

**EMPLOYEE PERCEPTION OF THE DEFINED CONTRIBUTION  
PENSION SCHEME IN THE PUBLIC SECTOR**

**ELIZABETH WANJIRA NJOGU**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE  
OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF  
BUSINESS, UNIVERSITY OF NAIROBI**

## **DECLARATION**

This Research project is my original work and has not been presented for any award of degree in any other university.

SIGNATURE ..... DATE .....

**ELIZABETH WANJIRA NJOGU**

**REGISTRATION NUMBER D61/P/7716/05**

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

SIGNATURE ..... DATE .....

**FLORENCE K. MUINDI**

**LECTURER**

**SCHOOL OF BUSINESS STUDIES**

**UNIVERSITY OF NAIROBI**

## **ACKNOWLEDGEMENTS**

I want to thank God for the grace He gave me while undertaking the course. I also wish to acknowledge the Administration of the School of Business at the University of Nairobi for giving me the opportunity to pursue my Masters degree. Special thanks to my supervisor Florence K. Muindi for her guidance and professional advice during the course of undertaking the project. I am indebted to my parents, siblings, Aunty, friends and colleagues for their continuous encouragement during the period of the course. May the Lord bless you all.

## **DEDICATION**

This study is dedicated to my parents Mr Christopher Njogu Maranga and Mrs Cecilia Wanyina Maranga who have been the wind beneath my wings. Thank you for encouraging me to be all that I can be and always believing in me. I honour you.

## TABLE OF CONTENT

<b>DECLARATION.....</b>	<b>ii</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>iii</b>
<b>DEDICATION.....</b>	<b>iv</b>
<b>TABLE OF CONTENT.....</b>	<b>v</b>
<b>LIST OF TABLES .....</b>	<b>vii</b>
<b>LIST OF ABBREVIATIONS .....</b>	<b>viii</b>
<b>ABSTRACTS.....</b>	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1    Background of the study .....	1
1.1.1    Concept of Perception.....	2
1.1.2    Defined Benefits Scheme.....	3
1.1.3    Defined Contribution Scheme.....	5
1.1.4    Pension Schemes in Kenya .....	6
1.2    Research Problem.....	7
1.3    Research objective .....	10
1.4    Value of the Study.....	10
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>11</b>
2.1    Introduction .....	11
2.2    Occupational Pension Scheme .....	11
2.3    Defined Benefits Schemes .....	15
2.4    Defined Contribution Scheme.....	19
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>24</b>
3.1    Research Design.....	24
3.2    Population .....	24
3.3    Sample Design .....	24
3.4    Data Collection.....	25
3.5    Data Analysis .....	25
<b>CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION</b> <b>.....</b>	<b>26</b>

4.1 Introduction .....	26
4.2 Response rate .....	26
4.3 Profile of the respondents.....	26
4.3.1 Age Bracket .....	27
4.3.2 Gender .....	27
4.3.3 Level of education .....	28
4.3.4 Level in the organizational structure .....	29
4.4 Members of Pension Scheme .....	30
4.4.1 Design of retirement type plan .....	31
4.4.2 When Conversion from Defined Benefit to Defined Contribution occur (years) .....	32
4.5 Perceptions of the employees to the conversion .....	33
4.5.1 Respondents perception to the previous DB scheme.....	34
4.5.2 Respondents perception of the new DC scheme .....	36
4.5.3 Respondents perception about their contributions and benefits .....	38
4.5.4 Respondents perception of the new DC scheme when seeking employment.	40
4.6 Discussion of findings.....	41
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION ..</b>	<b>44</b>
5.1 Introduction.....	44
5.2 Summary and Discussions .....	44
5.3 Conclusion.....	46
5.4 Recommendations .....	47
<b>REFERENCES.....</b>	<b>49</b>
<b>APPENDIX 1 QUESTIONNAIRE.....</b>	<b>54</b>

## LIST OF TABLES

Table 4.1: Age Bracket .....	27
Table 4.2: Gender .....	27
Table 4.3: Level of education .....	28
Table 4.4: Level in the organizational structure .....	29
Table 4.5: Membership in a Pension scheme .....	30
Table 4.6: Design of retirement type plan .....	31
Table 4.7: When conversion from Defined Benefit to Defined Contribution Occurred (years).....	32
Table 4.8: Respondents perception to the previous DB scheme....	34
Table 4.9: Respondents perception of the new DC scheme .....	36
Table 4.10: Respondents perception about their contributions and benefits .....	42
Table 4.11: Respondents perception of the new DC scheme when seeking employment .....	44

## **LIST OF ABBREVIATIONS**

DB	Defined Benefits
DC	Defined Contribution
NSSF	National Social Security Fund
PSPS	Public Service Pension Scheme
RBA	Retirement Benefits Authority



## ABSTRACTS

There has been a gradual shift the world over of Occupational Pensions schemes from the Defined Benefits to Defined Contribution. This initially occurred in the Private Sector but lately Public Sector Occupational Pensions Schemes have embarked on the process of conversion with the aim of ensuring that there is equity in sharing cost of funding the schemes benefits between the employer and employee thus reducing the financial strain on the Government. The objective of the study was to establish the employee perceptions to the new Defined Contribution pension scheme from the previous Defined Benefits pension scheme. The research used descriptive survey design to explore the employee perceptions. The target population for this study were the employees in the Public Sector Occupational pension schemes registered by the Retirement Benefit Authority (RBA). The primary qualitative data on the employee perceptions was collected using self administered questionnaires with close ended questions. The data was analysed using descriptive statistics. Statistical tools such as mean, percentages and standard deviation were computed with the aid of Statistical Package for Social Science (SPSS) software. The survey shows that the conversion from the previous DB scheme to the new DC scheme had an impact on the employee. The conversion to the DC scheme moderately affected employees in the Public Sector Occupational Pension scheme. However, for a number of employees the previous DB scheme met their expectations to a moderate extent as opposed to the new DC scheme mainly due to the fact that for the DB scheme, they employees knew in advance what their benefits were which is not the case in the DC scheme. For the mobile workers who often move from one job to another, the DC scheme was the preferred choice. The study recommends that the Government should provide ample time for the occupational pension schemes to first understand the implications of the conversion and from that stand point cascade the information to its employees. In addition the study recommends for more sensitization of employees on the benefits of the new DC scheme as it was clear from the study that the new DC scheme did not meet the expectations of the respondents.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

Modern pension systems trace their roots back to the late 19<sup>th</sup> century in Germany, when the Bismarckian social welfare system was introduced. Nowadays, pension are spread and established around the globe, including in both developed and developing countries. Though the type of pension system varies, they all play an important role of providing necessary income to elderly populations and in alleviating post retirement poverty among the poorest sector of society (Van Dullemen, 2007). The rational for setting up pension schemes are similar in both the government and private sector employers. Governments set up schemes to secure the independence of public servants, make career in the public service attractive against the back drop that the private sector pay higher remuneration, shift the cost of remunerating public servants into the future and retiring older civil servants in a politically and socially acceptable way (Chirchir, 2010).

Pension policy has resonance with Human Resource Management because not only do arrangements for providing retirement income have long term effects but they also carry significant strategic implications involving both cost and choice. The type of pension plan now thought appropriate reflects the more strategically aware approach associated with Human Resources Management. Changing employment patterns involve for example, more frequent job moves and breaks in employment. This calls for schemes designed to be both portable and personal (Terry, 2000).

### **1.1.1 Concept of Perception**

Perception is the process of conceiving phenomenon that involves acquiring, interpreting, selecting and organizing sensory information and reacting to sensory stimuli or data. Using perception people translate sensory impressions into a coherent and unified view of the world around them (McGinnis, 2007). Perception has three components: a perceiver, the target, and some situational context in which the perception is occurring. Each component influences the perceiver's impression or interpretation of the target. Perceptions matter in the sense that a person perceives and thinks about a situation as it affects their attitudes, attributes and behaviours (Elsbach et al, 2005). Furthermore, (Nelson and Quick, 2008) observed that there is always a linkage between perception and individual quality of decision making. Perception management is a key part of understanding human behaviour (Tella et al, 2007). According to (Saari et al, 2004), employee perception can be measured using focus groups, interviewing employees, or carrying out employee surveys.

Perceptions can be traced back to (Bartlett, 1932) influential works on the constructive nature of cognition, which argues that schematic thinking dominates human perception in ways that human generic beliefs about the world influence and shape information processes. Other researchers such as (Allport, 1954) extended Bartlett's work and advanced our understanding of perception, attitude, judgment, and several other concepts. The preceding discussion has suggested that from a psychological perspective, individuals perceptions have a direct influence upon their decision making and the

outcome of their decisions; thus, it is not surprising that organization theorists are now interested in relationships between perceptions and various aspects of organization.

Berelson et al, (1964) also defines perception as “a complex process by which people select, organize, and interpret sensory stimulation into a meaningful and coherent picture of the world”. In the same vein, perception is “about receiving, selecting, acquiring, transforming and organizing the information supplied by our senses” (Barber et al, 1976). Perception according to (Kotler, 1997) is the process through which people chose, organize and interpret information in order to form a meaningful picture of the world. Gibson, (1996) says it is the process of a person’s perception in understanding the environment that involves organizing and interpretation of stimuli in a psychological experience. According to (Robbins, 1996), perception can also be interpreted as a process by which individuals organize and interpret their sensory impressions to give meaning to their environment. Perception assists individuals in selecting, managing, storing, and interprets stimuli into a whole world picture and meaning. Because each person is giving their meaning to the stimulus, the individual can differ in seeing the same thing in different ways.

### **1.1.2 Defined Benefits Scheme**

In an article by (Bodie et al, 1988) published by the University of Chicago Press, a defined benefits scheme was described as a scheme in which the employees’ pension benefit entitlement is determined by a formula which takes into account years of service for the employer and, in most cases wages or salary. According to Watson, (2008) all

defined benefits scheme occupational schemes are “trust based” that is, they are governed by trustees with fiduciary duties to act in the best interest of scheme members and where the sponsoring employer and employee agree to make contributions to the scheme in order to provide pension based on: pensionable service, typically the number of years the individual has been a member of the scheme; pensionable earnings, usually based on the individual’s final (or an average over the past few years) salary, and the accrual rate or the pension fact which represents the portion of earnings the employer offers to compensate every year. As the employer is responsible for ensuring there are sufficient funds available in the pension fund to satisfy its pension obligations, it often supposed that the members of defined benefits scheme are exposed to fewer risks than defined contribution scheme members.

Blake (2003) says that in defined benefits scheme, the sponsor guarantees an agreed level of retirement benefits to the members. The sponsor hence bears the risk that the returns from the investment portfolio may not be enough to cover the Pension fund liabilities, or funding gap risk. The sponsor can minimize this risk by choosing financial assets that match both the size and the volatility of the plan’s liabilities. Matching the size of the liabilities ensures that they would be appropriately covered by assets. Matching the volatility of liabilities exactly implies that both the assets and liabilities will be perfectly correlated and rules out the possibility that liabilities may exceed assets in the future.

Over the last two decades, many organizations have made changes to the employee pension plans they sponsor, and a number of these have chosen to convert their defined

benefits scheme into defined contribution scheme. The employers with defined benefits scheme are looking to contain their pension costs. Accordingly, many are switching to defined contribution scheme in an effort to achieve more predictable funding costs (Aiyabei, 2011).

### **1.1.3 Defined Contribution Scheme**

In an article by Bodie et al, (1988) published by the University of Chicago Press, a defined contribution scheme arrangement is one where the employer and also the employee make regular contributions into the employee's retirement account. The contributions are usually specified as a predetermined fraction of salary, although the fraction need not be constant over the course of a career. Contributions from both parties are tax deductible and investment income accrues tax-free. At retirement, the employee either receives a lump sum or an annuity, the size of which depends upon the accumulated value of the funds in the retirement account. According to Barnow et al, (1979) in a defined contribution scheme, the amount of money contributed to an employee's account at each point in time is determined by such criteria as the employee's earning or the firm's profits, or both. Under such schemes the firm or its agent invests the pension contributions, and the employee receives no guarantee about the benefit levels that will be received upon retirement.

Chirchir, (2010) says that the defined contribution scheme is referred to as money purchase scheme. The benefits are limited to cash balances in member's account at any one point in time and all risks are borne by the employees. The cash balance depends on contribution period and amount and the investment returns. Contribution amounts are

known to the members upfront but the final benefits due to investment remains unknown. The employer does not take liability for losses; employer's risks are limited to making contributions at the required time. Employer's expenses are in essence predictable. In this scheme a member and employer's contribution are fixed either as a percentage of pensionable earnings. The contributions from the accumulated contributions to the scheme plus the investment income credited into the members account are critical in determining the member's benefits. In a defined contribution scheme, the employer does not take liability for losses.

#### **1.1.4 Pension Schemes in Kenya**

Pension Funds in Kenya were first put in place after independence in 1963. The first post independent pension fund body, the National Social Security Fund (NSSF), was established in 1965 (RBA 2000). Prior to the reforms, the Pension Fund System provided for benefits once a worker retired on attaining the mandatory retirement age of 55 (RBA, 2006). Kenya has several types of schemes, which offer social security that can be divided into three categories. These are public sector schemes, occupational schemes and individual schemes. The public sector schemes are established by an Act of Parliament. The Occupational schemes are run by employers for their employees and are established through Trust deeds while the individual schemes are also established by Trust Deeds and are private schemes designed for the employed, self-employed and/or for those in non-pensionable employment (Chitembwe, 2007).

The Kenya's Public Service Pension Scheme (PSPS) covers approximately 406,000 civil servant, teachers, police and prison staff and just over 200,000 pensioners. Separate

arrangements apply for the armed forces and other military personnel. The scheme is modelled as a Pay – As – You – Go basis and is non-funded. The Public Sector Pension Scheme operates on a defined benefits basis and is non-contributory other than modest contributions at 2% of salaries made by employees towards widows and orphans benefits (Raichura, 2008). The road to reforming the public service pension scheme for civil servants, teachers and the disciplined forces culminated in the passing of the Public Service Superannuation Scheme Act 2012.

The new scheme aims at introducing a contributory pension scheme funded by both the public servants and the Government with a view to easing the pension burden on the exchequer thus freeing public funds for other critical national priorities while at the same time ensuring that the pension budget remains sustainable. In addition, the scheme will allow portability of pension benefits thus allowing free movement of staff into and out of Government (Public Finance Notes, 2012). According to RBA (2008), there were 1679 pension funds by the close of 2007, of which 130 funds were in the public sector, 16 were individual retirement schemes and the rest were established by private enterprises. It is reported that, of the 130 plans in the public sector, 69 are grossly under-funded and need urgent measure to revitalize them (Daily Nation, 2006).

## **1.2 Research Problem**

Employer's reason for the restructuring of pension schemes include the desire to reduce overall pension costs, moderate the effect of government regulations, reduce administrative costs and respond to perceived worker preferences (Clark et al, 2000). The sponsor of a pension scheme may choose to convert a scheme from one design to



another, introduce parallel schemes, or close down existing schemes. It is through this window of opportunity that sponsors may convert defined benefits Scheme to defined contribution scheme. In converting from defined benefits scheme to defined contribution scheme, employers may opt to fully close the defined benefits scheme to new employees while allowing existing members to continue accruing future benefits until retirement, close the defined benefits scheme and freeze future accruals of benefits, or all together close the defined benefits scheme to existing members and transfer benefits to new DCS benefits or individual retirement fund arrangement (Chirchir, 2010).

Globally, in the mid 1990's conversions from defined benefits scheme to defined contribution scheme occurred across government units at the state and local levels (Clerk et al, 2000). India succeeded in introducing a new defined contribution scheme Pension Fund for new employees joining the Central Government in 2004 closing the Public Scheme to new employees. In the United States for example, it is estimated that the defined contribution scheme grew 600% between 1987 and 2002 (Ross et al, 2002). The United Kingdom is known to have experienced significant conversion from defined benefits scheme to defined contribution scheme in the 2000. In Kenya like many other counties has experienced notable increase of defined contribution scheme over the years. This is attributed to both conversions of existing defined benefits scheme to defined contribution scheme and the new preference for defined contribution scheme by sponsors of newly registered schemes. Majority of scheme conversions have been happening among Parastatal based schemes. Newly registered occupational schemes are commonly designed as defined contribution scheme because of the small scaled nature of the

sponsors business and the highly mobile youthful workforce. The highest reduction of DBS and consequently the highest increase in defined contribution scheme happened in 2005. Defined benefits scheme dropped by 18% and defined contribution scheme increased by 49%. Scheme conversions combined with preference for defined contribution scheme over defined benefits scheme of sponsors of newly registered schemes has contributed to the increase in the number of defined contribution scheme (Chirchir, 2010). The Government of Kenya in a Treasury Circular No. 18 issued in November, (2010) directed all Public Sector Pension Funds to convert from Defined Benefits Scheme to defined contribution scheme. The circular further stated that scheme members with less than five (5) years to attain the retirement age may be given an option to stay in the defined benefits scheme or transfer to the new defined contribution scheme.

Various studies have been carried out on aspects of pension schemes. Kyengo, (2010) studied the extent of pension coverage for informal sector workers in Nairobi City Council. The study revealed that a small proportion of informal workers at Nairobi City Council were in a Pension Scheme. Main challenge was lack of information. Further the study revealed that pension schemes did not address the needs of the informal sector workers hence the reason why a small proportion was covered. Njuguna, (2010) assessed the impact of Retirement Benefits regulations on the cost efficiency of Retirement Benefits Schemes in Kenya. The study showed that the introduction of regulation increased the cost of efficiency among pension schemes. Wanyama, (2002) conducted a survey on compliance with regulations by investment managers and concluded that most firms did not comply leading to operational inefficiencies. Kusewa, (2007) studied the

impact of regulation on financial performance of Retirement Benefits Schemes and concluded that there was a positive impact on their financial performance. From these studies it is apparent that no study has been done on employee perceptions of the conversion of Public Sector occupational pension schemes from defined benefits scheme to defined contribution scheme. This study seeks to establish what the employee perception of the new defined contribution scheme is.

### **1.3 Research objective**

The objective of this study is to establish the employee perception of the new Defined Contribution Scheme.

### **1.4 Value of the Study**

This study will be beneficial to the following:

To the Researchers, the findings of this study will serve as a basis for further research. The study will contribute to the body of existing knowledge on pension funds;

To the Government and the Regulatory Agency, the findings will provide the relevant information necessary in the formulation of policies and guidelines on aspects regarding conversion of pension schemes and creating a conducive regulatory framework for public sector occupational pension schemes.

Employers too will find this study very beneficial as they will be able to know and assess how the employee perceived the conversion process from Defined Benefits to Defined Contribution.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter gives a detailed literature review on the occupational pension schemes what they are and the reasons why an employer seeks to establish them. It also explains how the occupational pension schemes can be operated and desired and to whom the occupational pension schemes are subject to. This chapter further discuss in detail both the defined benefits scheme and defined contribution scheme pension schemes. It discuss the definitions of the pension schemes, modus operandi of the pension schemes, the advantages and disadvantages of the pension schemes and further discusses why employers are converting pension schemes from defined benefits scheme to defined contribution scheme.

### **2.2 Occupational Pension Scheme**

The provision of an occupational pension scheme by an employer must be viewed in the broader context of human resource strategy, since pension provision is generally regarded as having an important place in a range of fringe benefits that may be offered to employees as part of an overall reward package (Colin et al, 2002). Early occupational pension schemes were essentially paternalistic, provided as part of an employer's diffuse obligation to 'look after' their workforce through various forms of welfare provisions. It has always been assumed however that since this provision was an aspect of one side of a set of mutual obligations on the part of employer and employee, there would be some form of reciprocation in terms of desirable forms of employee behaviour (Colin et al,

2002). The rationale of establishing retirement benefit arrangements is often similar for both defined contribution scheme and defined benefits schemes with the primary objective of providing for members upon retirement. It is also meant to provide retirees with a certain standard of living by ensuring that their income does not fall below a certain minimum level after retirement. Retirement benefits plan have therefore been instituted so as to help employees experience a wonderful life during their retirement years (Adkins, 2010).

Traditional, funded occupational pension schemes were designed around Defined Benefits Pension; Defined contribution plans accounted for a small fraction of employer-sponsored pensions and were typically offered by smaller firms or as supplementary plans for high income earners. Most employers in the past have used defined benefit plans in competitive labour markets to attract and retain skilled worker as opposed to defined contribution plans where the benefits are portable once vested to the members (Turner et al, 2008). However, the traditional defined benefits retirement plans are gradually losing their dominance in the occupational pension system in many countries. There has been a gradual shift towards defined contribution retirement plans (Broadbent et al, 2006). Occupational pension schemes were introduced to meet the different needs of employers and employees.

Employers view their Occupational Pension Schemes as an important means of attracting, retaining, motivating and increasing the level of job satisfaction amongst the staff. The prospect of an occupational pension scheme can be attractive to employee in a variety of

ways. Looking first at the recruitment process, one might expect would be employees to consider whether the employer offers a pension scheme at all. Such an employer is likely to be perceived as having a 'caring' orientation towards the staff, quite apart from the current and future financial benefits that pension schemes provide (Wanjohi et al, 2011).

Once the employee has been taken on, a pension scheme can play a role in retaining such people. An employee would *ceteris paribus*, be attracted to remain with an employer who contributed, say 25% of salary to the pension fund rather than shift to an employer who made no such contribution. From an employer's perspective, pension scheme may also have the effect of inducing employees not simply to stay with the employer, but also to work diligently, to the satisfaction of the employer (Terry et al, 1997). Employees wanted a tax efficient and paternalistic means to controlling their workforce and employees wanted a secure pension in retirement that bore some relation to the income they had received while working (Hannah, 1986). Indeed, it is still the case that employers view their occupational scheme as an important means of attracting and in particular, retaining staff (Taylor et al, 1995). However, although the relationship between withdrawal and retirement benefits provided by defined benefits scheme means that they might provide employees with a final incentive to remain with their employer, it is not certain that they do have this effect on employees employment decisions (Cooper, 1999).

Provision of an occupational pension scheme is based more on a belief in its contribution to fostering employee loyalty than on hard evidence (Terry, 1997). Organizations with

pension schemes may have low employee turnover because they also offer better pay and conditions or more enlightened human resources management practices generally (Taylor, 2000). Mutuku, (2004) has defined an occupational retirement scheme as a scheme to which access is linked to an employment relationship. These schemes are established by employers to act as vehicles for accumulation of retirement savings for the employee (RBA, 2000). Although the employer is responsible for sponsoring the scheme, it is actually run by a Board of Trustees. It is the Board of Trustees that is responsible for ensuring payment of benefits. There has been a belief that benefit provision fosters employee loyalty and commitment to the organization, not only by linking long service with economic self-interest but also in some way by creating “favourable attitudes to the business which can improve commitment and performance” (Colin et al, 2002). Indeed, fostering employee loyalty became a commonly stated objective of occupational pension schemes (Hannah, 1986) and was also reflected in the growth of employee participation in the administration of these schemes, although employee “participation” tended to be confined to receiving information or having some say in discretionary administrative decisions rather than major decision over deployment of the capital tied up in pension funds or in the appointment, role and training of trustees (Terry et al, 2000).

The Occupational Retirement schemes can be operated on defined benefits or on defined contribution ideologies. Although there is no compulsion for employers to set up the Occupational Retirement Scheme, once established, the scheme falls under the mandate of the Retirement Benefits Authority and must comply with the laid down regulations.

The employer is referred to as the Sponsor and will normally assist its employees in making contribution into the scheme. Such schemes are established under a trust deed. The Occupation Retirement schemes are estimated to cover an estimated 3% of the working population in Kenya (RBA, 2008). Employers in many parts of the world are not mandated to establish occupational retirement benefit schemes for their employees. Employers therefore voluntarily chose to establish occupational retirement benefits schemes for their employees. An employer who starts an occupational scheme has an upper hand first and foremost to choose the design of the scheme. Upon setting up the scheme, an employer is not prohibited from changing the design or terminating the scheme (Chirchir, 2010). Based on how the scheme is designed or how benefits are determined, a retirement benefits scheme can be classified as a defined contribution scheme or defined benefit scheme.

### **2.3 Defined Benefits Schemes**

An employer establishing a defined benefits scheme also referred to as a final salary scheme commits to pay predefined future amounts of benefits to enrolled members for years of rendered service bearing all risks of such promise. Benefits are determined using a formula that takes into account the employee earnings commonly the final salary representing the highest earning, years of service and a pension factor that represents the portion of earnings the employer offers to compensate every year. The risks which include the unknown costs and investment risks are borne by the employer. Whereas the employers enjoy limited surplus because the surplus are shared out with the members, the employer becomes fully liable in the event of loss and has to make good the loss by increasing employer's contribution or through other arrangements that will remedy the



loss position. Therefore the main risk to the employee is the solvency of the employer so as to be in a position to meet the promised benefits (Chirchir, 2010).

It is argued that the provision of a defined benefits scheme attracts staff by demonstrating a willingness on the part of the employer to provide a reasonable level of security and a willingness to invest in their long term future. A defined benefits scheme is also thought to retain staff, through a variety of inter related mechanism: first, the more diffuse process of engendering employee loyalty through signalling that the organization ‘cares’ about their long term interest; second through the more specific and tangible mechanism whereby pension schemes reward seniority through ‘back loading’ (where a disproportionate amount of pension wealth accumulates in later career); third deterring turnover through the financial cost involved in leaving a pension scheme early or moving to one that is less generous; and fourth, through various vesting rules (Colin H. et al, 2002)

Final salary pension schemes aim to provide a pension at retirement based on service completed with the sponsoring employer and salary received in the years immediately preceding retirement. If employees leave prior to the normal retirement age of the scheme, their benefits will be based on salary at withdrawal. Although the benefits must be revalued between withdrawal and retirement, to allow for inflation, it is likely to be a smaller benefit, for the years of service completed, then would have been provided had the employee remained in service. Because defined benefits scheme raise considerable expectations in their members, they are heavily regulated. The extent of regulation has

increased cost for employers. Final salary schemes place an “open ended” liability on employers in that if the demographic or financial experience of the scheme is worse than expected, it is the employer that is usually expected to meet the extra cost (Cooper, 1999).

A defined benefits scheme is sponsored by the employers. For each year of service, the employer promises to provide a definite benefit to the employee which commences upon the employee’s retirement, and continues as long as he/she lives. The scheme also provides some ancillary benefits such as early retirement subsidies, death, disability and termination benefits. It may also provide cost of living increases for benefits after retirement designed to reflect the economic environment at the retirement age. The amount of retirement benefits is intended to replace a certain percentage of earnings immediately before retirement (Aiyabei, 2011). As Hudson, (2008) shows, over the recent past, new regulatory and governance requirements and demographic changes have all significantly raised the costs and reduced the expected benefits to employers operating defined benefits scheme. The response of many employers to these developments has been to either close down their defined benefits scheme, close the scheme to new members and/or to cap any further accruing of benefits from existing members.

Defined benefits scheme continue to subsidise employees who remain with one employer the expense of those who change employers and leave the scheme early. This portability loss for early leavers is more commonly known as ‘cash equivalent loss’ and according to (Blake, 2000), the loss for a typical worker who changes jobs six times in their working

live can be between 25 – 30 per cent of the full service pension. Every one changing jobs once in mid-career can lose up to 16 per cent of the full service pension. By default, defined benefits scheme will spread risks over generation. Sponsors are not permitted to reduce member's benefit when faced with financial challenges. It is only in the very extreme of cases that it has been possible to reduce member's contribution but even in such cases only future benefits may be reduced and not already accumulated benefits. Employers are generally exposed to unpredictable cash liabilities. The defined benefits scheme better reward employees the longer the employees remain in one employment disadvantaging members who leave at short period of service (Chirchir, 2010).

A defined benefits scheme contributes towards employee security not only by transferring the investment risk to the employer, but also by enabling a relatively confident estimation of the level of income in retirement (Cooper, 1999). Defined Benefits Scheme also allow for the possibility of early retirement as a result of a member's ill health, and will provide a pension under these circumstances, although the pension may be reduced to take account of the fact that the pension is being provided at an earlier age than that of normal retirement. Many defined benefits scheme also provide a pension in the case of voluntary early retirement, subject to certain conditions of eligibility such as age, proximity to normal retirement and minimum period of service (Colin H. et al, 2002).

The traditional defined benefits schemes are gradually losing their dominance in the occupational pension schemes in many countries. There has been a gradual shift towards

defined contribution scheme (Broadbent et al, 2006). The transition from defined benefits scheme to defined Contribution scheme is shifting investment risk from the corporate sector to households. Households are therefore becoming increasingly exposed to financial risks, and retirement income may be subject to greater variability than before. This is not only the case in countries with mature occupational pension system, but also interestingly in emerging markets, where pension reforms are adopting a structure predominantly based on that of defined contribution scheme. Proponents of defined benefits scheme plans maintain that defined benefits scheme plans are the only arrangement that can provide genuine retirement security (Aiyabei, 2011).

## **2.4 Defined Contribution Scheme**

In a defined contribution pension scheme, the sponsors are only responsible for making contribution to the plan. There is no guarantee regarding asset at retirement, which depends on growth in the assets of the plan. The financial risk to which the provider of a defined contribution scheme is exposed to is minimal (Davis, 2000). The concept of defined contribution scheme emerged in the 1980s and whose growth into the 2000 was escalated by numerous closures and conversions of defined benefits scheme to defined contribution scheme as well as new defined contribution scheme establishment. In the beginning defined contribution scheme were established by employers purely as a supplementary channel for their employees to save additional income for retirement (Chirchir, 2010). A defined contribution pension scheme provides an income for the pensioner after retirement from a fund built up for investing a series of contributions during the period of employment. The financial risk is taken by the member of the scheme since the fund is associated with an individual and there is no guarantee of a fixed

benefit level at retirement. The pension is split into two phases. During the accumulation phase, scheme members and/or their employer contribute to the pension fund, which is invested in a portfolio of assets with a particular risk profile. In the distribution phase, pensioners receive periodic income from the fund in order to provide support in old age (Lunnon, 2002).

Despite a shift toward defined contribution scheme only plans over the last 10 years, retirement plan strategy remains a matter of utmost concern to employers and employees alike. Employers are looking to reduce cost and cost volatility but also understand the impact that any plan changes can have on talent and workforce planning. Employees hit hard by the recent recession and slow recovery are focused on greater retirement security (Towers Watson report, 2012). The pension resulting from a defined contribution scheme depends solely on the size of the fund accumulated at retirement. The accumulated fund must be used to buy a life annuity, although up to 25 per cent of the fund can be taken as a tax free lump sum on retirement date. A defined contribution scheme makes the financing of benefits explicit but leaving the cost of the outcomes or benefits fairly unclear unlike in a defined benefits scheme where the individual benefits are visible but the financing of benefits is typically, opaque (Colin et al, 2002).

Watson, (2008) argues that defined contribution scheme plans are superior to defined benefits scheme plans especially for the mobile employee and provide both employer and employee with the most cost-effective way of saving for a pension due to the low operational, governance and regulatory costs and flexibility. From an employees' point

of view, it seems that defined contribution scheme are more attractive for newer, younger, more mobile employees (Aaronson, 2005). The rise in the number of women in the workforce has resulted in employees with weaker attachment to a single employer and higher demands for more portable pensions i.e. defined contribution scheme plans. This increase in women means overall, the mobility of the workforce is increased, thus decreasing the demand for traditional long tenure rewarding defined benefits scheme (Williamson, 2003).

Shifts in worker demand play a large role in the overall shift from defined benefits scheme to defined contribution scheme where employees tend to favour more flexible employment contracts. The recent acceleration of the trend towards defined contribution schemes appears to be linked to a confluence of factors e.g. under funding and its persistence due to a decline in long term interest rates, the move to more market based accounting, increasing regulatory burden and uncertainty and recognition of the effects of increased longevity on plan costs that has prompted plan sponsors to improve their management of the financial risks in defined benefits scheme. Whereas the evolution towards defined contribution scheme pension plans can be beneficial for both the employees and employers, it nevertheless reallocates risk within the financial system.

In defined benefits scheme pension plans, responsibility for funding and investment management rests with the firm sponsoring the plan. In a defined contribution scheme plan these tasks and associated risks are typically assumed by the employee. This shift of responsibilities and risks from the corporate sector to the household sector has potential

implications for financial stability. Proponents of defined contribution scheme argue that the defined contribution schemes are more secure because the participants actually see the contributions deposited in their individual accounts (Aiyabei, 2011). The decline in defined benefits scheme with less than one-third of schemes still open to new members, and their replacement by the less generous defined contribution scheme has been overwhelming seen by employees, the general public and government as an unwelcome development that shifts significant pension risks from the employer onto the employee (Hudson, 2008).

Defined contribution scheme is often perceived to offer better value for money for people who change jobs than the defined benefits scheme. Value for money however is a difficult concept to judge. For instance defined contribution scheme might offer employees the opportunity for a better rate of investment returns than a defined benefits scheme, but there is also the possibility of a worse return. In a defined benefits scheme, the investment risk is largely carried by the sponsoring employer while in a defined contribution scheme, it is the employer who takes the risk. This makes defined contribution scheme more or less attractive according to the risk aversity of the individual concerned. Similarly, there might be far greater flexibility within a defined contribution scheme for an individual with a personal pension plan as he will be able to choose which benefits the scheme should provide, and to select the retirement age.

In a defined contribution scheme, even though an individual has contributed prudently throughout their working life, a fall in the investment market, or a drop in interest rates,

just prior to retirement can have a significant effect on the level of pension purchased. Increasingly, employers are replacing, or considering replacing defined benefits scheme with defined contribution scheme partly because they are less heavily regulated and so cheaper to administrate, and they do not have the open ended liability of defined benefits scheme. In addition, the employer's contribution is fixed and thus predicated, whereas in a defined benefits scheme the employer's contribution can vary from year to year according to the demographic and investment experience of the scheme. (Cooper, 1999).



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

For this study, a descriptive survey design will be the appropriate method based on two reasons. First, the study targets a population where the best way of obtaining information will be using descriptive survey and secondly the nature of information i.e. perceptions will best be gathered through this method.

### **3.2 Population**

The target population for this study are the employees in Public Sector Occupational Pension Schemes registered by Retirement Benefits Authority (RBA) that are members in the defined contribution scheme. The target population is about 30,000 employees in the Public Sector. There are a total of 30 Public Sector Occupational pension Schemes that have the defined contribution scheme.

### **3.3 Sample Design**

The population being in the Public Sector is very large. Krejcie and Morgan, (1970) came up with a formula and developed a table of determining sample size. For a population of 30,000 employees, the sample size is 379 employees. The sampling method shall be purposive sampling technique. This is the sampling method where a researcher purposely targets a group of respondents believed to be reliable for the study, Kombo et al, (2006).

### **3.4 Data Collection**

Primary data will be required for this study. This data will be collected from employees in the 30 Public Sector Occupational Pension Schemes. A structured questionnaire with close ended questions will be used to collect the data. The questionnaire will have two (2) sections. Section A will collect personal information regarding the respondents. Section B will collect information regarding the employees' perceptions towards the new defined contribution scheme. The questions are structured in tandem with the objective of the study. The questions shall be administered through email and drop and pick method. The advantage of using questionnaires is the fact that they will reach a large sample size. Further, questionnaires are cheaper, quicker and easy to quantify.

### **3.5 Data Analysis**

After gathering data from questionnaires the data will be analysed using descriptive statistics. Means and percentages will be computed with the aid of the Statistical Package for Social Science (SPSS) software.

## **CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the findings of this study. The study attempted to determine the employee perception to the new defined contribution pension scheme from the previous defined benefits scheme. The findings are presented and interpreted in sections focusing on each of the research question. The analysed data is presented in tables.

### **4.2 Response rate**

The response rate was high and therefore the sample was sufficiently representative for making inference and generalization. Out of a total of 450 questionnaires sent out to the various Public Sector Occupational Pension Funds in the country, we were able to receive 405 questionnaire duly filed and responded to. The response rate was a fair representation and conforms to Mugenda and Mugenda, (2003) stipulation that a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good and a response rate of 70% and over is even better for social research.

### **4.3 Profile of the respondents**

The profile of the respondents provides information on the age, gender, level of education and level in the organizational structure. The data was analysed and is shown in the tables that follow.

### 4.3.1 Age Bracket

Table 4.1 shows the age bracket of the respondents.

**Table 4.1: Age Bracket**

	Frequency	Percent
21 - 30	121	29.9
31 - 40	166	41.0
41 - 50	86	21.2
51 - 60	32	7.9
Total	405	100.0

**Source: Author (2014)**

The age bracket of the respondents was fairly distributed. As shown on the table 4.1 above 29.9% of the respondents are between 21-30 years, 41% are between 31-40 years, 21.2% are between 41-50 years and 7.9 of the respondents were in the age bracket between 51-60 years. This means that all ages were well represented.

### 4.3.2 Gender

Table 4.2 provides how many of the respondents were either male or female.

**Table 4.2: Gender**

	Frequency	Percent
Male	220	54.3
Female	185	45.7
Total	405	100.0

**Source: Author (2014)**

The gender of the respondents was fairly distributed. The male respondents were 220 and accounted for 54.3% while the female respondents were 185 and accounted for 45.7%. There were however more male than the female respondents.

### 4.3.3 Level of education

Table 4.3 shows the level of education of the respondents.

**Table 4.3: Level of Education**

	Frequency	Percent
Post University	73	18.0
University	142	35.1
Higher National Diploma	77	19.0
Diploma	41	10.1
Form 6	29	7.2
Form 4	37	9.1
Other	6	1.5
Total	405	100.0

**Source: Author (2014)**

The level of education amongst the respondents varied as represented in table 4.3 above. 35.1% were undergraduate holders followed by Higher National Diploma holders who were 77 and accounted for 19.0%. Post University holders were 73 and accounted for 18% while Diploma holders were 41 representing 10% of the respondents. A small

number held Form 6 and Form 4 certificates. This means that most of the respondents are educated and therefore had an understanding of the questions asked in the study.

#### 4.3.4 Level in the organizational structure

The level of the respondents in the organizational structure is shown in table 4.4 below.

**Table 4.4: Level in the organizational structure**

	Frequency	Percent
Senior Management	36	8.9
Middle Management	138	34.1
Junior Management	164	40.5
Support Staff	67	16.5
Total	405	100.0

**Source: Author (2014)**

Most of the respondents i.e. 164 respondents or 40.5% are in Junior Management followed closely by those in Middle Management who were 138 in total and accounted for 34.1%. Support staff were 67 and accounted for 16.5% while those in Senior Management were 36 and accounted for 8.9%. This means that all levels in the organizational structure were well represented.

#### 4.4 Members of Pension Scheme

Table 4.5 shows the number of respondents who are members of a pension scheme

**Table 4.5: Membership in a Pension Scheme**

	Frequency	Percent
Yes	400	98.8
No	5	1.2
Total	405	100.0

**Source: Author (2014)**

A huge majority of the respondents are members of a Pension scheme. This accounted for 400 respondents or 98.8%. A very small percentage i.e. 1.2% or 5 respondents are not members of a pension scheme. This means that we are likely to get good feedback from respondents based on the fact that the study is on pension schemes.

#### 4.4.1 Design of retirement type plan

Table 4.6 below shows the design of retirement plan that the respondents belong to.

**Table 4.6: Design of retirement type plan**

	Frequency	Percent
Defined Benefit	73	18.0
Defined contribution	329	81.2
Don't Know	3	.7
Total	405	100.0

**Source: Author (2014)**

Majority of the respondents are in the Defined Contribution retirement plan. This accounted for 329 respondents or 81.2% while those in DB Scheme were 73 respondents or 18%. A small number accounting for 3 respondents or 0.7% said they did not know the design of the retirement plan. Considering the study is on the employee perceptions to the conversion from Defined Benefits to Defined Contribution, we are likely to get employees perceptions on the DC scheme.



#### 4.4.2 When Conversion from Defined Benefit to Defined Contribution occur (years)

Table 4.7 shows the number of years since the conversion of the pension scheme from Defined Benefits to Defined Contribution occurred for the respondents.

**Table 4.7**

No. of years since DC was introduced	Frequency	Percent
1	12	3.0
2	158	39.0
3	166	41.0
4	25	6.2
5	3	.7
7	1	.2
Total	365	90.1
No response	40	9.9
Total	405	100.0

**Source: Author (2014)**

Majority of the respondents indicated that the conversion from Defined Benefits to Defined Contribution happened in the last three years. 166 respondents or 41% said that the conversion from DB to DC happened in the last 3 years. About 158 respondents or 39% said that the conversion happened in the last 2 years and 12 respondents or 3% said

that the conversion happened in the last 1 year. This means that a majority of the respondents are aware of the Defined Contribution scheme and therefore able to give useful feedback on the perceptions of the Defined Contribution scheme.

#### **4.5 Perceptions of the employees to the conversion**

The general objective of the study was to establish the perceptions of Public Sector employees to the new DC pension scheme from the previous DB scheme. This section therefore deals with the perceptions. The perceptions were analysed in four parts namely the effects of the previous DB scheme on the respondents, the effects of the DC scheme on the respondents, effects on the respondents contribution and benefits and the effect on the respondents when seeking employment. The respondents were asked to rate their perceptions on a scale of 1 to 4: To a great extent (4), moderately (3), to a little extent (2) and to a little extent (1). An average mean of the perceptions was established in order to provide a generalized feeling of all the respondents. A mean greater than 3.5 implied that the employee perception was to a great extent. A mean between 2.5 – 3.5 implied the employee perception was moderate while a mean score of 1.5 – 2.5 implied the employee perceptions were to a little extent. Less than 1.5 mean implied not at all.

The standard deviation on the other hand describes the distribution of the responses in relation to the mean. It provided an indication of how far the individual responses to each question vary from the mean. A standard deviation of more than 1 indicates that there is no consensus, greater than 0.5 and less than 1 indicates that the responses were moderately distributed.

### 4.5.1 Respondents perception to the previous DB scheme

The respondents' perception about the previous DB scheme is shown in table 4.8 below.

**Table 4.8**

<b>Statement</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Conversion from defined benefit to defined contribution affected me	405	2.57	1.484
I had an adequate understanding of the previous defined benefit scheme	405	3.07	1.354
In general, the previous defined benefit scheme met my expectation	405	2.99	1.368

**Source: Author (2014)**

From the analysis, it is clear that the conversion of the Public Sector occupational pension scheme from DB to DC affected the employees to a moderate extent at a mean of 2.57 and standard deviation of 1.484. However, the employees in the Public Sector did have to a moderate extent an adequate understanding of the previous DB scheme at a mean of 3.07. In addition the previous DB scheme met the expectations of the employees in the public sectors to a moderate extent at a mean of 2.99.

In conclusion, the analysis implies that the employees were moderately affected by the conversion from DB to DC scheme particularly those employees who had been in the previous DB scheme for a number of years and now had to convert to the DC scheme following the directive from Government. Having been in the previous DB scheme, the employees had a bit of understanding of the previous DB scheme as they had been part of it and further that the previous DB scheme met their expectations to a moderate extent.

## 4.5.2 Respondents perception of the new DC scheme

Table 4.9 shows the respondents perception of the new DC scheme.

**Table 4.9**

Statement	N	Mean	Std. Deviation
q14: When the retirement scheme was being changed to defined contribution, I received adequate communication.	405	2.90	1.205
q15: I have an adequate understanding of the defined contribution scheme and its benefits.	405	3.20	.958
q16: Generally, the defined contribution scheme meets my expectation	405	2.20	1.213
q17: When I retire the defined contribution scheme will provide me with adequate income	405	2.26	1.193
q18: Generally, the change from defined benefit to defined contribution was good for me.	405	2.08	1.225
q23: My level of job satisfaction increased with the new Defined Contribution scheme.	405	2.00	1.303
q27: With the new defined contribution scheme, my employer will no longer be liable in the event of any loss in the pension scheme.	405	3.31	1.172

**Source: Author (2014)**

Table 4.9 above reveals the effects of the DC scheme on the respondents. It is clear that when the pension scheme was change to the DC scheme, the employees received to a moderate extent adequate communication at a mean of 2.90. In addition, the employees had adequate understanding of the DC scheme and it benefit to a moderate extent at a mean of 3.20. However, the DC scheme met the expectations of employees in the Public Sector to a little extent at a mean of 2.20. This can be attributed to the fact that the DC scheme would provide the employees to a little extent with adequate income when they retire at a mean on 2.26.

It is clear from the analysis that the change from DB to DC was good for the Public Sector employees to a little extent at a mean of 2.08. In addition, the level of job satisfaction for the employees in the Public Sector with the new DC scheme increased to a little extent at a mean of 2.00. On the whole, one of the greatest effects of the DC scheme on the employees of the Public Sector Occupational Pension scheme was the fact that the employer is no longer liable in the event of any loss in the DC scheme unlike in the DB scheme where the employer was liable in the event of any loss in the pension scheme.

In conclusion, the analysis implies that although the employees in the Public Sector Pension scheme received adequate communication on the DC scheme and further had adequate understanding of the DC scheme and its benefits, the change from DB to DC was neither good for the employees nor did it increase their level of job satisfaction. This goes to show that the employees in the Public Sector were not enthusiastic about the conversion from DB to DC particularly because in the event of any loss in the pension scheme, the employer would not be liable as was the case in the DB scheme.

### 4.5.3 Respondents perception about their contributions and benefits

The respondents' perception about their contributions and benefits with the new DC scheme is shown in table 4.10 below.

**Table 4.10**

Statement	N	Mean	Std. Deviation
The new defined contribution scheme will provide me with less retirement benefits than the previous defined benefit scheme.	405	2.79	1.272
The new defined contribution scheme will provide me with about the same benefits.	405	2.63	.934
The new defined contribution scheme will provide me with more retirement benefits than the previous.	405	2.25	1.187
In the new defined contribution scheme my benefits at retirement will be affected in the event my employer becomes insolvent	405	3.34	1.195
My contribution to the pension scheme increased with the new defined contribution scheme	405	2.87	1.432
My employer's contribution to the pension scheme increased with the new defined contribution scheme.	405	2.86	1.421

**Source: Author (2014)**

The new DC would to a moderate extent at a mean of 2.79 provide the employees of Public sector occupational pension scheme with less retirement benefits than the previous DB scheme. In addition, with the conversion from the previous DB scheme to the new DC scheme, the employees in the Public Sector occupational pension scheme would to a moderate extent at a mean of 2.63 receive about the same benefits as those received in the previous DB scheme. However, it is clear from the analysis that the new DC scheme provides to a little extent at a mean of 2.25 the employees in the Public Sector occupational pension scheme with more benefits than the previous DB scheme.

The greatest effect on the employees of the Public Sector occupational pension scheme with regard to their contributions and benefits was the fact that to a moderate extent at a mean of 3.34, the benefit at retirement would be affected in the event the employer became insolvent. Further, another effect on the employees of the Public Sector occupational pension scheme was the fact that the employees contributions as well as the employers contribution increased to a moderate extent at a mean of 2.87 and 2.86 respectively.

In conclusion, the analysis above implies that with the new DC scheme, the retirement benefits of employees in the Public sector occupational pension schemes is less compared to the benefit they would have received in the previous DB scheme. Further in the event of the employer becomes insolvent in the new DC scheme, the retirement benefits of the employees shall be affected. It is evident that for the employees and employers of Public Sector occupational pension scheme, their contributions in the DC scheme increased. As



such, it is evident that the conversion from DB to DC affected the benefits and contributions of employees in the Public Sector.

#### 4.5.4 Respondents perception of the new DC scheme when seeking employment

The respondents' perception of the new DC scheme when seeking employment is shown in table 4.11

**Table 4.11**

Statement	N	Mean	Std. Deviation
With the new defined contribution scheme, I would consider the pension scheme type provided by an employer when seeking employment.	405	3.26	1.186
The new defined contribution scheme is convenient for me in the event I want to change jobs.	405	3.19	1.157

**Source: Author (2014)**

The study sought to know the effects of the conversion from DB to DC on the respondents of Public Sector pension scheme when seeking employment. It is clear that with the new DC scheme, the employees in the Public sector occupational pension schemes would to a moderate extent at a mean of 3.26 consider the pension scheme type provided by an employer when seeking employment. In addition, the new DC scheme is convenient to a moderate extent at a mean of 3.19 to the employees in Public Sector occupational pension scheme in the event they want to change jobs.

In conclusion, the analysis implies that employees in the Public Sector occupational pension schemes would with the new DC scheme consider the pension scheme type provided by an employer when seeking employment. In addition, the new DC scheme is convenient for employees in the Public Sector occupational pension schemes in the event they want to change jobs because accrued benefits in a DC scheme are portable.

#### **4.6 Discussion of findings**

DB schemes are employer sponsored where employee benefits are based on a formula utilizing factors such as salary, longevity of employment etc. The investment risk and portfolio management are entirely under the control of the employer. In a DB scheme, the employee earns a unit of pension usually expressed as a percentage of nominal earnings, or each year of credited service. The employer bears the risk of providing the employee with a pension benefit (Broadbent et al, 2006). According to Adkins, (2010) DB schemes tended to afford employees a greater retirement benefit than what employees could expect to receive through other retirement schemes. The study found out that for majority of the respondents, the DB scheme met their expectation and that the conversion from DB to DC affected them to a moderate extent.

The reasons why most of the respondent said the DB scheme met their expectation is because the benefits accruing from the scheme were predictable and could be determined as a proportion of their earnings just before retirement. In a DC scheme, members will not normally know until very close to retirement what their benefits will be. The pension benefits accumulated during the employee's working career will depend on the

contributions made while working and the investment returns earned on the schemes balances. This again is the reason why for the majority of the respondents were of the view that the DC scheme did not meet their expectations at all and further that the change from DB to DC was not good for them at all.

Broadbent et al, (2006) observe that employees in the DC scheme are exposed to inflation risks while assuming other risks such as market longevity and market timing risk that was formerly borne by the Employer in a DB scheme. The study revealed that under the new DC scheme, the employer would not be liable in the event of any loss in the pension scheme. Majority of the respondents were aware of this fact. In addition, in the event of the employer becoming insolvent, under the new DC scheme, the respondents' benefits would be affected to a great extent. This however would not have been the case in the previous DB scheme as the employer was liable for any losses.

DC schemes are by their nature fully funded that is the market value of the scheme's assets equals the liability of the sponsor to the scheme's beneficiaries (Bodie, et al, 1988). DC schemes avoid the accrual losses that can be associated with DB schemes and provide mobile workers with a much more flexible means of managing their retirement savings (Broadbent et al, 006). In addition, employees who keep moving from one job to another generally fare better in DC scheme than in DB schemes. The employees account balances in a DC scheme once vested are fully portable. By comparison, the accrued benefits in DB schemes generally are not portable and are reduced in value for employees who change jobs.

Employees would prefer a pension scheme that does not penalize them in the event of movement to another job (Turner et al, 2008). The benefits in a DC scheme are easily transferable between employers. DC scheme further offers better value for early leavers in comparison to early leavers under the DB scheme. The study revealed that for the majority of respondents, they were of the view that the new DC scheme was convenient for them in the event they wanted to change jobs. In addition, a majority of respondents also said that to a great extent, they would consider the pension scheme type provided by an employer when seeking employment.

The shift towards DC schemes has largely been a response to changes in industrial structure and labour force composition that have given rise to an increasingly mobile workforce. Employee movement to other jobs has increased over the past 30 years. Explanations include changes in the industry composition of employment, technological change and changes in the demographic composition of the labour force towards employees with less stable labour supply. More employees who change jobs find DC schemes relatively advantageous because benefits in these schemes accrue more evenly through their career and are entirely portable should the employee separate from the employer or leave the workforce for a period (Broadbent et al, 2006).

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION**

### **5.1 Introduction**

The objective of the study was to establish the perceptions of Public Sector employees to the new DC scheme from the previous DB scheme. This chapter covers summary of findings, conclusions and recommendations.

### **5.2 Summary and Discussions**

The profile of the respondents was all inclusive as all ages were well represented. In addition the gender of the respondents was fairly distributed though there were more male than female respondents. The respondents were well educated with the majority of respondents having at least a university degree. The respondents therefore had an understanding of the questions asked during the study. Further, all levels in the organizational structure were well represented. All the respondents were members of a pension scheme with the highest majority being members of a DC scheme and therefore aware of the new scheme.

It is clear from the responses that employees in Public Sector pension schemes were moderately affected by the conversion to the new DC scheme from the previous DB schemes. In addition the previous DB scheme met the employees' expectations to a moderate extent as compared to the DC scheme which met the employees' expectations only to a little extent. Employee in Public Sector pension schemes had a moderate

understanding of the DB scheme having been in it. Notwithstanding the fact that the conversion from DB to DC was a Government directive, the information on the conversion was to a moderate extent disseminated to employees in the Public Sector pension scheme.

The information relayed to the employees gave them a moderate understanding of the DC scheme and its benefits. However, in spite of the information given, employees in the Public sector pension schemes felt that the conversion was good for them only to a little extent. Job satisfaction of the employees in the Public sector occupation pension scheme also increased to a little extent with the conversion. The contributions and benefits of the employees in the Public Sector Pension schemes were affected with the conversion from DB to DC. It is clear from the analysis that with the new DC scheme, the contributions of both the employees and the employers increased moderately.

The study revealed that with the new DC scheme, the benefits at retirement would be affected to a moderate extent in the event the employer became insolvent. Further, in the event of a loss in the pension scheme, the employer in the new DC scheme is not liable. The new DC scheme however is the occupational pension scheme of choice for the mobile employees who like changing jobs every so often as their benefits were easily transferrable and they would not incurring any loss.

### **5.3 Conclusion**

The study sought to find out the employee perception to the conversion of Public Sector Occupational Pension schemes to the new DC scheme from the previous DB scheme. It is evident that the conversion from DB to DC moderately affected employees in the Public Sector Occupational Pension scheme. However that notwithstanding, following the Treasury circular requiring all Public Sector Pension Schemes to convert from DB to DC, conversion is likely to continue. It is further clear from the study that employees who wish to change jobs several times during their career have opportunity to do so because the DC scheme is portable and the accrual risk associated with the DB scheme does not arise.

The Government's directive for the conversion of all Public Sector Occupational Pension schemes from DB to DC was as a result of a review of the public service retirement benefits scheme where it was found that most schemes could not meet the funding level required by the RBA. As such in the event of any loss in the Public Sector Occupational Pension schemes, the Government as the sponsor became liable. The directive therefore that conversion from DB to DC takes place was a way for Government to try to ensure there is equity in sharing cost of funding between employer and employees thus reducing the financial strain on the part of the Government which has been achieved where the conversion from DB to DC has taken place.

The conversion from DB to DC has not been without challenges owing to the fact that the risks that were previously borne by the employer or sponsor have now been transferred to

the members of the DC scheme. Example it was clear from the study that the DC scheme will no longer be liable in the event of pension losses. Other risks include investment risks and inflation risks.

#### **5.4 Recommendations**

The study recommends that whereas the Government had an objective when they gave the directive that all Public Sector occupational pension scheme convert from DB to DC, Government should provide ample time for the occupational pension schemes to first and foremost understand the implications of the conversion and then in turn cascade that information to their employees.

The study also recommends that going forward information on the conversion from DB to DC is given to a great extent with them aim of ensuring that employees are well aware of the DC scheme and its benefits. The study revealed that with regard to communication on the conversion from DB to DC, employees in Public Sector occupation pension schemes were given information only to a moderate extent.

The study further recommends for more sensitization of employees on the benefits of the new DC scheme as it was clear from the study that the new DC scheme did not meet their expectations and neither was the conversion good for the employees. For a majority of the employees, their contribution increased. Sensitization of the employees will be geared towards making them understand and see the benefits of the new DC scheme in the long run. The sensitization of employees will also ensure that they are aware of what is expected of them in the new DC scheme.



The study also recommends for further research to be done to establish if the employees perceptions to the conversion from DB to DC have changed. This would augment this study as it would show whether employees perceptions have change and therefore justify the Governments decision for the conversion of all Public Sector occupational pension schemes.

## REFERENCES

- Aaronson, S., Coronado, J. (2005), “Are firms or workers behind the shift away from DBS pension plans?”: Finance and Economics Discussion Series No. 2005-17, Divisions of Research and Statistics and Monetary affairs, Federal Reserve Board of Governors, San Francisco, CA.
- Aiyabei, J. (2010), “Challenges of Pension Scheme shift from Defined Benefits to Defined Contribution”: Paper presented at the 6th Annual Eastern and Central Africa Pension Funds Conference in Nairobi.
- Anderson, C.R., & Paine, F.T. (1975), “Managing perception”, *Strategic Behaviour Academy of Management Journal*, 18: 811-823.
- Blake, D. (1999), “Portfolio choice models of pension funds and life assurance companies, similarities and differences” Geneva paper on Risk and Insurance, 24, 327-357.
- Blake, D. (2000), “Does it matter what type of pension you have?”, *the Economic journal*, Vol. 110, February.
- Blake, D. (2003), “Financial System Requirement for Successful Pension Reform”: Unpublished paper University of London.
- Bodie, Z. Marcus, A. J. & Merton, R.C.(1988), “Defined Benefits Vs Defined Contribution Plans: What are the Real Trade-Offs?”: University of Chicago press. Page 132 – 162. <http://www.nber.org/books/bodi88-1>
- Barnow, S. B and Ehrenberg R. G. (1979), “The Cost of Defined Benefits Pension Plans and Firm Adjustment”: *The quarterly journal of economics*, Vol. 93, No. 4 (November, 1979), pp. 523 – 540. <http://www.jstor.org/stable/1884468>
- Chirchir, S. (2010), “Conversion of Defined Benefits Schemers to Defined Contribution Schemes”. Available on <http://www.rba.go.ke>
- Chitembwe, S. (2007), “The Role of NSSF in the welfare and development of the Kenyan Society NSSF, Kenya”: Paper presented at the ‘Mijadala on Social Policy, Governance and Development in Kenya’ sponsored by Development Policy Management Forum on 28<sup>th</sup> April, 2007 at Nairobi Safari Club.
- Clark, R. L. and Munzenmaier, F. W. (2000): “Impact of replacing a defined benefits pension with a defined contribution plan or a cash balance plan”. *North American Actuarial Journal*, Volume 5, Number 1.
- Colin, H. and Orla, G. (2002) Employee evaluations of company occupational pensions HR implication. *Emerald Personal Review* Vol. 32 No. 3, 2003 pp 319 – 340.

- Cooper, D. R. (1999), Occupational Pensions for all employees. Vol. 21 No. 2, 1999, pp 145-158.
- Davis, E. P. (2000), Regulation of private pensions, a case study of the UK. Working paper No. P1-2009, The Pension Institute, Birkbeck College, London.
- Demler, W. W. (1960), Psychology of Perception. Winston Publishers New York.
- Elsbach, K.D. Barr, P.S. & Hargadon, A.B. (2005), Identifying situated cognition in organizations. *Organization Science* 16(4), 422-433.
- Fishbein, M. & Ajzan, I. (1975), *Introduction to Theory and Research*. Oxford Press, New York.
- Gibson, J. L. Ivancevich, J. M. and Donnely J. H. Jr. (1996), "Organizational behaviour structure process", 9<sup>th</sup> Edition, Irwin Chicago.
- Hannah, L. (1986), *Inventing Retirement: The Development of Occupational Pensions in Britain*, Cambridge University Press, Cambridge.
- Hudson, R. (2008), "Has regulation killed off the defined benefits scheme as a cost effective tool for human resource management?", *Journal of Financial Regulation and Compliance*, Vol. 16 No. 3.
- Institute of Economic Affairs (2002), 'Charting the future for Kenya's Retirement Benefits Industry. The Point: Bulletin of the Institute of Economic Affairs, Issue No. 51: January 2002.
- Kakwani, N. Sun, H. & Hinz, R. (2006), Old age Poverty and Social Pensions in Kenya, International Poverty Centre, Working paper No. 24.
- Kareithi, A. (2009), Storm over control of Multibillion Pension Scheme. *The Standard*, January 21, 2009.
- Kombo, D. S, & Tromp, D. L, (2006), "Proposal and Thesis writing: An Introduction". Nairobi, Pauline Publishers Africa.
- Krejcie, R.V. & Morgan, D.W. (1970), Determining sample size for research activities. *Educational and Psychological Measurement*, 30, 607-610.
- Kotler, P. (1997), "Marketing Management" Analysis, planning, interpretation and control", Ninth Edition USA: Prentice Hall.
- Kusewa, (2007), The impact of regulation on the retirement benefits sector on the financial performance of occupational pension schemes in Kenya, MBA project (Unpublished), University of Nairobi.

- Kyengo, (2010), A survey of Pension coverage of informal sector workers in Nairobi County.
- Lunnon, M. (2002), Annuity and Alternatives, in: Proceedings of the Transaction of the 27<sup>th</sup> International Congress of Actuaries, Cacun.
- McGinnis, S.K. (2007), Organizational behaviour and management thinking. In: *Introduction to Health Care Management*. Jones and Bartlett Publishers, Google books, by Sharol Bell Buchbinder & Nancy H. Shanks, <http://bookd.google.co.ke/books?nd=FPH7B>.
- Morindat L.N. (2005), Impact Assessment of Pension Reform in Kenya. MBA thesis, Moi University Eldoret.
- Mutua, N. (2003), Survey on the extent of compliance with the Retirement Benefits Act by retirement benefits schemes in Kenya.
- Mutuku, 2004, Role of the actuary in a retirement benefits scheme. Article for the official journal of the Nairobi University Actuarial Students Association, 2004 publication.
- Mutuku, N. (2010), ‘The impact of the Global Financial Crisis on the Pension Sector in Kenya’ . <http://papers.ssrn.com>
- Nelson, D. & Quick, J. (2008), Understanding Organizational Behaviour (3<sup>rd</sup> ed.). Mason, Ohio, Thomson Outh- Western.
- Njuguna, C. (2010), Impact of Retirement Benefits regulations on the cost efficiency of Retirement Benefits Schemes in Kenya.
- Omondi, M. (2010, August 12), Employers face Kshs. 30B top up bill in new pension rules. Business Daily, ppl.
- Otieno B. (2003), Challenges facing management of Pension Funds in the Investment Industry in Kenya. MBA thesis, Moi University, Eldoret.
- Palacios, R. and Whitehouse, E., (2006), “Civil Service Pension Schemes around the world” Discussion paper No. 0602, pp 1-89.
- Pattanayak, B. & Mishra, P.K. (1999), Change for growth, Understanding Organizational Development. Wheeler Publishing, New Delhi.
- Pauwe J. (1997), “Introduction to Special Issues on Human Resource Management and Retainment”. *The International Journal of HRM*, 3;26
- Public Finance Notes (2012), Dissemination Notes No. 5. “Reforms in Public Finance Management”. Public Financial Management Reforms, Office of the Deputy Prime Minister and Ministry of Finance.

- Raichura, S. K. (2008), Analytical review of the Pension System in Kenya.
- RBA Act (1997), Revised Edition 2000, Incorporating the Retirement Benefits (Amendment) Act 1997.
- RBA ACT 2000, Government printers. Nairobi
- RBA Quarterly report 2008. Available on <http://www.rba.go.ke>
- Robbins, S. (1996), “Organizational behaviour: Concept controversy application”, Seventh Edition, Prenhallindo, Jakarta.
- Roberts, I. (1997), Fringe Benefits”, in Beardwell, I. and Holden, L. (Eds), *Human Resource Management: A Contemporary Perspective*, 2<sup>nd</sup> ed., Pitman, London, pp. 549 – 610.
- Ross, D., Wills, L. (2002), “The shift from Defined Benefits to Defined Contribution Retirement Plans and the Provisioning of Retirement Savings” Pension Institute, Discussion Paper P1-0210.
- Taylor, S. And Earnshaw, J. (1995), “The provision of occupational pension in the 1990s: an exploration of employee objectives”, *Employee Relations*, Vol. 17, pp. 38-53.
- Treasury Circular No. 18 of 2010, “Public Service Retirement Benefits Schemes” issued on 24<sup>th</sup> November, 2010.
- Saari, L.M. & Judge, T.A. (2004), Employee attitudes and job satisfaction. *Human Resource Management* 43(4), 395 – 407.
- Schuler, T. (1989), “Financial participation”, in Storey, J. (Ed), *New perspectives on Human Resource Management*, Routledge, London, pp 126 – 136.
- Stoner J.A.F., Freeman R.E., & Gilbert, Jr. D. R. (2002), *Business Management*. Prentice hall of Inter Private Limited.
- Taylor, P. (2000), “Occupational pensions and employee retention”, *Employee relations*, Vol. 22 No. 3, pp. 246 – 259.
- Tella, A. Ayeni, C.O. & Popoola, S.O.(2007), Work motivation, job satisfaction and organizational commitment of library personnel in academic and research libraries in Oyo State, Nigeria. *Practice of Library and Philosophy*.  
[www.webpages.uidaho.edu/~mbolin/](http://www.webpages.uidaho.edu/~mbolin/)
- Terry, N. G. and White, P. J. (1997), “The role of pension schemes in recruitment and motivation; some survey evidence”, *Employee Relations*, Vol. 19 No. 2, pp. 160 – 175.

- Terry, N. G. and White, P. J. (2000), “Occupational pension Scheme and their interaction with HRM”, *Human Resource Management Journal*, Vol. 8 No. 4, pp. 20-36.
- Terry, N. G. and White, P. J. (2000), “Occupational pension Schemes and Human Resource Management”: Survey evidence.
- Turner, J. A., Hughes G, (2008), “Large declines in Defined Benefits Plans are not inevitable: The experience of Canada, Ireland, UK, USA”. Pension Institute, Discussion Paper P1-0821.
- Van Dullemen, C. (2007) ‘Pensions in Developing Counties: A quest for modern format for intergenerational solidarity’ United Nations. [http://www.un.org/esa/socdev/unyin/documents/egm\\_unhq\\_oct07\\_vandullemen.pdf](http://www.un.org/esa/socdev/unyin/documents/egm_unhq_oct07_vandullemen.pdf).
- Wanjohi, C. Wanjau, K. and Odhiambo, D. (2011), The role of Pension schemes on motivation of employees. A case study of Tuskys supermarket: *Prime Journals of Business Administration and Management (BAM)* Vol. 1(9), pp. 295-302.
- Wanyama, R. (2002), Pension Schemes and Provident Fund investment portfolios in Kenya. Implications of investment guidelines under retirement benefits Act (1997) and Regulations (2000).
- Watson, R. (2008), “A review of risks, costs and benefits of defined contribution and defined benefits pension schemes”, *Journal of Financial Regulation and Compliance*, Vol. 16 Issue: 3 pp. 230 – 238.
- Williamson, J. B. & Howling, S. A. (2003), “The notional defined contribution approach to public pension reform: implications for women and low-wage workers”, *The international Journal of Sociology & Social Policy*, Vol. 34, pp 660-681.

## APPENDIX 1 QUESTIONNAIRE

Introduction: Good morning/Good afternoon. You have been randomly selected for an academic survey on employee perceptions to the new defined contribution scheme from the previous defined benefits scheme. Kindly tick or write on the spaces provided as appropriate.

### SECTION A: PERSONAL INFORMATION

1. Name: (Optional) .....

2. Kindly indicate your age bracket

21 – 30 [ ]

31 - 40 [ ]

41 – 50 [ ]

51 – 60 [ ]

3. What is your gender

Male [ ]

Female [ ]

4. Highest level of education

Post University [ ]

University [ ]

Higher National Diploma [ ]

Diploma [ ]

Form 6 [ ]

Form 4 [ ]

Others (Specify) .....

5. What level are you in the organizational Structure

Senior Management [ ]

Middle Management [ ]

Junior Management [ ]

Support Staff [ ]

6. Are you a member of a Pension Scheme

Yes [ ] No [ ]

7. What is the design of your retirement benefit plan?

Defined Benefit ( ) Defined Contribution ( ) Don't Know ( )

8. How long have you been in your Pension Scheme? .....

9. When did the conversion from Defined Benefits to Defined Contribution occur?

.....

10. Before the conversion what was the pension factor of your retirement scheme?

.....

## SECTION B: PERCEPTIONS OF EMPLOYEES

Using the scale below, please indicate your response by ticking each of the items that best describes your perception of the pension scheme

- 1 - Not at all
- 2 - To a little extent
- 3 - Moderately
- 4 - To a great extent

### Questions

	Not at all	To a little extent	Moderately	To a great extent
11. Conversion from defined benefit to defined contribution affected me.	1	2	3	4
12. I had an adequate understanding of the previous defined benefit scheme and its benefits.	1	2	3	4



- |  |   |   |   |   |
|--|---|---|---|---|
| 13. In general, the previous defined benefit scheme met my expectation.  | 1 | 2 | 3 | 4 |
| 14. When the retirement scheme was being changed to defined contribution, I received adequate communication.                     | 1 | 2 | 3 | 4 |
| 15. I have an adequate understanding of the defined contribution scheme and its benefits.  | 1 | 2 | 3 | 4 |
| 16. Generally, the defined contribution scheme meets my expectation.   | 1 | 2 | 3 | 4 |
| 17. When I retire the defined contribution scheme will provide me with adequate income.  | 1 | 2 | 3 | 4 |
| 18. Generally, the change from defined benefit to defined contribution was good for me.  | 1 | 2 | 3 | 4 |
| 19. The new defined contribution scheme offers me an opportunity to select my desired investment portfolio.                      | 1 | 2 | 3 | 4 |
| 20. The new defined contribution scheme will provide me with less retirement benefits than the previous defined benefit scheme.  | 1 | 2 | 3 | 4 |
| 21. The new defined contribution scheme will provide me with about the same benefits.  | 1 | 2 | 3 | 4 |
| 22. The new defined contribution scheme will provide me with more retirement benefits than the previous defined benefits scheme. | 1 | 2 | 3 | 4 |

- |   |   |   |   |   |
|---|---|---|---|---|
| 23. My level of job satisfaction increased with the new Defined Contribution scheme.  | 1 | 2 | 3 | 4 |
| 24. In the new defined contribution scheme, my benefits at retirement will be affected in the event my employer becomes insolvent.      | 1 | 2 | 3 | 4 |
| 25. My contribution to the pension scheme increased with the new defined contribution scheme.   | 1 | 2 | 3 | 4 |
| 26. My employer's contribution to the pension scheme increased with the new defined contribution scheme.                                | 1 | 2 | 3 | 4 |
| 27. With the new defined contribution scheme, my employer will no longer be liable in the event of any loss in the pension scheme.      | 1 | 2 | 3 | 4 |
| 28. With the new defined contribution scheme, I would consider the pension scheme type provided by an employer when seeking employment. | 1 | 2 | 3 | 4 |
| 29. The new defined contribution scheme is convenient for me in the event I want to change jobs.  | 1 | 2 | 3 | 4 |
| 30. In general, the organization managed the change in retirement plan very well  | 1 | 2 | 3 | 4 |