may be necessary to encourage informal sector workers to participate in pension arrangements. Given in many countries these workers are from vulnerable groups of society, having access to long-term pension savings may be required to cover periods of unemployment, for emergency spending (such as on health care) or for other life essentials, such as housing. Some pension systems do therefore allow for withdrawals in specific circumstances. For example, in Australia early withdrawals from superannuation funds are permitted in limited exceptional circumstances on compassionate grounds or in cases of severe financial hardship. However, this flexibility needs to be balanced with the risk of leakage from the system, with large withdrawals leading to insufficient balances upon retirement (as has been a problem with the provident fund in Singapore and pension funds in South Africa, (Gleckman, 2001).

2.8.2 Providing Monetary Incentives for Participation

Tax relief on pension contributions may be one way to encourage pension participation, particularly for the voluntary schemes. Consequently, when introducing new pension arrangements to increase (voluntary) contributions, tax policy has been frequently used as a tool in many countries (where by pension contributions and investment income are tax exempt whilst pension benefits are taxed as ordinary income). Such a deferred tax policy is designed to encourage pension contributions, given

that even a small deduction from accumulated pension assets (e.g. via tax charges) at the early accumulation stage can make a big difference to eventual pension wealth when compounded over 40 years. When Chile, for example, introduced its pension reform in the early 1980s, it was specified that employees contribute 10% of salary to their individual account, with all contributions and investment income treated as tax free, while benefits were considered as income (Blake, 1999).

Yet it has been debated as to whether tax incentives really provoke new savings rather than shifting existing savings to more efficient arrangements (Antolin and Ponton 2007). Moreover, tax benefits are not always a powerful tool, particularly for those in the informal sector who do not pay tax or are too poor to put aside extra money for long-term savings. Other mechanisms, such as tax credits or matching contributions, may be more appropriate mechanisms for assisting these groups

2.8.3 Financial education

One reason why people may not join a pension scheme (even where available and advantageous for them to do so) is because of a lack of knowledge on pensions in general and the scheme in particular. For example, around 80% the informal sector employees in India surveyed by the Asian Development Bank (ADB 2006) did not know what a pension was. Likewise, even though they meet the criteria, very few informal sector workers join the Public Provident Fund in India. In developed countries, this same problem also exists. For example, in the United Kingdom up to over Great Britain Pounds 6 billion pension credit benefits are not claimed, largely due to lack of knowledge among this group of people (Stewart 2006).

Given such challenges, financial education may be able to play a role in raising public knowledge and awareness, and therefore potentially leading to increased pension coverage – including for the informal sector (Stewart 2006). For example the ADB (2006) estimated that 20 million of 360 million workers in the Indian informal sector are financially able and willing to join the New Pension System (involving individual DC accounts, currently eligible to civil servants but to be made available to the entire population). One of their proposals for successfully bringing these workers into the system is through financial education –i.e. via public awareness campaigns. Similarly in China, projects have been undertaken to provide training for local social security bureau officials to ensure that they know how to effectively explain benefits available to eligible people

(such as rural workers, only 11% of whom claim available pension insurance benefits). Financial education projects have also been conducted in the pension context in several OECD countries with some success. In the UK, a specific campaign was launched in 2006 to help self-employees understand current pension system and arrangements available to them, with the aim of including them into the formal private pension system (Palacios, and Sluchynsky, 2006).

2.9 Current State of Coverage of Pension Schemes in Informal Sector

Social security coverage to the informal sector workers is still very low and a lot of efforts need to be made to educate the informal sector worker on the importance and means of saving for retirement. The informal sector workers need to be encouraged through incentives and education to become members of a relevant scheme. This will enable them to accumulate savings for retirement, hence be able to maintain their standards of living when they retire from active pursuit of daily bread. Retirement Benefits Schemes are institutionalized tax incentive based vehicles through which workers in both formal and informal sector can save part of their income to ensure that they have adequate income after their active working period. There is however no clear policy on retirement benefits mechanism for the informal sector employees; since more emphasis has been given to occupational schemes whose coverage is still low (Palmer, 2000).

Pension reforms in Kenya should generally be a top government agenda to be able to create an enabling environment so as members from the informal sector. Generally, over 85 per cent of the Kenyan workforce is currently not covered by any form of retirement benefits saving vehicle (Odundo, 2008). One area where provision of retirement benefits scheme is notably poor is amongst people working for small and medium size enterprises. These businesses, as per recent statistics, employ more than 60 per cent of the working population in the country. The high proportion of workers in the informal sector and the low coverage of retirement benefits scheme raises the question on whether there are particular barriers to pension schemes participation in this segment of the economy, and if so, what can be done to improve the situation (Economic Survey, 2005).

Making the appropriate choices is widely considered to present substantial demands upon individuals in this sector. Individual schemes are said to be too complex and the information supplied about them is usually opaque and can not be easily understood by workers in the sector. Over and above this, the level of financial literacy is widely accepted to be too low to enable the

informal sector employees to analyze the requisite data, even if these data were presented more transparently. There is plenty of evidence from literature that the informal sector workers are myopic, and have very high discount rates, so that pension saving is given low priority. For all these reasons, individuals in the informal sector, left to choose on their own, are likely to save inadequately or inappropriately, through risky investment products. This has led to proposals for choice to be curtailed, and even for the advocates of limiting choice to suggest that 'libertarian paternalism is not an oxymoron' (Sunstein and Thaler, 2003).

Environmental changes can make people less willing to participate in saving for retirement because of the resultant uncertainties, and more importantly, adverse changes in that environment can have a greater negative impact than, *prima facie*, appears justified. A particular event in the environment can undermine the confidence of a particular group of people, and can have far wider consequences in that it generates a wider lack of confidence. In this respect, its impact is 'contagious'. The term 'contagion' has been used by international financial economists to describe the domino effects resulting from failures in individual economies or sub-systems of these economies. Other economies, or sub-systems of an economy, contiguous with, or perceived as sharing some of the characteristics of the initial economy or sub-system, are treated in the same way as that initial economy or sub-system. Confidence in them falls; investors desert them. This happens whether or not the lack of confidence is deserved, or is deserved in full. The concept of 'contagion' provided the basis for analyzing the South-Asia financial crisis of 1997. Analysis of this and succeeding 'crises' was couched in terms of 'spillover' and 'flight to quality' (IMF, 1999). It was also much used in the period following the collapse of the energy trader Enron, where commentators were concerned with 'fallout' and 'guilt by association' (Gleckman, 2001). Insofar as stock market falls, accounting scandals, provider failures, or perceived shortcomings of regulators or government policy can provoke a loss of confidence in private pension provision, they, too, can have 'contagion effect'.

They can engender skepticism and taint the credibility of such an approach to financing of old age, either because they call into question some of the precepts upon which it is based, or because they reveal weaknesses of key actors or institutions. Linkages are made, whether or not they are entirely applicable, and conclusions are drawn, whether or not they are entirely valid (Odundo, 2008).

2.9.1 The problem of non-coverage of Pension Schemes

A very large proportion of the population in most regions of the world still does not enjoy any social protection or are covered only partially. This is the case for vast majority of people in developing countries Kenya included, and even in some developed countries there are large and growing gaps in social protection coverage (Odundo, 2008).

The problem of low coverage is not new, especially in countries where large numbers of people work in subsistence agriculture. However, in the recent years, prospects of resolving or at least mitigating it has taken a drastic turn for the worse, as an increasing proportion of the urban workforce is working in the informal sector, as a result of structural adjustment programs which resulted in mass retrenchment and redundancies. It should be noted that the informal sector is not really a sector on its own but it is a phenomenon to be found in almost all sectors. Informal sector employment in Kenya accounted for almost three-quarters (75 per cent) of total urban employment in 1996, compared with just 10 per cent in 1972 (ILO, 1999). Several developing countries have expanded wage employment substantially but the informal economy remains very important almost everywhere (ILO, 1999).

In many countries, a higher proportion of women work in the informal economy, to some extent because they can more easily combine work with their other burden of family responsibility, and partly for other related reasons, such as gender discrimination encountered in the formal sector. ILO statistics show that in two thirds of countries for which separate figure were available, informal economy accounts for a higher share of total urban employment for women than the case for men. There is a wide spread tendency for women to be trapped in the informal economy for much of their working lives, whereas for men – in the industrialized countries at any rate – it is less likely to be permanent. For long term security such as old age, this difference has important implications, as women tend to live longer than men (ILO, 2002).

Informal sector workers have little or no security of employment or income. Their earnings tend to be very low and fluctuate more than that of other workers. A brief period of incapacity can leave the workers without enough income to live on. The sickness of a family member can also result in additional costs that can easily destroy the delicate balance of the household budget. The working

conditions are often intrinsically hazardous and more so, the fact that it takes place in unregulated environment (ILO, 1999).

Women face traditional disadvantage due to discrimination related to their reproductive role, such as dismissal when they are pregnant, or upon marriage. Women in the informal economy do not benefit from safeguards and benefits related to child rearing that in principle apply to women in the formal wage employment such as paid maternity leave and assistance towards child care. It is now widely recognized that there is need to find effective ways to greatly extend social security coverage. The recent past has witnessed stagnation in the proportion of total labour force covered by social security programmes. Given the current economic trends, failure to take early action is very likely to lead to a reduction in coverage (Holzmann and Stiglitz, 2001).

2.10 Policies to achieve the extension of coverage

Outside the industrialized world, policy-makers have found few remedies for the lack of social protection. This may be mainly because of the fact that the existing social protection policies are inappropriate for the local conditions. It may also be because insufficient efforts have been put to implement the existing policies. In addition, it may be because the lack of social protection is related to economic, social and political problems. It should also be noted that policy makers define the problem of poor social security coverage too narrowly; their chances of finding feasible solutions may be greatly reduced. It is necessary therefore, to give full consideration to the wider context in which social security systems to operate. It is also worthy considering some new policies aimed at increasing coverage (Holzmann and Stiglitz, 2001).

2.10.1 Use of inducement or compulsion

The question that arises in very many peoples' mind about this is that "Why the governments should be concerned whether people save enough for their retirement?" In a society that emphasizes personal responsibility, the decision on how to allocate one's income over time should be personal and not subject to compulsion or influence by a third party. Out of compassion, a society could provide social assistance to those who reach old age with inadequate financial means for subsistence and survival (Holzmann and Stiglitz, 2001). But why should governments wish to encourage saving

for retirement: that could provide higher levels of income in old age than those obtainable from social assistance?

The answer is that such policies have been popular with the public mainly because of three reasons. First, they protect society from those who fail to save in the expectation that they will be catered for by the society when they reach old age. This might be called a "weak moral hazard" since society's willingness to take care of the old homeless and destitute cannot be taken for granted. In fact, the growing number of poorly catered homeless people in most high income countries, not to mention the large numbers of beggars in poor countries like Kenya, should cast considerable doubt on the relevance of this argument. Secondly, they protect a substantial minority of workers, perhaps even a majority, from their own shortsightedness. And, thirdly, they protect the non-myopic workers from footing the bill for the myopic ones. Whether people (or at least a substantial proportion) are "myopic" in their saving behavior should be empirically verifiable, but in fact there are no hard data to support or reject such assertions. In the absence of hard facts, one falls back on intuition and inference from observed behavior. Young people are more "myopic" than the old. Biologically, infants clamor for instant gratification and the young are impulsive, while the very old contemplate death and the afterlife. Thus, intuition suggests that the young have a higher discount rate than the old (James, 1998).

Poor people in the informal sector also tend to have a high discount rate. Forcing these people to save raises some important policy, even ethical, issues. How fair is it to compel poor people to defer their already low level of consumption for their future retirement needs? At an extreme level of abstraction, depriving poor people of the ability to meet their basic needs may cause more problems, thus negating any concern about their possible future destitution. But even at a less extreme level of abstraction, poor people and even middle income people in both formal and informal employment have other more pressing needs for housing, education and healthcare than their future retirement needs. Thus, compulsory participation in saving for retirement needs to be properly calibrated (Willmore, 2006).

Libertarian economists who favor freedom of choice argue that high discounters should be allowed to save less and suffer the consequences of their choices when they reach old age. The problem with this point of view is that the discount rate changes with age. Many people regret later in life their

failure to save more when they were younger. Many people also like the discipline that is entailed in non-discretionary long-term contractual savings plans. This is perhaps why both social security and occupational pensions have enjoyed a high degree of popularity as long as their promises have been credible and generous. The growing dissatisfaction with social security around the world stems from the fear that the value of benefits will not be sustained. In many developing countries, the existence of widespread evasion undermines the argument that social security is popular. However, widespread evasion may not be the result of unpopularity but rather of faulty design and poor administration. Experience from other countries like the USA, UK and the Netherlands suggest that a well-designed, efficiently administered and credible social security system continue to be popular (Sunstein and Thaler, 2003).

Similarly, growing concern about occupational pensions derives from the realization that they depend on the integrity and solvency of large employers. These can no longer be taken for granted as employers change pension plans in response to their particular circumstances. These problems suggest the need to change the form and modalities of retirement saving, not to do away with compulsion. Compulsory provision for retirement can be justified by reference to the myopic behavior of a substantial minority of people and the need to protect both these people and the public at large from their shortsightedness. To what extent can the compulsion be? In most countries, participation in a social pension system involving some redistribution is compulsory but participation in private pension plans is voluntary (Willmore, 2006).

Clearly, ensuring a minimum pension level offers greater justification for compulsory provision than ensuring a pension level that implies maintenance of a pre-retirement standard of living and a high replacement rate of pre-retirement earnings. But as the real value of social security pension's declines, the case for compulsory participation in private pension plans that promise a modest but satisfactory overall replacement rate becomes stronger. If the principle of compulsory provision is accepted then tax incentives also are desirable. Tax incentives may provide a powerful inducement to promote compliance and thus encourage long-term saving for retirement purposes. Whatever the objectives and modalities of saving, a combination of compulsion and inducement is likely to be powerful than either one in isolation (Willmore, 2006).

2.11 Rate of contribution

The question that arises in this context is “which is the right/better contribution rate?” The answer to this question depends on what is considered as an appropriate targeted pension level and on whether there exist a separate redistributive public pillar. Experience from Latin America suggests that a contribution rate for long-term capital accumulation of less than 5 percent would not be adequate. In Chile the total contribution rate used to be around 13 percent –10 percent for long-term capital accumulation plus around 3 percent for operating fees and insurance premiums. In recent years, the latter started to fall, reaching 2.1 percent in 2000 (Hu and Stewart, 2009).

In Argentina, the contribution rate for the second pillar amounts to 11 percent (7.5 percent for long-term capital accumulation plus 3.5 percent for operating fees and insurance premiums). In Mexico, the minimum contribution rate is 6.5 percent to the individual retirement account plus another 5 percent that is credited to an account operated by a housing finance institution. The government adds a flat contribution that corresponds to around 2.5 percent of the average wage. Operating fees are deducted from these contributions, but disability and term life insurance (which covers survivor benefits) is operated by the traditional social security institution, and involves a premium of 2.5 percent (Martin and Whitehouse, 2008).

In Hungary, the contribution rate to the compulsory funded pillar was initially set at 6 percent, with provision for its increase in two annual steps to 8 percent. However, the government that took office in 1999 has indefinitely postponed implementation of this provision and has frozen the contribution rate to 6 percent. In Switzerland there is no minimum required contribution rate. Swiss law only requires that employer contributions are at least equal to those of employees. In practice, employers cover two-thirds of annual contributions. The minimum legal requirement is for credits to be made to individual accounts based on a worker's age combined with a minimum return of 4 per cent per year. Plans that achieve high investment returns may operate with zero contribution rates (Martin and Whitehouse, 2008).

In general, a rate of 10 percent for long-term capital accumulation would be adequate for a reasonable replacement rate of between 40 and 50 percent if investment returns exceed wage growth rates by 2 to 3 percentage points and if active working life is at least twice as long as passive retirement life (the latter calculated to include the life expectancy and benefits of dependent

survivors (Vittas, 1993). A lower replacement rate would be achieved if the gap between investment returns and wage growth is smaller or if careers are interrupted. Under these conditions, a 10 percent contribution rate would still be adequate if the targeted replacement rate from the funded pillar amounts to 35 percent and this is supplemented by a pension of similar magnitude from the unfunded public pillar.

2.12 Benefits on retirement

Benefits can take several different forms: lump sum on retirement, lifetime pensions, pensions for surviving dependents, and pensions for disability. Historically, there was a clear distinction between provident funds that paid benefits in lump-sum form and pension funds that offered life annuities. Over time, however, the distinction became blurred. Most pension funds now allow commutation into a lump-sum payment of up to one-third of the present value of accumulated balances, while provident funds require the purchase of an annuity or the lump sum. Singapore introduced a minimum-sum annuity requirement in 1988. Pension systems that are based on personal pension plans require either the purchase of life annuities or the use of scheduled withdrawals (also known as income draw downs in the United Kingdom or allocated annuities in Australia) (Blake, 1999).

Scheduled withdrawals, which were an innovation of the Chilean pension reform of 1981, are recalculated annually, taking account of investment returns and the remaining life expectancy of pensioners (and their dependents), but they do not provide longevity insurance. In Chile, and other countries following its lead, lump-sum withdrawals are allowed if the annuity payment exceeds a certain replacement rate (usually 70 percent of reference salary). In designing pension systems a differentiation of compulsory accumulation from compulsory annuitization is advisable. This is because private annuity markets suffer from structural problems and are not well developed even in the most advanced countries. To a large extent, the underdevelopment of annuity markets is due to the crowding out effect of social security and occupational pensions that predominate in advanced countries. Pending the development of more efficient annuity markets, it would be preferable to limit compulsory annuitization to a level of around 35 percent of average earnings and subject any excess balances to scheduled withdrawals, but with flexible arrangements for major health and other emergencies (Blake *et al.*, 2000; James and Vittas, 2000). The development of variable annuities with floors and caps as well as the use of more transparent participating annuities could address

some of the problems facing annuity markets. The 35 percent target should apply to the combined pension from the unfunded public pillar and the private funded one. Thus, workers should be encouraged to accumulate enough retirement savings to support a replacement rate of around 70 percent of pre-retirement income, but only half of that should be required to be annuitized.

According to Blake *et al.* (2000), in addition to benefits for retired workers, pension systems need also to provide disability insurance to cover active workers and their dependents from the effects of serious accident and term life insurance to protect the dependents of active workers in case of death. In Latin American countries, these insurance policies are organized on a group basis, a feature that lowers costs and could also be used in annuity business. Other benefits for active workers could include provisions allowing pre-retirement withdrawals for housing, education, health care and various emergencies like funerals and sickness.

Many countries allow use of pension or provident fund balances for such purposes. Too liberal use for non-retirement purposes runs the risk of depleting accumulated balances and leaving too little capital for retirement. Alternatively, it may cause the mandated contribution rate to be too high as is notably the case in Singapore. On the other hand, a blanket prohibition of early withdrawals for housing, education and healthcare would unfairly penalize low and middle- income workers and would weaken support for participation in retirement saving plans (Blake, 1999).

A compromise solution would be to permit a certain amount of withdrawals but subject to some sensible aggregate limit. In addition, repayment of early withdrawals or replenishment of account balances could also be required. A sensible aggregate limit could allow withdrawals equal to 100 percent of accumulated balances or 30 percent of projected balances at normal retirement age, whichever is lower". In this way, young workers would be bound by the first limit, while older workers would be bound by the second limit (Blake, 1999).

2.13 Regulation and supervision

According to Odundo (2008), a government that imposes a mandatory retirement saving system has an obligation to ensure that it is safe, works well, is simple and easy to understand, and will deliver the promised benefits. This obligation is clearly stronger in developing countries where millions of affected workers may lack familiarity with the workings of modern financial markets. The main

focus of regulation should be on prudential and protective norms and fiduciary standards. First and foremost are licensing rules that should ensure that only persons satisfying a stringent "fit and proper" test are allowed to act as sponsors, founders, directors, trustees or senior executives of pension funds. Other rules should require a specified minimum capital, asset diversification and market valuation, external financial audits and actuarial reviews, and extensive information disclosure and transparency (Odundo, 2008).

Of particular importance are rules on adequate fund governance, well-developed internal control systems, legal separation of the assets of the pension fund from those of the Management Company, and proper custodial arrangements. All these prudential and protective rules are necessary to ensure the financial soundness of pension funds, prevent fraud, self-dealing and other potential conflict-of-interest situations, and safeguard the interests of workers. The above regulations are non-controversial, but are difficult to achieve. Ensuring an efficient and adequate supply of auditors, actuaries and custodians, not to mention experienced examiners and supervisors, is a tall order for most developing countries. In Chile, effective external custody of pension fund assets was secured by requiring all assets to be held with the central bank for safe keeping during the first ten years of the new system. Private custodians were allowed in the 1990s. The development of automated central securities depositories in many countries around the world has simplified the requirement for safe external custody (Palacios and Sluchynsky, 2006).

Other rules that have been practiced in Latin American countries are more controversial. The "one account per worker", "one fund per company", and "uniform pricing" rules have aimed at ensuring simplicity and transparency and thus providing protection to workers, but their usefulness is open to question. They could be justified in systems that offer constrained choice, although they should probably need to be supplemented with regulations and limits on operating fees, agent commissions, and account switching. They would be out of place in systems that emphasize personal choice. In such systems, they would need to be relaxed in the longer run in order to offer more effective choice to workers. To enforce compliance with the whole panoply of prudential and protective regulations requires the creation of an effective, well-funded, properly staffed and proactive supervision agency. Latin American countries, and to a lesser extent the reforming countries of Eastern Europe, have been more successful than most Organization of Economic Cooperation for Development (OECD)

countries in developing effective supervision of private pension funds. Following modern practice, supervisors should enlist the support and cooperation of auditors, actuaries and custodians. In several high-income countries, pension fund supervision lacks adequate and reasonably up-to-date information and is slow to take corrective action. Given the very long-term nature of pension contracts, it is imperative to develop a system of supervision that is proactive and effective, stimulates transparency, and ensures compliance with basic prudential and protective rules (van Dullemen, 2007).

2.14 Empirical review

Recently governments in a number of OECD countries have been considering introducing so called auto enrolment mechanisms into pension systems for employees, including informal sector workers. Notable examples are the recent reforms in Italy, the United Kingdom (UK) and New Zealand. The reasoning behind these initiatives is the same as for compulsory participation - i.e. when faced with difficult choices (such as those around pension provisioning) people tend to make no decision. Semi-compulsion or soft compulsion plays on this behavior by, rather than making individuals actively choose to join a pension scheme, automatically enrolling them and giving them the option to opt out – thereby using people’s natural inactivity to deliver higher membership levels (Department for Work and Pensions-DWP, 2006). The main reason why semi-compulsion is preferred to a pure mandatory approach is that individuals are offered more free choice (as there will always be a group of the population – whether in the formal or the informal sector - who would prefer to plan their own retirement, rather than being forced to join a scheme which might not be best choice for them) (Department for Work and Pensions-DWP, 2006).

Although the UK has a relatively mature pension system and developed pension market, employees in the informal sector are not well covered by private pension arrangements, which provide significant supplementary pensions on top of the relatively limited public pension provisions provided by the state. It is estimated that a population of around 7 million people are under saving in the UK, most being low income earners and those in the informal sector. In addition, roughly 2 million of around 3 million self employees are not saving via private pension arrangements. Hence the UK government recently decided to introduce a personal saving plan, to be known as the National Pension Saving Scheme (NPSS), from 2012. According to Department of Work and

Pensions (2006), all employees in the UK who earn more than Great Britain Pounds 5,000 annually will be required to automatically enroll into the NPSS (with employees allowed to opt out if they participate in other qualified pension schemes, e.g. stakeholder schemes). The minimum contribution for employees is 4% of earnings up to a maximum contribution of Great Britain Pounds 5,000. The employee contribution will be matched by a minimum 3% employer contribution of which 1% is in the form of tax rebate from the government (DWP 2006).

The investment function is expected to be outsourced to external professional asset managers. The main advantage of having a centralized agency is cost efficiency (with evidence from various countries showing that competition of such functions does not always successfully reduce prices). It is expected that up to 10 million new contributors will join the NPSS and the annual new contributions to pensions will be around Great Britain Pounds 4 or 5 billion. Over the long term, it is estimated that the NPSS could accumulate up to Great Britain Pounds 150 billion (Department for Work and Pensions, 2006). Three reasons could explain why employees in the informal sector may be interested in this initiative. First, it is automatic enrolment, therefore mitigating some reluctance to participate. Second, the matching contributions from the employer and government should be attractive to informal sector workers, therefore encouraging them to stay within the scheme rather than opting out. Third, given that a central and single clearing house will be established, the cost should be lower than otherwise, which should encourage participation amongst lower income workers (Hu, 2008).

Locally, Mutua (2003) did a survey of the extent of compliance with the Retirement Benefit Act by retirement benefit schemes in Kenya. He found that Kenya's pension system is fragmented and covers only 15% of the labor force. The enactment of the Retirement Benefits Act in 1997 has not in any significant way impacted on the widening coverage of the pension system. The problem of low coverage is attributable to lack of an effective policy aimed at widening of coverage and the current legal framework which was designed to target participation of formal workers.

Wanjiku (2004) studied the effect of the RBA Act (no. 3 of 1997) on the management of insured retirement benefit schemes in Kenya. She found out that the Retirement Benefits Act establishes the Retirement Benefits Authority which is a regulatory and supervisory body charged with the responsibility of regulation, supervision and promotion of retirement benefits schemes, the

development of the retirement benefits sector and for connected purposes. However, the Authority does not constitute a retirement benefits scheme, does not receive contributions from members, does not pay benefits to scheme members, does not hold scheme funds, does not direct schemes where to invest their money but only gives broad guidelines as to how scheme funds are to be invested and does not pay any money to the Government. Thus, apart from playing its regulatory and supervisory role, the Authority does not play any substantive role of its own in promoting the right to social security. In the course of its duties, there are operational challenges to the growth of the social security sector in Kenya. These include under-funding of social security schemes especially in the public sector, poor investment of scheme funds leading to poor returns for members, misappropriation of scheme funds due to member's lack of adequate awareness, poor administration and record keeping leading to long delays in payment of benefits to members, excessive interference by sponsors in scheme affairs, denial of benefits to certain staff members on spurious grounds among others.

2.15 Conclusion

From the literature reviewed, a large proportion of the population in most regions of the world still does not enjoy any social protection. Concerted efforts such as tax relief on pension contributions, flexibility in terms of contributions have been put in place to enhance pension coverage. Despite these efforts, social security coverage to the informal sector workers and the self employed is still very low. Informal economy workers are not covered by social security for a variety of reasons. One is the extreme difficulty of collecting contributions from them and, as the case may be, from their employers. Another major problem is that many of these workers are unable to contribute a percentage of their incomes to financing social security benefits and unwilling to do so when these benefits do not meet their immediate or priority needs. They feel less need for pensions, for example, as for many of them old age appears very remote and the idea of retirement unreal. Unfamiliarity with social security schemes and distrust of the way the schemes have been managed in the past compound to their reluctance to contribute to a retirement benefits scheme. This study therefore came in to find out the extent of coverage of pension schemes and the factors influencing this coverage.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design that was employed in the study, the population and sampling, data collection procedure and analysis.

3.2 Research Design

This study used a descriptive survey design. According to Schindler and Coopers (2004), descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions. It serves a variety of research objectives such as descriptions of phenomenon or characteristics associated with a subject population, estimates of proportions of a population that have these characteristics and discovery of associations among different variables. According to Donald and Pamela (1998), a descriptive survey is concerned with finding out the what, where and how of a phenomenon. Descriptive survey design was found appropriate for this study for two reasons; the population that the study targeted can be studied best using descriptive survey. The other reason was the nature of the information being sought is set to answer the what, where and how of pension coverage of informal sector workers in Nairobi country.

3.3 Population

The setting of this study was in the in Nairobi County where informal sector workers and the self employed could be obtained in a concentrated area. The sample population was composed of informal sector workers who were not generally taxed and commonly included those that traded in goods and services such as second hand clothes dealers, small shops and kiosks, Jua Kali Artisans, hawkers, small producers and providers of domestic and industrial goods and services. Data on the population was obtained from the Nairobi City Council permits (licensing section) which showed that there more than 350,000 licensed small scale businesses in Nairobi country that employ informal sector workers or are run by self employed individuals.

3.4 Sampling and sample size

This study used stratified sampling method to pick small scale traders from each of the five categories namely second hand clothes dealers, small shops and Kiosks, Jua Kali Artisans, hawkers,

small producers and providers of domestic and industrial goods and services. Twenty (20) respondents were picked from each category. A list of businesses in Nairobi city was obtained from the City Council of Nairobi permits/ licensing section so that the researcher could select the locations to obtain the sample based on concentration of the five categories of traders that this study was interested in. The sample for this study was 100 informal sector workers or self employed persons. With more than 350,000 licensed small scale businesses in Nairobi County, the researcher could not do a census survey and therefore had to sample. The recommended sample population is 10% of the total population (Mugenda & Mugenda, 2003). That would have translated into 3500 respondents for the study. But that sample size was found to be too large for this study and a sample size of 100 was found ideal and stratified random sampling was employed to arrive at a more representative sample given varied characteristics of the population.

3.5 Data collection

This study used primary data. Primary data was collected using questionnaires and interviews with the selected informal sector workers. The questionnaires were structured to collect quantitative data while qualitative data was obtained from interviews. Five interviews were conducted in every category where interviewees were picked purposively based on their being in a position to provide information that this study sought.

3.6 Data Analysis

The data collected was checked for completeness and coded ready for analysis. The data was analyzed using descriptive statistics such as mean scores, percentages and frequencies. A computer package Statistical Package for Social Sciences package (SPSS version 17) was used to aid in analysis. The findings of the quantitative data were presented in tables and figures. Content analysis was done to process qualitative data and results were presented in prose.

3.7 Data Validity and Reliability

According to Mugenda and Mugenda (2003), the accuracy of data to be collected largely depends on the data collection instruments in terms of validity and reliability. Validity as noted by Robinson (2002) is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. Validity will be ensured by having objective questions included in the

questionnaire. Pre-testing of the instrument will be done to identify and change any ambiguous, awkward, or offensive questions and techniques. Reliability on the other hand refers to a measure of the degree to which research instruments yield consistent results (Mugenda & Mugenda, 2003). In this study, reliability will be ensured by pre-testing the questionnaire with a selected sample from each of the five categories of the population.

CHAPTER FOUR:

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The objectives of the study were; to establish the extent of coverage by retirement benefit schemes of informal sector workers in Nairobi County and to investigate the factors that determine coverage by retirement benefit schemes of informal sector workers in Nairobi County.

The Response Rate

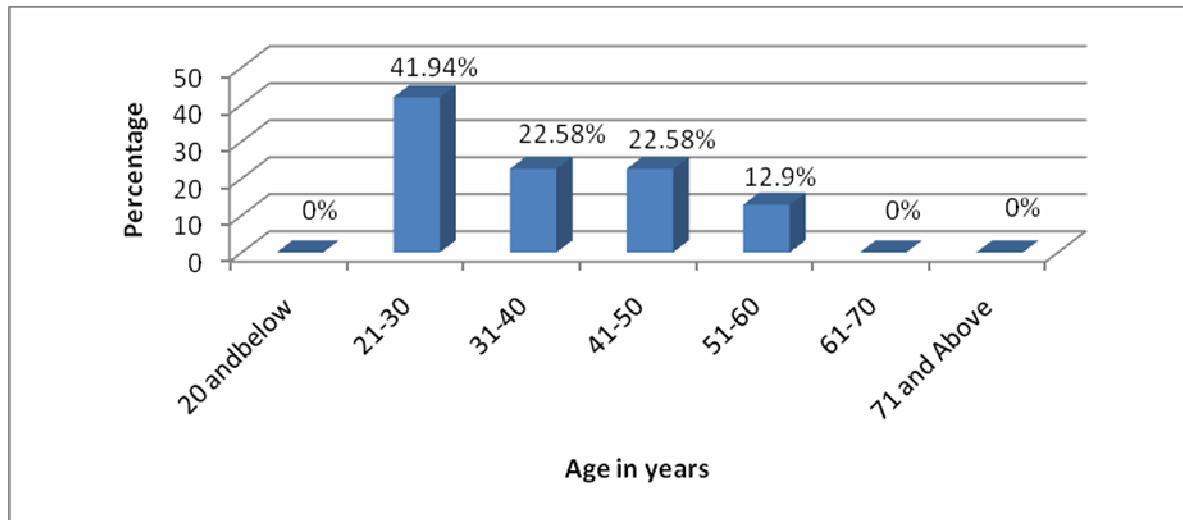
The researcher targeted a sample of 100 respondents from five different categories which were; second hand clothes dealers, small shops and kiosks owners, jua kali artisans, hawkers, small producers and providers of domestic and industrial goods and services, out of which 62 responses were obtained. This represented a 62% response rate. According to Babbie (2002) any response of 50% and above is adequate for analysis thus 62% is even better.

4.2 General Information

Age of the Respondents

The researcher sought to know the age brackets of the respondents. The findings are presented in Figure 4.1

Figure 4. 1: Age of the Respondents



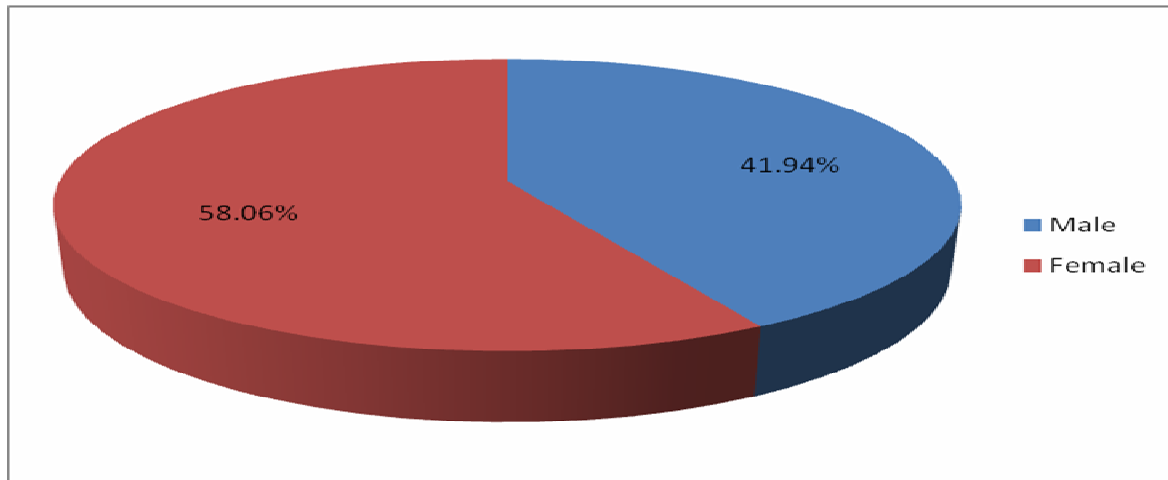
Source; Research findings

Figure 4.1 above shows the age brackets of the respondents. None of the respondents were 20 years and below. Also there was no respondent aged above 61 years. 41.94% of the respondents were between 21 and 30 years. 22.58% of the respondents were aged between 31 and 40 years and 41 and 50 years. 12.9% of the respondents were aged between 51 and 60 years. From the study the researcher found that majority of the respondents were aged between 21 and 30 years.

Gender of the respondents

The researcher also wanted to know the gender of the respondents. The findings from the study are as shown in figure 4.2

Figure 4. 2: Gender of respondents



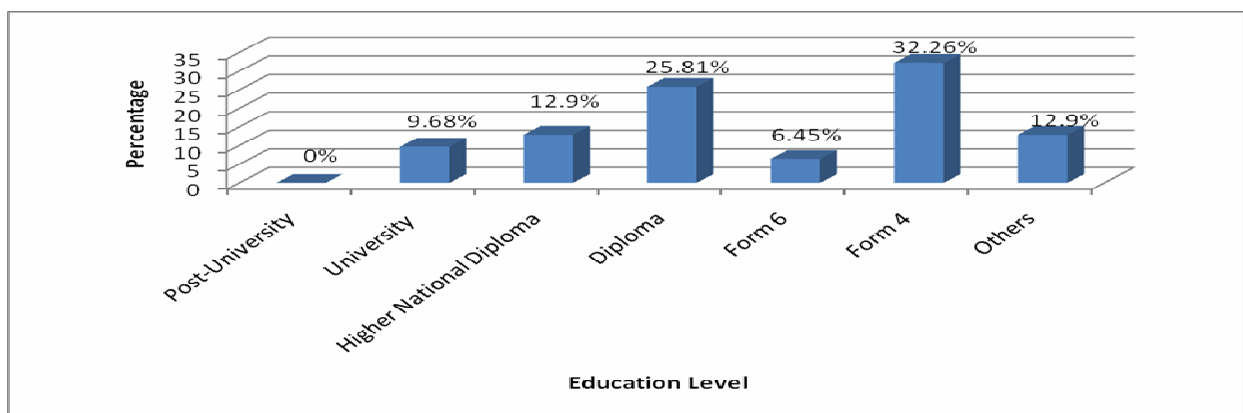
Source; Research findings

Figure 4.2 shows the gender of the respondents. 58.06% of the respondents were female while 41.94% of the respondents were male. From the findings majority of the respondents were female.

Level of Education of the respondents

The researcher was also interested with the level of education of the respondents. Figure 4.3 shows the findings from the study.

Figure 4. 3: Education level of respondents



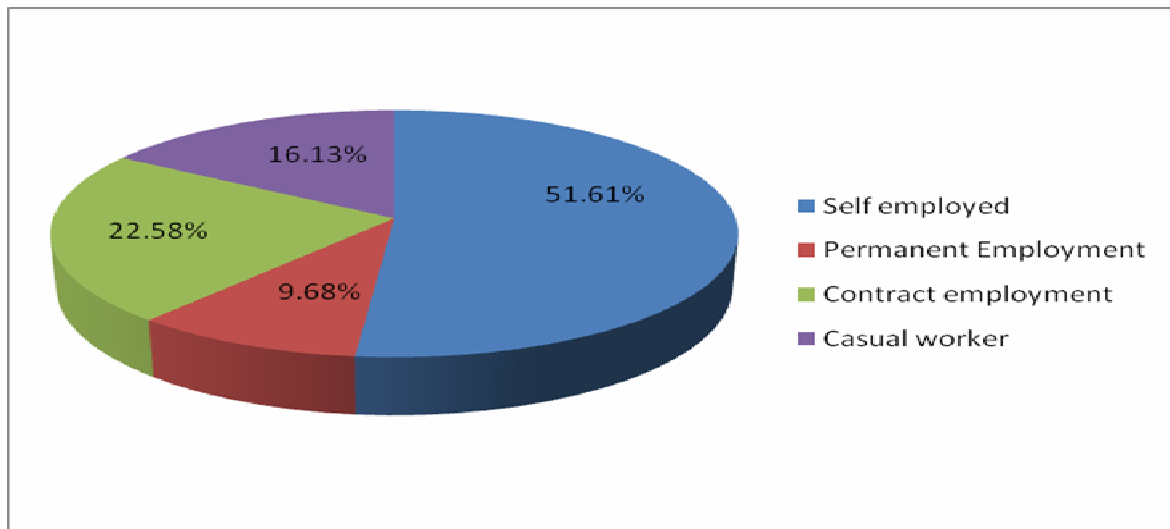
Source: Research findings

Figure 4.3 shows the education level of the respondents. From the findings, 9.68% of the respondents had a University education. 12.9% of the respondents had a higher national diploma level while 25.81% of the respondents had a diploma. 6.45% of the respondents had attained a Form 6 level of education while 32.26% of the respondents had up to form 4 level of education. 12.9% of the respondents had other levels of education. From the study the researcher found that most of the respondents had a form 4 level of education.

Forms of employment

The researcher also sought to know how the respondents earned their living. The findings from the research are shown in Figure 4.4

Figure 4. 4: Employment status of respondents



Source; Research findings

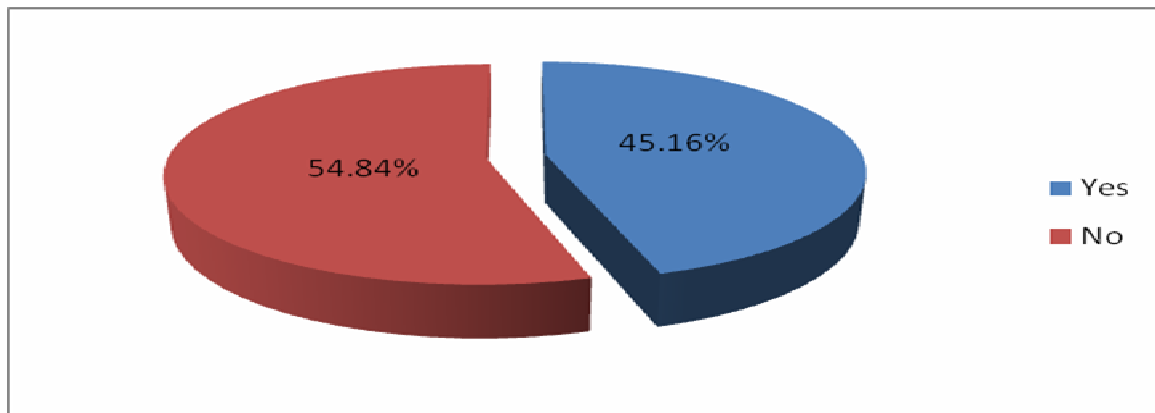
Figure 4.4 shows the forms of employment of the respondents. 51.61% of the respondents were self-employed. 16.13% of the respondents were casual workers. 22.58% of the respondents were employed on contract while 9.68% of the respondents were employed on permanent basis. From the study the researcher deduced that majority of the respondents were self employed.

4.3 Coverage by retirement benefit schemes of informal sector workers

Membership of Retirement benefit/pension scheme.

The respondent was also interested to know whether the respondents were members of the retirement benefit/pension scheme. The findings from the study are shown in Figure 4.5

Figure 4. 5: Membership of Retirement benefit/pension scheme



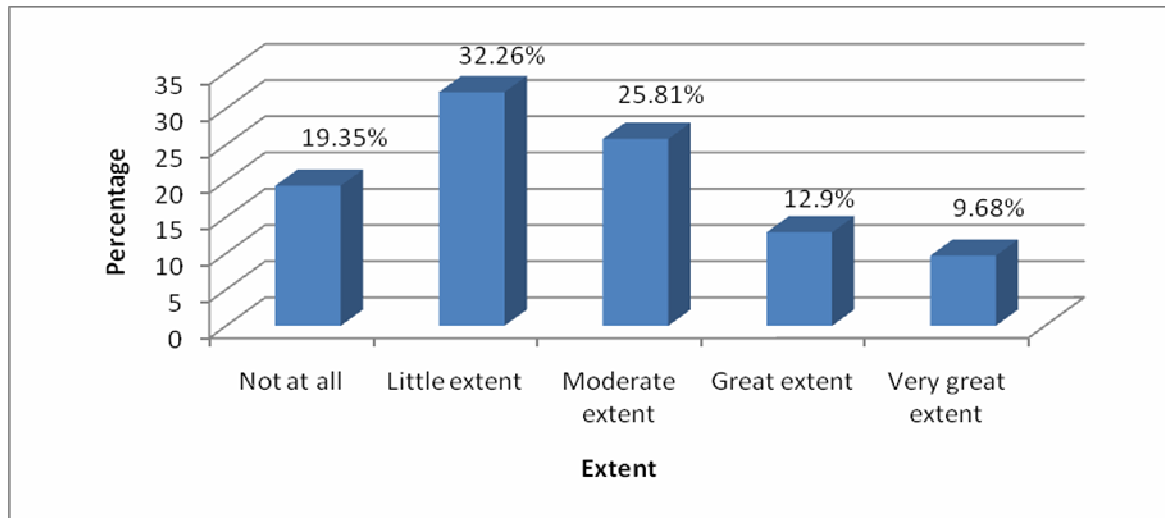
Source; Research findings

Figure 4.5 shows the membership of the respondents in retirement benefit/pension scheme. 54.84% of the respondents were not members of the retirement benefit/pension scheme whereas 45.16% of the respondents were members of retirement benefit/pension scheme. The researcher deduced from the study that most of the respondents were not members of the retirement benefit/pension scheme.

Importance of the retirement benefit/pension scheme

The question on the importance of the retirement benefit/pension scheme was also of interest. The researcher thus wanted to know the extent to which the respondents thought the retirement benefit/pension scheme was important. The findings from the research are show in figure 4.6

Figure 4. 6: Importance of the retirement benefit/pension scheme



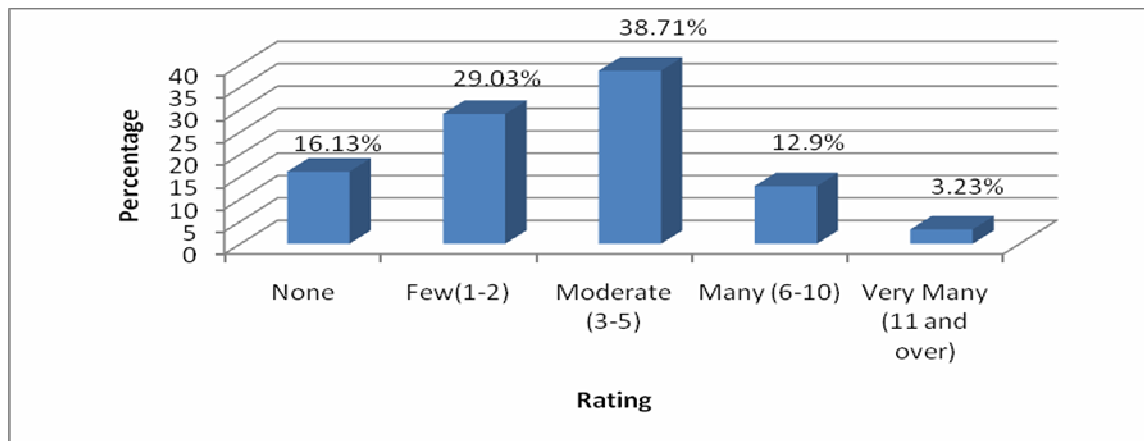
Source; Research findings

Figure 4.6 shows the extent to which the respondents thought that the retirement benefit/pension scheme was important. 19.35% of the respondents indicated that the retirement benefit/pension scheme was not important at all. 32.26% of the respondents indicated that the retirement benefit/pension scheme was important to a little extent. 25.81% of the respondents said that the retirement benefit/pension scheme was important to a moderate extent. 12.9% of the respondents felt that the retirement benefit/pension scheme was important to a great extent while 9.68% of the respondents thought that the retirement benefit/pension scheme was important to a very great extent. The researcher found that most of the respondents thought that the retirement benefit/pension scheme was important to a little extent.

Rating members of the retirement benefit/pension scheme

The researcher sought to know how the respondents would rate those who were members of the retirement benefit/pension scheme that they associated with. The findings are shown in figure 4.7.

Figure 4. 7: Rating members of the retirement benefit/pension scheme



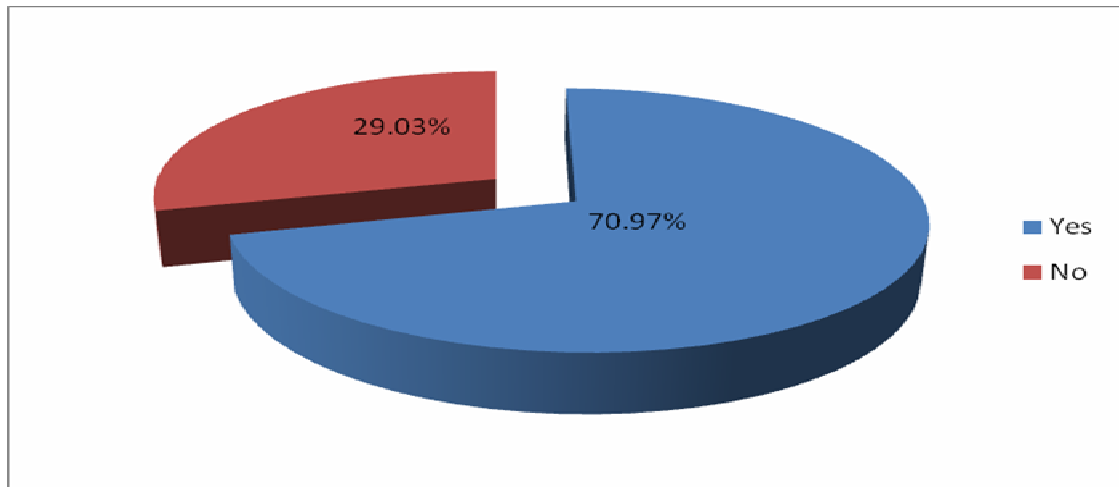
Source; Research findings

Figure 4.7 shows how the respondents rated members of the retirement benefit/pension scheme. 16.13% of the respondents did not associate with any member of the retirement benefit/pension scheme. 29.03% of the respondents rated those they associated with as members of the retirement benefit/pension scheme as few (1-2). 38.71% of the respondents rated those they associated with as members of the retirement benefit/pension scheme as moderate (3-5). 12.9% of the respondents rated those they associated with as members of the retirement benefit/pension scheme as many (6-10). 3.23% of the respondents rated those they associated with as members of the retirement benefit/pension scheme as very many (11 and over). The researcher found that members of the retirement benefit/pension scheme were rated as moderate (3-5)

Recommendation of the retirement benefit/pension scheme

The researcher sought to know if the respondents would recommend their retirement benefit schemes to someone else. The findings of the study are shown in figure 4.8

Figure 4. 8: Recommendation of the retirement benefit/pension scheme



Source; Research findings

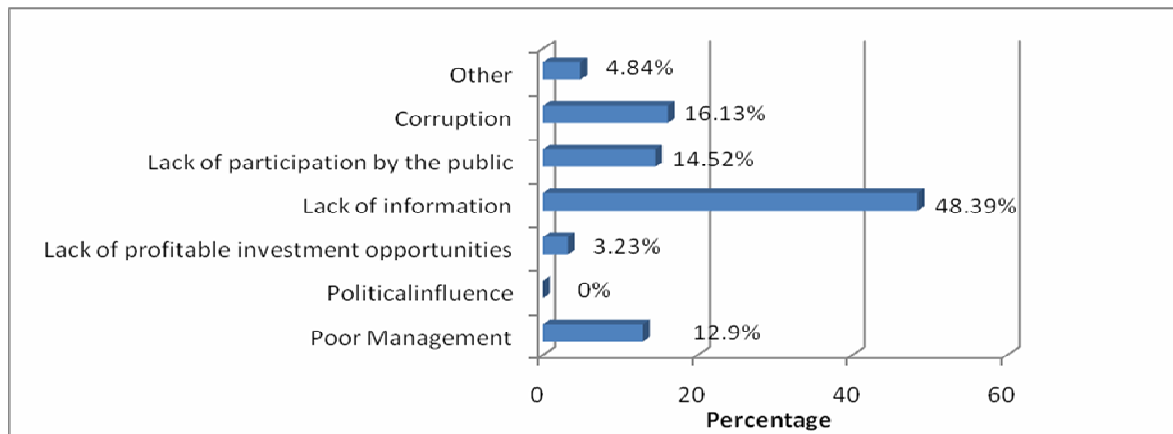
Figure 4.8 shows how the respondents would recommend their retirement benefit schemes to someone else. 29.03% of the respondents said they would not recommend their retirement schemes to someone else. 70.97% agreed that they would recommend their retirement benefit schemes to someone else. The researcher deduced from the research that most of the respondents would recommend their retirement schemes to someone else.

4.4 Factors that determine coverage by retirement benefit schemes of informal sector workers

Challenges associated with retirement benefit schemes

The researcher sought to know the main challenges associated with retirement benefit schemes. The findings from the study are shown in figure 4.9

Figur 4. 9: Challenges associated with retirement benefit schemes



Source; Research findings

Figure 4.9 shows the main challenges associated with retirement benefit schemes. 12.90% of the respondents said that the main challenge associated with retirement benefit schemes was poor management. 3.23% of the respondents indicated that the main challenge was lack of profitable investment opportunities while 48.39% of the respondents said that the main challenge was lack of information. 14.52% of the respondents indicated that lack of participation by the public was the main challenge associated with retirement benefit schemes. 16.13% of the respondents said that corruption was the main challenge associated with retirement benefit schemes. 4.84% of the respondents indicated other challenges that faced the retirement benefit schemes; for instance the long process of follow up. However, None of the respondents said that political influence was a challenge associated with retirement benefit schemes. From the study the researcher deduced that lack of information was the main challenge associated with retirement benefit schemes.

Factors influencing retirement benefit schemes.

The researcher wanted to know how the respondents would rate the following factors that influence retirement benefit schemes. membership, these factors are; lack of financial education among the public, government policy, individual perception on retirement benefit schemes and pension reform initiatives. The findings from the study are shown in table 4.1

Table 4. 1: Factors influencing retirement benefit scheme membership

	1	2	3	4	5	Mean	Standard Deviation
Lack of financial education among the public	6.5	6.5	22.6	32.3	32.3	3.77	1.168
Government policy	3.2	12.9	19.4	38.7	25.8	3.71	1.092
Individual perception on retirement benefit schemes	6.5	3.2	41.9	32.3	16.1	3.48	1.020
Pension reform initiatives	0	3.2	25.8	41.9	29.0	3.97	0.829

Source; Research findings

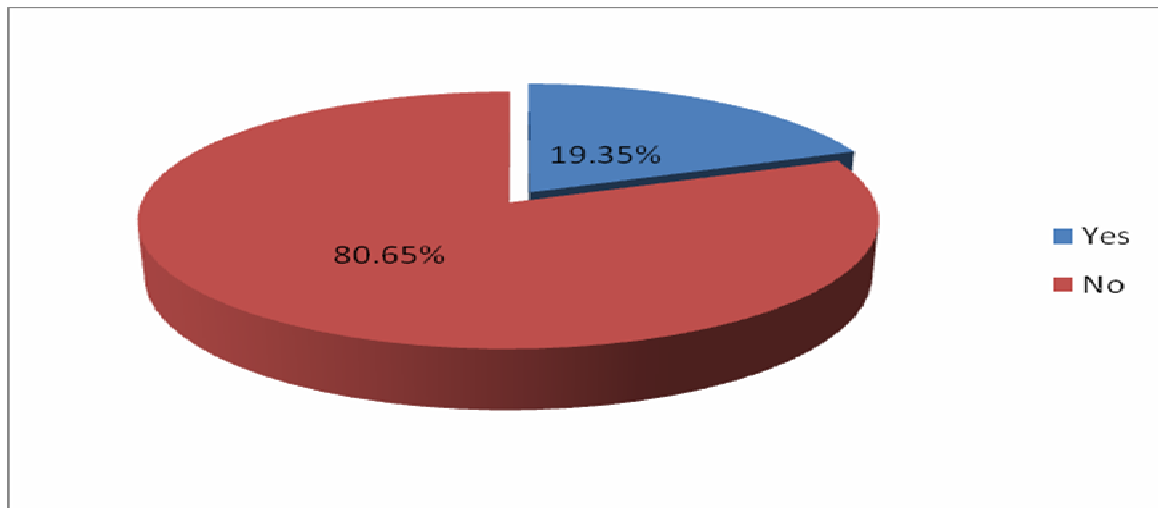
Table 4.1 shows the findings on the rating of the various factors that influence retirement benefit/pension schemes membership by the respondents. A five point Likert scale was used to interpret the respondent's responses. According to the scale, those factors which were least significant were awarded 1 while those which were most significant were awarded 5. Within the continuum are 2 for little significant, 3 for moderately significant and 4 for significant. Mean (weighted average) and standard deviation were used to analyze the data.

The factor lack of financial education among the public was rated to be moderately significant by the respondents with a mean of 3.77 and a standard deviation of 1.168. The factor that government policy influenced retirement benefit scheme was rated to be significant with a mean of 3.71 and a standard deviation of 1.092. Individual perception on retirement benefit schemes was rated as a significant factor that influenced retirement benefit scheme membership with a mean of 3.48 and a standard deviation of 1.020. The respondents also rated the factor that pension reform initiatives influenced retirement benefit scheme membership as significant with a mean of 3.97 and a standard deviation of 0.829. The researcher deduced from the study that the factors; government policy, individual perception on retirement benefit schemes and pension reform initiatives were the main factors that influenced the retirement benefit/pension schemes membership.

Adequacy of Retirement benefits/pension schemes to address needs of informal sector

The researcher also wanted to know how adequate the respondents thought the existing retirement benefits/pension schemes addressed the needs of informal sector workers. The findings of the study are shown in figure 4.10

Figure 4.10: Adequacy of Retirement benefits/pension schemes to address needs of informal sector workers



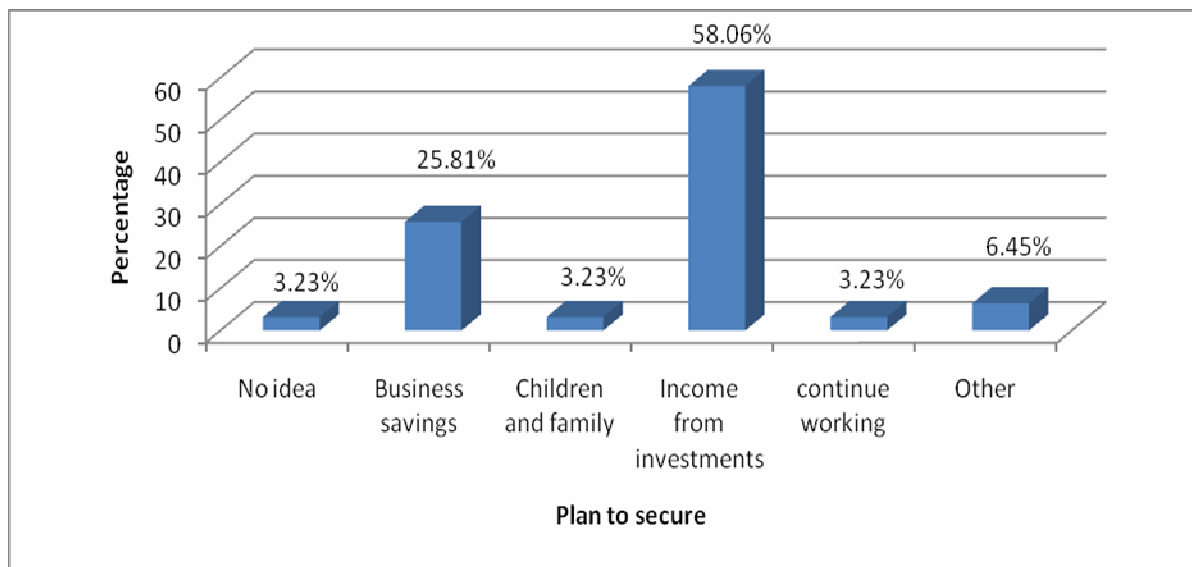
Source; Research findings

Figure 4.10 shows how adequate the existing retirement benefits/pension schemes address the needs of informal sector workers according to the respondents. 80.65% of the respondents indicated that the existing retirement benefits/pension schemes did not adequately address the needs of informal sector workers while 19.35% of the respondents said that the exististing retirement benefits/pension schemes addressed the needs of informal sector workers. From the research the researcher deduced that most of the respondents thought that the existing retirement benefits/pension schemes do not address the needs of informal sector workers.

Plan to secure old age

The researcher was also interested to know how the respondents planned to secure for their old age i.e over 65 years. The findings of the study are shown in figure 4.11

Figure 4. 11: Plan to secure for old age



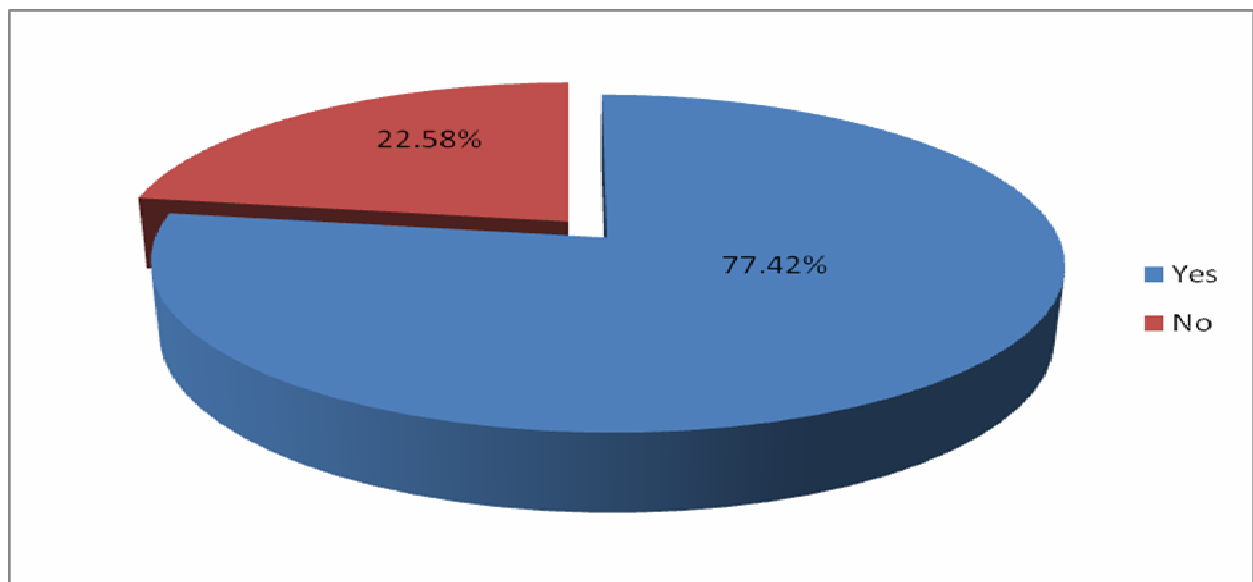
Source; Research findings

Figure 4.11 shows how the respondents plan to secure for their old age (over 65 years). 3.23% of the respondents said that they had no idea on how they planned to secure for old age. 25.81% of the respondents indicated that they planned to secure for old age through business savings. 3.23% of the respondents said that they planned to secure their old age through children and family. 58.06% of the respondents indicated that they were planning to secure for old age through income from investments while 3.23% of the respondents said that they would continue working. 6.45% of the respondents suggested other ways they planned to secure for future for instance some indicated that they would commence farming. From the findings the researcher found that majority of the respondents planned to secure for old age through income from investments.

Joining the retirement benefit scheme

The researcher wanted to find out whether the respondents would join the retirement benefit scheme if they got the information about it. The findings of the research are shown in figure 4.12

Figure 4. 12: Plan to join the retirement benefit scheme if information is availed



Source; Research findings

Figure 4.12 shows whether the respondents would join the retirement benefit scheme if they would get information about the retirement benefit scheme. 77.42% of the respondents indicated that they would join the retirement benefit scheme if they get information about the retirement benefit scheme. However, 22.58% of the respondents indicated that they would not join the retirement benefit scheme even if they got information about the retirement benefit schemes. From the study the researcher deduced that most of the respondents would join the retirement benefit/pension schemes if they got information about it.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was a survey of pension coverage of informal sector workers in Nairobi County. The objectives of the study were: to establish the extent of coverage by retirement benefit schemes of informal sector workers in Nairobi County and to investigate the factors that determine coverage by retirement benefit schemes of informal sector workers in Nairobi County.

5.2 Discussions of Key Findings

5.2.1 Extent of coverage by retirement benefit schemes of informal sector workers in Nairobi County

The study revealed that the informal sector comprised mainly of workers who had Upto form 4 education levels and also that majority of the workers in the informal sector were self employed. Having sought whether the people in this informal sector were members of the retirement benefit/pension scheme, the research indicated that majority of the members of the informal sector in Nairobi County were not members of the retirement benefit/pension scheme. The workers who were members of the retirement benefit/pension scheme named NSSF as their pension scheme. Having sought the education level, the form of employment, the membership of the respondents into the retirement benefit/pension scheme and the pension scheme which the 45.16% of the respondents who said they were members of the retirement benefit/pension scheme belonged, the importance attached to the retirement benefit/pension scheme by the members of the informal sector workers in Nairobi County was as well worthy investigating. The study revealed that most of the respondents thought that the retirement benefit/pension scheme was only important to a little extent, as it was indicated by 32.26% of the respondents the researcher came across during the study. The study also revealed that the respondents only associated with moderate (3-5) members of the retirement

benefit/pension scheme. However the research revealed that majority of the workers in the informal sector would recommend their retirement benefit/pension schemes to someone else. This is recommendation was supported by 70.97% of the respondents in the study. Therefore the study revealed that a small extent of the informal sector workers in Nairobi County was covered by the retirement benefit/pension schemes.

5.2.2 Factors that determine coverage by retirement benefit schemes of informal sector workers in Nairobi County

The challenges associated with the retirement benefit/pension scheme are many. However, the study focused mainly on the major challenges associated with the retirement benefit/pension scheme which included; poor management, political influence, lack of profitable investment opportunities, lack of information, lack of participation by the public and corruption. The research revealed that the main challenge associated with the retirement benefit/pension scheme was lack of information, as indicated by a majority of 48.39% of the respondents. Thus lack of information to the informal sector workers was associated with the major reason why the extent of the coverage of the retirement benefit/pension schemes was small. The study also focused of the following factors that influence the retirement benefit/pension schemes membership which are; lack of financial education among the public, government policy, individual perception on retirement benefit/pension schemes and pension reform initiatives. According to the research the factors; government policy, individual perception on retirement benefit schemes and pension reform initiatives were the main factors that influenced the retirement benefit/pension schemes membership. On the issue of whether the retirement benefit/pension schemes addressed the needs of the informal sector workers the study revealed that majority of the informal sector members disagreed that the existing retirement benefit/pension schemes addressed the needs as was indicated by 80.65% of the respondents. Most of the informal sector workers also opted to secure for their old age through income from investments as indicated by 58.06% of the respondents. However the informal sector workers (the respondents) indicated that with adequate information on the retirement benefit scheme, they would join, as shown by a majority of 77.42% of the respondents.

5.3 Conclusions

The study revealed that a small extent of the informal sector workers in Nairobi County was covered by the retirement benefit/pension schemes. The main reason for this small coverage was due to the challenges that were associated with the retirement benefit/pension schemes, the major challenge being pointed out as lack of information by the informal sector workers. In addition, the study also revealed that the factors; government policy, individual perception on retirement benefit schemes and pension reform initiatives were the main factors that influenced the retirement benefit/pension schemes membership. However, through the study the research also revealed that the informal sector workers could join the retirement benefit/pension schemes if adequate information was provided.

5.4 Recommendations

This study recommends that;

NSSF which is a national pension scheme should take aggressive approach to educate informal sector workers on the importance of retirement benefit/pension scheme. The study revealed that most of the informal sector workers in Nairobi County (the respondents) attached importance to the retirement benefit/pension schemes only to a little extent.

The government and RBA should take the initiative to formulate and implement policy reforms that enable informal sector workers access retirement benefit services at their convenience. The study revealed that most of the respondents only knew of National Social Security Fund (NSSF) as the only way to secure for old age.

Informal sector workers should be adequately educated on retirement benefit/pension schemes as a ways of securing old age. The study revealed that the main challenge associated with retirement benefit/pension schemes was lack of information. According to the research the factors; government policy, individual perception on retirement benefit schemes and pension reform initiatives were the main factors that influenced the retirement benefit/pension schemes membership. Therefore these factors should be taken into great consideration when enlightening the informal sector workers on the benefits of the retirement benefit/pension schemes membership.

5.6 Limitations of the study

The data was not easy to access given that most of the individuals in the informal sector were not willing to disclose some information that they felt was personal and that it was difficult to find where the target population for the survey was concentrated. To overcome this limitation, a large sample of the informal sector workers was taken into consideration for study by selecting Nairobi County where informal sector workers and the self employed could be obtained in a concentrated area.

Also it was not easy to define the different groups that composed the informal sector workers. To overcome this limitation, a list of businesses in Nairobi city was obtained from the City Council of Nairobi permits/licensing section of the five categories of traders that this study was interested in.

5.5 Recommendations for further research

From the study and related conclusions, the researcher recommends further research on the survey of pension coverage of informal sector workers in other Counties in the country.

Further research can also be done on institutional reforms necessary to allow for extension of pension coverage by retirement benefit schemes of informal sector workers.

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Appendix I: Introduction Letter



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM - LOWER KABETE CAMPUS

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Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE 22/10/2010

TO WHOM IT MAY CONCERN

The bearer of this letter GIDEON WAMBUA KYENGO

Registration No: DG1170217/2008

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a 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 organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you,

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

Appendix II: Questionnaire

Introduction: Good morning /Good afternoon .You have been randomly selected for an academic survey on retirement benefit (pension) scheme membership by informal sector workers in Nairobi County. Kindly tick or write on the spaces provided as appropriate.

1. Kindly indicate your age bracket

- 20 years and below []
- 21-30 []
- 31-40 []
- 41-50 []
- 51-60 []
- 61-70 []
- 71 years and above []

2. What is your gender?

- Male [] Female []

3. Highest level of education

- Post- University ()
- University ()
- Higher National Diploma ()
- Diploma ()
- Form 6 ()
- Form 4 ()
- Others (Specify) ()

4. How do you earn a living?

- Self employed []
- Employed permanent []
- Employed contract []
- Casual work []

5. Are you a member of a retirement benefit/pension scheme?

- Yes [] No []

6. If yes, in 4 above, name the pension scheme.

.....

7. If No, in 4 above, why?

.....

8. Name any retirement benefit/pension scheme that you know.

.....

9. To what extent do you think retirement benefit/pension schemes are important?

Not at all []

Little extent []

Moderate extent []

Great extent []

Very great extent []

10. Of the people you associate with, how would you rate those who are members of retirement benefit/pension schemes?

None []

Few (1-2) []

Moderate (3-5) []

Many (6-10) []

Very many (11 and over) []

11. Would you recommend your retirement benefit scheme to someone else?

Yes [] No []

12. What are some of the benefits do you get or anticipate to get from the scheme?

.....

.....

13. What, in your opinion, are the main challenges associated with retirement benefit schemes?

Poor management []

Political influence []

Lack of profitable investment opportunities []

Lack of information []

Lack of participation by the public []

Corruption []
 Any other (specify)

14. Kindly rate how you think the following factors influence retirement benefit/pension schemes membership. Least significant-1, little significant-2, moderately significant-3, significant-4, most significant-5.

	1	2	3	4	5
Lack of financial education among the public	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []
Government policy	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []
Individual perception on retirement benefit schemes	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []
Pension reform initiatives	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []	<input type="checkbox"/> []

15. Do you think the existing retirement benefit/pension schemes adequately address the needs of informal sector workers?

Yes [] No []

16. If yes, in 14 above, how?

.....

17. If No, in 14 above, what do you think should be done to address the shortfall?

.....

18. How do you plan to secure your old age (over 65 years)?

- No idea []
- Business savings []
- Children and family []
- Income from investments []
- Continue working []
- Any other (specify)

19. If you were to get information on a retirement benefit scheme, would you join it?

Yes [] No []

20. If yes in 18 above, why?

.....
.....

21. If no in 18 above, why?

.....
.....

22. Any other comment on retirement benefit/pension schemes membership.

.....
.....
.....

Instructions

Kindly tick or write on the spaces provided as appropriate.

23. Kindly indicate your age bracket

20 years and below []

21-30 []

31-40 []

41-50 []

51-60 []

61-70 []

71 years and above []

24. What is your gender?

Male [] Female []

25. How do you earn a living?

Self employed []

Employed permanent []

Employed contract []

Casual work []

26. Are you a member of a retirement benefit scheme?

Yes [] No []

27. If yes, in 4 above, name it.

.....

28. If No, in 4 above, why?

.....Name

any retirement benefit scheme that you know.

.....To what

extent do you think retirement benefit schemes are important?

Not at all []

Little extent []

Moderate extent []

Great extent []

Very great extent []

29. Of the people you associate with, how would you rate those who are members of retirement benefit schemes?

None []

Few (1-2) []

Moderate (3-5) []

Many (6-10) []

Very many(11 and over) []

30. Would you recommend your retirement benefit scheme to someone else?

Yes [] No []

31. What are some of the benefits do you get or anticipate to get from the scheme?

.....

.....

.....What, in your opinion,

are the main challenges associated with retirement benefit schemes?

Poor management []

Political influence []

Lack of profitable investment opportunities []

Lack of information []

Lack of participation by the public []

Corruption []

Any other (specify)

32. Kindly rate how you think the following factors influence retirement benefit schemes membership. Least significant-1, little significant-2, moderately significant-3, significant-4, most significant-5.

	1	2	3	4	5
Lack of financial education among the public	[]	[]	[]	[]	[]
Government policy	[]	[]	[]	[]	[]
Individual perception on retirement benefit schemes	[]	[]	[]	[]	[]
Pension reform initiatives	[]	[]	[]	[]	[]

33. Do you think retirement benefit schemes adequately address the needs of informal workers?

Yes [] No []

34. If yes, in 14 above, how?

.....
.....
.....
.....

35. If No, in 14 above, what do you think should be done to address the shortfall?

.....
.....
.....How do you plan to

secure your old age (over 65 years)?

No idea []

Business savings []

Children and family []

Income from investments []

Continue working []

Any other (specify)

.....

36. If you were to get information on a retirement benefit scheme, would you join it?

Yes [] No []

37. If yes in 18 above, why?

.....
.....
.....

38. If no in 18 above, why?

.....
.....
.....

39. Any other comment on retirement benefit schemes coverage.

.....
.....
.....

Thank you for your participation.