

AN EVALUATION OF PENSION SCHEMES AND
PROVIDENT FUNDS INVESTMENTS PORTFOLIOS IN KENYA

BY:

MUIGAI P THUMBI

SUPERVISOR:

MR S. M. MULI

LECTURER, DEPARTMENT OF ACCOUNTING

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

DEDICATED TO

ANNE MUIGAI

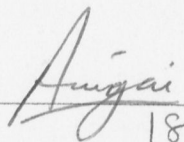
AND

SHARON WANJIKU

FOR THEIR

PERSEVERANCE,

PATIENCE AND


18/9/96
Muigai P Thumbi

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


18/9/96

Mr S M Muli

ABSTRACT

DEDICATED TO

ANNE MUIGAI

AND

SHARON WANJIKU

FOR THEIR

PERSEVERANCE,

PATIENCE AND

UNDERSTANDING

ABSTRACT

The purpose of a Pension Plan and/or Provident Fund is to provide income when a person retires from gainful employment. A growing number of people are interested in pensions management, especially as economic and political events continue drastically to influence financial decisions. Yet many people in Kenya do not have a basic understanding of pensions management situation in the country or the importance of prudent management of pension schemes until after retirement. At this stage, many individuals find it difficult to support themselves and end up living miserably.

Successful pension fund management is about consistent long-term performance. This in turn, demands the ability to spot and exploit investment opportunities at every stage of the economic cycle. This is what we are lacking and can only be achieved if our style depends on strong focus leadership, a discipline framework for investment managers to work within and a top down, market driven approach to investment vehicles selection. The Government should also encourage, promote and facilitate the development of pension schemes that are professionally managed.

The value of pension schemes in Kenya is estimated at Sh.100 billion by the end of 1994. This colossal sum is mainly in form of bank deposits and other short-term money instruments. This is an amount that can be better utilised by the government in developing programmes with good returns and also by credible businesses for the benefit of the whole nation. But what we find in this country is malpractices that go in benefiting individuals rather than the nation. This is especially common with the public pension scheme.

However, the story could be different for private schemes, but still a lot need to be done to improve their performance. Some of the fund sponsors do not regularly remit contributions and also influence the investment decisions that are vital for the prudent management of Pension Funds.

The principal thing which investment managers do not do is reconcile the analysis of the world and what is actually happening at the grass roots of companies. Once this reconciliation has taken place, then it is possible to identify investment themes. Each security selected should reflect this theme. Further, the Trust Deeds should be truly definitive. There are many benefits in doing so, both direct and indirect. These include a better understanding of how the scheme operates, reduced risk of something going wrong at a later date, elimination of time wasting forays into the paper jungle to check administrative powers and improvements in communications between the company, the trustees and their professional advisers.

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CHAPTER ONE

1.0 INTRODUCTION

The purpose of a pension plan and/or provident fund is to provide income when a person either retires from gainful employment or those who change jobs or dies while in employment. Pension funds have their origins in the United Kingdom during the reign of Queen Elizabeth I in the 18th century. Poor laws were established during this time which extended well into the 20th century and can be regarded as the first beginnings of the welfare state. For instance, in the United Kingdom, on the retirement of an employee, a condition of the appointment of a successor was that he/she should pay a proportion of his/her salary to the retiring employee for the remainder of his/her lifetime¹ (Ellison R, 1988). Over the years, pension and provident funds have gained popularity to the extent that most of the major organizations the world over operate pension schemes for their employees. In addition, there are private and public schemes where any qualified member of society, for example, the self-employed persons may join.

In the United States, there were approximately 850,000 pension plans at the end of 1987. Pension funds are by far the largest investors in common stocks and fixed income securities in the USA. The assets of pension funds increased dramatically over the period 1985-1987 because of the strong stock market and additional contributions to the plans in the USA. In the same country, for instance, for the years ending September, 30th 1987, assets of the one thousand largest funds increased from \$1,073 billion in 1985 to \$1,577.6 billion in 1987²

(Panstian, C., 25th Jan., 1988). In Kenya, there is a public pension scheme operated by the governmental agency, the National Social Security Fund (NSSF) and several private plans. For the public scheme, it is mandatory for all employers to contribute for the employees unless exempt under their employment as stipulated by the National Social Security Fund Act, Cap 258 enacted in 1962. Both the employer and employees contributes equally. The part of the employer is not part of the employee wages or salary. The contributions are made regularly. On the other hand, for the private schemes, it is the decision of the employer, who is hence referred as the funds sponsor. Establishment of a private scheme follow the Trustee Act, Cap 167. This is an Act of Parliament relating to trustees and enacted in 1929.

From their humble beginnings, pension and provident fund groups have registered enormous growth in both the developed and developing economies. For instance, in the United Kingdom, £200,000 million is one of the most recent estimates of the value of the assets of pension funds under management. And the capitalised value of the rights of members of private pension schemes, and the rights of members of state and other unfunded schemes will be a multiple of this ³ (Philip, A., 21st Sept., 1985). On an individual basis, a pension right may be the largest single asset that many people possess ⁴ (The 'Scot Report', 1981). While there are no figures for the position of the finances of private pension schemes before the second world war, there is no doubt that the size of private schemes is a new phenomenon, not only in the developed industrialized world, but it is also evident that the situation is being mirrored in the developing nations ⁵ (ILO, Abidjan, Sept., 1977). Today they are recognized as major players in the mobilization of resources in the stock markets and other sectors. Thus, they are viewed as major players in investible funds in the financial system. In a few

cases, they are able to mobilize more funds than established financial institutions. The impact of pension funds is felt in entire financial system : from the commercial banks where they hold sizeable investments to the stock exchange. For instance, in the USA in 1987, it was established that they were the largest investors in common stocks and fixed income securities. They contributed to the growth and active trading in the capital markets ⁶ (Chernott, J., 8th Feb., 1988, P 33). Given the huge funds at the disposal of the pension fund managers, sizeable investments in quoted companies means they are able to exercise effective control over these institutions. They are thus able to influence the investment and financing strategies of the companies they invest in. For instance, the National Social Security Fund (NSSF), has invested in the HFCK and the National Bank of Kenya and is currently one of the major shareholders. Thus, NSSF have a say in the operations of these institutions ⁷ (Daily Nation, 15th Dec., 1995).

Definitions of Terms

The word investment has many meanings, however, the most commonly or current uses of the word are: consumer investment, business or economic investment, and financial or securities investment. Consumer investment is really not a form of investment at all. The label is attached because the consumers use the term; it is often used as a defence or rationalization for what the consumer has purchased. The term actually relates to the purchase of durable goods by consumers. Many individuals, for example, consider the purchase of an automobile as an investment. However the correct use of the word investment precludes the consumer definition, since no rate of return is involved, nor is a financial return or capital growth expected.

A business or economic investment refers to a situation in which money is used to purchase business assets to produce income that is adequate compensation for the risks involved in the venture. The businessman is thoroughly willing to purchase productive assets to earn a profit and is aware of the risks involved. The business or economic concept of investments assumes that new productive facilities will emerge in the process of seeking a profit.

Financial investment refers to the purchase of an asset in the form of securities that will produce a profit for the investor. The investor assumes all the risks involved in such a purchase but attempts to keep these risks to a minimum and at the same time to maximize profits. The securities investor has no direct control of the real assets but rely upon the talents of others to manage the assets ⁸ (Fishcher D. and Jordan R., 1990).

A pension can be defined as "a series of regular payments and/or a lump sum payment provided by government or former employer for a person who has come to the end of normal working life ⁹ (Ellison, R., 1988). In other words, an income after retirement. The modern concept of an organized pension scheme implies that there should be an advance payment of future benefits on some defined basis, together with some guarantee of financial security to ensure that this promise can be realised.

A fund is sum of money available to beneficiaries of a given pension scheme. And a beneficiary is a person who receives a benefit from the fund mainly in form of money.

Investing - This is the process of placing funds in selected investment vehicles with the expectation of increasing their value and/or earning a positive return. This activity has broad

economic importance, provides rewards, and can be pursued by following a logical progression of steps.

Investment Portfolio - This is a collection of investment vehicles to meet one or more investment goals. Using a variety of available tools and techniques, the investor can combine investment vehicles in such a way that investment goals can be achieved, and return, risk, and investment values are optimized.

Investment advisors are individuals or firms that provide investment advice - typically for a fee to clients. They provide services ranging from recommendations on investment vehicles and strategies to complete money management, which might include financial planning, tax return preparation, etc.

Management of Pension Plans and Provident Funds

Employers and individuals normally contribute to the public scheme and/or private schemes. The sum is earmarked for the provision of pension and other benefits and should be quite separate from the general assets of the business. Employers pension schemes normally meet these requirements in one of two ways,¹⁰ (Ellison, R., 1988)

1. Most large and medium sized schemes appoint trustees who hold the funds and are responsible for payment of the promised benefits. The trustees will be given power to invest money not immediately required to pay benefits in a number of ways often including insurance policies.

2. Where only a few employees are eligible for a scheme, it may not be considered necessary to appoint separate trustees. In such a case, the employer effects a suitable insurance policy or policies on the lives of employees, with benefits corresponding to those promised under the scheme. The employer acts as trustee of the scheme and the employees or their dependents have an entitlement to the benefits provided by the proceeds from the policies. As employees, most individual investors do not have direct control of their pension funds. Control is exercised by their employer, who may be a small privately held business, a publicly traded corporation, or a governmental agency. However, they should be aware of the various types of pension plans and the specific characteristics of the plans in which they have an interest. This information is essential in planning for retirement and in formulating strategies for the entire portfolio. That is, making adequate preparation for retirement.

Investment Decisions In Pension and Provident Funds

The objective of the pension and provident fund investments is to "maximize the welfare" of the contributors upon retirement. This calls for the judicious investments of contributors funds (including reinvestment of any surplus). Optimum investment decisions are based on a careful evaluation of both risks and returns. The investments and investment strategies of pension funds vary according to the type of plan and the risk-return attitudes of the funds sponsor and manager. Therefore, the risk-return characteristics for individual funds, can vary significantly.

In any funded pension scheme, the contributions are paid into the scheme throughout the members term of employment. At a later date, the benefits under the rules of the scheme are paid out. In general, after the collection of contributions and before payment of benefits there arises a long period, and decisions must be made on how to invest the resulting substantial monies held into the scheme. In most cases, the trustees are influenced by tax planning. Also, they are primarily concerned with choosing investments to give the highest return consistent with the degree of risk they wish to adopt. In deciding on the degree of risk they wish to adopt, the trustees should give consideration to the form and nature of the liabilities of the scheme ¹¹ (Bookstaber, R., and Gold, R., Jan-Feb., 1988, p.62,70-80). The security investments is an important consideration for pension funds.

The trustee would choose both direct and indirect investments. Direct investment can basically be split into two types. One is where the proceeds of both income and capital are known. Secondly, the proceeds, either income or capital, or both vary. The income may be a function of the profitability of the commercial operation offering the investment or in some way to some government index. The capital value could be subject to similar variations or possibly to the judgement of stock markets. Income and capital fluctuate with changes of interest rates and prices of stocks in the capital markets. On the other hand, indirect investment refers to the situation where trustees or funds sponsor buys a policy and the insurance company invests the fund or manages the fund. In all investment cases, generally, the fund managers are willing to trade-off profitability for lesser risks.

In Kenya, Pension Plans and Provident Funds are regulated and operated within the constraints imposed by various Acts of Parliament. These includes:

1. The Trustee Act, Cap 167. This is an Act of Parliament relating to trustees and enacted in 1929. It defines "authorised investments" as investments authorised by the instrument, if any, creating the trust for the investment subject to the trust, or by law. The instruments includes such things as land of any tenure, mines and minerals, buildings, immovable property, estates, securities, and so forth.
2. The Pension Act, Cap 189. This Act was enacted in 1952, and provides for the grant and regulating of pensions and gratuities.
3. The Provident Fund Act, Cap 191. This was meant for certain type of employees and enacted in 1951.
4. The National Social Security Fund Act, Cap 258. This Act establishes the Board of trustees of NSSF who are given powers to purchase, hold, manage and dispose any movable and immovable property and can enter into any contract that may deem necessary or desirable. This Act was enacted in 1965 and revised in 1987 to make NSSF a state corporation.

The principle objective of the fund was to provide workers with some form of financial support on retirement. The Act of Parliament established NSSF as a compulsory saving scheme to which an employer pays a statutory contribution for every employee who is a member. Half of the statutory contribution is deducted from the employee's pay.

The NSSF is an autonomous body under the management of the Board of Trustees. The Board of Trustees comprises of members drawn from the Government, Federation of Kenya Employers (F.K.E) and the Central Organization of Trade Unions (COTU). The Board is empowered to manage its affairs as an independent self-supporting commercial entity.

Private schemes:

The National Social Security Fund rules governing the operations of private schemes are as follows:

1. Membership of a private pension, provident or gratuity scheme is not ground for exemption from NSSF.
2. The funds of private schemes have not been taken over by the NSSF.
3. The circumstance under which benefits may be paid from private schemes are unaffected by the introduction of the NSSF.

Although there is no objection to amend private schemes, they may be amended voluntarily to take account of contributions to the National Scheme.

1.1 STATEMENT OF THE PROBLEM

The performance of a pension fund can be evaluated on the basis of how well it has managed its investments. Optimal investment decisions are reflected by the "funds" ability to meet its obligations to pensioners and offer them the highest returns. Investment decisions are essentially a balancing act where risks are weighed on one side and returns on the other.

The importance of the "funds" investment portfolios and how pensioners view it can be illustrated by the public concern on the investments undertaken by the government agency - NSSF. Headlines such as "NSSF must change to fit with the times", ¹² (Daily Nation, 19th June, 1994) "NSSF answers its critics", ¹³ (Daily Nation, 15th Dec., 1995) "NSSF acquires village market for Sh.3 billion", ¹⁴ (Target, 16-31 Dec., 1995) "Amazing property deals at NSSF", ¹⁵ (Sunday Nation, 25th Jan., 1996) and so on, have become common features in the daily and weekly magazines. The investment opportunities available for pension and provident funds are varied. However, traditionally, pension fund investments tend to be of certain type. The investment mix (portfolio) varies from fund to fund and also from country to country. This would therefore imply that evaluative standards for funds cannot be universal. The investment portfolios of Kenyan companies are not known. Thus, no knowledge or literature is available as regards their returns and how they are managed. The reasons for the investment portfolios are also not known. Therefore, this study aims at determining the investment portfolios of pension funds in Kenya.

1.2 OBJECTIVES OF THE STUDY

1. To identify investment portfolios of Kenya Pension Plans and Provident Funds.
2. To determine the rates of return on investment portfolios.
3. To identify the investment criteria used by the Pension Plans and Provident Funds.
4. To assess the adequacy of pension schemes and provident funds in terms of the level of funding: remitting of contributions and ability to meet obligations.

1.3 IMPORTANCE OF THE STUDY

1. The study will be of value to the fund sponsors in selecting the investment firms that provide maximum returns to the beneficiaries.
2. The study will show the investment portfolios followed in Kenya and the investment criteria adopted by the funds.
3. The study will form a basis for interested scholars and practitioners to research on this area which is important to the Kenyans workforce.
4. The study will shed some light in this important area in the way it is managed.

CHAPTER TWO

2.0 LITERATURE REVIEW

Numerous studies have been conducted mainly in the USA and United Kingdom on the management of pension and provident funds. Studies relying on surveys of pension fund sponsors and managers reveal some interesting observations about pension fund management¹⁶ (Susan, M. and Susan, J., Nov/Dec, 1986). Tax considerations, the liquidity and financial condition of the sponsor, and actuarial recommendations are identified as important determinants of funding policies. Additionally, active investment strategies using common stocks are favoured over passive strategies. Surprisingly, many executives also view the pension fund as an asset separate from the other assets of the sponsor. Technically, this viewpoint is correct, since fund assets are protected from creditors in the event of bankruptcy and are required to provide benefits to employees rather than stockholders. Recent evidence suggests, however, that pension funds should be managed from the viewpoint of the sponsor's overall portfolio¹⁷ (Zui Bodie, et al, Sept/Oct., 1985 P10-16). The evidence indicates that pension policies are linked to overall corporate profitability and the assessment of corporate risk by potential investors. Prior to the 1960s, pension funds received limited attention in financial research in the USA. Few regulations and laws governed pension funds. Beginning in the 1960s, however, more attention was focused on pension funds. In 1965, the Accounting Principles Board issued opinion No.8, dealing with account for the costs of pension plans and how this information should be disclosed on financial statements. Another important development was the Employee Retirement Income Security Act (ERISA) of 1974. The Federal Act provident stringent standards for private (corporate) pension plans,

dealing with minimum funding by the sponsor and financial reporting. The law also imposes investment constraints on pension fund manager. ERISA requires pension plans to be financed and managed in a manner that guarantees benefits to employees. The accounting profession, continuing to wrestle with pension accounting, issued Financial Accounting Standard Board statement Numbers 35 (FASB No.35 and 36) and 36 in 1980. These statements require uniform disclosure of the assets and liabilities of pension funds. Because of the financial reporting and disclosure provisions mandated by ERISA, the average pension funds tends to be conservatively managed.

Within the constraints imposed by Social Security Act of 1973, in the United Kingdom, ¹⁸ (Ellison, R., 1988) pension fund sponsors and managers are free to pursue a wide variety of investment strategies. These strategies may be passive, such as buying-and-holding and indexing, or they may be active, such as changing the asset mix.

Accepting the view that common stockholders will ultimately incur the costs and benefits of the corporate pension plan, "what investment strategies are appropriate for pension funds?" Many fund managers are reaching the conclusion that passive strategies are appropriate. One of the most popular passive strategies are indexing. Index funds are designed to match the performance of broad market indices like the S & P 500. Index portfolios attempt to minimize investment expenses such as management fees and transaction costs.

Many other managers believe that active investment strategies are appropriate for pension funds. One of the most widely used strategies is varying the asset mix of the portfolio ¹⁹ (Robert, A., Sept/Oct, 1985, P17-23). Essentially, this involves market timing. Market

efficiency, however, indicates that active strategies are appropriate only if they generate risk adjusted excess returns.

Pension fund managers have also developed some unique approaches including portfolio insurance. This hedging technique is designed to protect the portfolio from a significant decline in value. Another hedging or risk-reducing strategy used by pension funds is dedicated portfolios. Essentially, this strategy tries to manage both the liabilities and assets of the fund by matching or "loading up" a cash inflow stream from investments that equals the cash outflow stream needed for pension benefits ²⁰ (Bookstable, R., and Gold, R., Jan/Feb, 1988).

Many state and local government officials favour investing the assets of their public employee retirement systems in ways that will stimulate the local economy, rebuild the inner core of their cities, reduce borrowing costs, and achieve other local goals. It seems that the twin issues of who shall control pension plan assets and how they are to be invested will become increasingly important over the next decade or so ²¹ (MacGill, D., 1984).

2.1 THE STATE AND OCCUPATIONAL PENSIONS

Central Government has influenced private pension schemes in three ways, namely:

a) the state as an employer has an indirect influence, for example, the civil service scheme which is adopted as a yardstick by many employers and also used by several private organizations;

b) by legislation which can encourage private occupational schemes but at the same time control them;

c) by the extent to which comparable benefits can be obtained from the national schemes.

In the event of an employer becoming insolvent and the pension scheme having in consequence to be wound up, employees are afforded a measure of protection in respect of any contributions collected from them or due from the employers which have not been paid into the scheme.

The amount of state pensions has a bearing on the extent to which any further provision by employers is necessary or desirable. The ability or willingness of both employers and employees to put money aside for this purpose is also affected by the level of the contributions which they are required to pay to the state scheme. On the other hand, it has been found that extensions to the state scheme also stimulate

interest in private schemes. The general trend to date has therefore been for the overall extent of provision to increase steadily under both the state and private schemes. Legislation has also allowed good private schemes to be treated as an alternative to part of the state scheme.²² (Bodie, Z., et al, Sept/Oct., 1985, P10-16).

2.2 CHARACTERISTICS OF PENSION FUNDS

How Pension Funds Operate

A pension fund is an organization separate from its sponsor. This arrangement protects the employees and permits the fund to receive funding from the sponsor for investment purposes. Contributions (funding) by the sponsor and investment income are used to provide income to retired employees or lump-sum benefits to employees who leave the organization.

Before an employee becomes eligible for pension benefits, certain requirements must be met. Historically, employees became vested or entitled to benefits after completing ten years of employment with the sponsoring organization but this now varies from 2 years onwards with different organization before referee can retain his or her benefits. Typically, the pension fund maintains the accrued benefits in escrow until the former worker reaches retirement age; then benefits are paid monthly. A second option distributes accrued benefits as a lump-sum upon the employee's leaving the organization.²³ (Chernott, J., 8 Feb, 1988, P.1, 33). Because of possible tax

i) After vesting, it is considered the property of the employee and can easily be transferred.

ii) This plan often allows employees to match the contributions of the employer; all contributions and earnings are tax-free until retirement distributions begin.

A disadvantage of a DCP is that the level of retirement benefits depends to a great extent on the investment performance of the plan; the employee does not know the value of his or her share in the plan until retirement.

2.3 RISK-RETURN ANALYSIS OF PENSION FUNDS

Because of the legal requirements and a conservative investment management philosophy, default risk is small. However, change of ownership of organizations might affect the pension funds. For instance, the case of East African Standard Newspapers (1995) after the organization changed ownership.²⁴ (Daily Nation, Jan., 24, 1996). Pension fund portfolios include both unsystematic and systematic risk. The systematic risk of pension fund is generally below that of a market portfolio of common stocks. Consequently, changes in the values of pension fund assets are less volatile than those in common stocks in general. Many pension fund managers also pursue active investment strategies, shifting funds between common stocks, bonds, and other investment alternatives, such as real estates.

consequences, the recipient of a lump-sum distribution should consider "rolling over" the distribution into another retirement fund.

Defined Benefit Plan

The defined benefit plan, (DBP) is the oldest type of pension plan and, as the name implies, specifies the benefits that will be received at retirement. The plan sponsor (employer) makes specified contributions to each employee's account; the employee's account is then used to provide the defined benefit at retirement. The amount of the benefit, however, depends on a number of factors, including length of employment and level of income. Typically, DBP benefits are larger for employees with greater longevity and higher salaries: a typical benefit formula was a percentage of the average of the last five years' salary, adjusted for length of employment to determine monthly retirement benefits. Benefits do not depend on the investment performance of the fund.

Defined Contribution Plan

The other major type of pension plan is the defined contribution plan, DCP. This plan specifies the contribution that the employer (and/or employees) will make to the plan, rather than stating pension benefits.

The DCP employee account has the following advantages:

i) After vesting, it is considered the property of the employee and can easily be transferred.

ii) This plan often allows employees to match the contributions of the employer; all contributions and earnings are tax-free until retirement distributions begin.

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Sources of Risk

Systematic risk refers to the risk associated with (1) fluctuating security prices in general, (2) fluctuating interest rates, and (3) the loss of purchasing power through inflation. Unsystematic risk refers to the risk associated with the individual firm itself, its operations, and its methods of financing.²⁵ (Amling, F., 1987).

Assets returns tend move together. If security prices rise in general, the price of a specific security tends to rise in sympathy with the market. Conversely, if the market were to decline, the value of an individual security would also tend to fall. Thus, there is a systematic relationship between the price of a specific asset, such as a common stock, and the market as a whole. As long as the investor buys securities, that individual cannot avoid bearing the source of systematic risk.

Assets values are also affected by changes in interest rates. Rising interest rates depress the prices of fixed income securities, such as long-term bonds and preferred stock. Conversely, if interest rates fall, the value of these assets rises. The investor must also ensure a third source of systematic risk: The loss of purchasing power through inflation. It is obvious that rising prices of goods and services erode the purchasing power of both the investors income and assets. The investors also faces the unsystematic risk associated with each asset. For firms, the sources of unsystematic risk are the business and financial risks associated with the operation. Business risk refers to the nature of the firm's operations, and financial risk refers to

how the firm finances its assets (that is, whether the firm uses a substantial or modest amount of debt financing).²⁶ (Cohen, D., 1989).

The combination of systematic and unsystematic risk is defined as the total risk (or portfolio risk) that the investor bears. However, unsystematic risk may be significantly reduced through diversification, which occurs when the investor purchases the securities of firms in different industries.

If an investor buys an equal shilling amount of each stock, that is, buys a diversified portfolio), the following is likely to happen:

- (1) The value of the portfolio as a whole may rise even though the value of an individual security may not.
- (2) The fluctuation in the value of the portfolio is less than the fluctuations in individual security prices.

By diversifying the portfolio, the investor is able to reduce the risk of loss. Of course, the investor also gives up the possibility of a large gain. The amount of unsystematic risk diminishes.

Diversification is very desirable because it reduces the investors risk exposure without necessarily reducing the portfolio's return. The problem facing investors is how to identify those assets whose returns are positively co-related. However, if investors

include a broad spectrum of assets (for example, stocks, bonds, money market instrument, real estate, foreign securities, and physical assets) in their portfolios, a substantial amount of diversification and risk reduction should be achieved.

INVESTMENT PRINCIPLES

Since unsystematic risk is significantly reduced through diversification, the investor determines how much systematic risk he or she is willing to bear and constructs an optimal portfolio consistent with the willingness to endure such risk. The investor thus seeks that best portfolio that achieves the highest expected return for the given level of risk.

to maximize the investment return with an acceptable level of risk.

2.4 IMPACT OF PENSION FUNDS ON CORPORATE SPONSORS

Any expression of the principles of pension fund investment should emphasize the two Studies relying on surveys of pension fund sponsors and managers reveal some interesting observations about pension fund management. Tax considerations, the liquidity and financial condition of the sponsor, and actual recommendations are identified as important determinants of funding policies.²⁷ (Susan, M., and Susan, J., Nov/Dec, 1986, P.56-62).

Additionally active investment strategies using common stocks are favoured over passive strategies. Surprisingly, many executives also view the pension funds as an asset separate from the other assets of the sponsor. Technically, this viewpoint is correct, since fund assets are protected from creditors in the event of bankruptcy and policies are linked to overall corporate profitability and the assessment of corporate

risk by potential investors. Thus, pension policies have an important impact on stockholder wealth.²⁸ (Qui Bodie, et al, Sept/Oct., 1985, P.10-16).

2.5

INVESTMENT PRINCIPLES

The two fundamental principles of pension fund investment are:

1. to meet the liabilities of the pension scheme as they fall due,
2. to maximise the investment return with an acceptable level of risk.

Any expression of the principles of pension fund investment should emphasize the two areas of risk (meeting the liabilities) and reward (expected returns). It is not entirely clear what investment strategy is appropriate to "meet the liabilities of a pension scheme. In other contents, the objective of "meeting liabilities" is often met by choosing a matched investment position. "What, then, might a matched investment position be for a pension fund"? The answer depends on the type of scheme, and whether it is expanding or contracting. In other words, the answer depends upon the general nature of the liabilities.

A matched investment strategy might involve:

- a) increase in value in the long-term in sympathy with earnings inflation to produce payments which increase in value in the long term.

b) for other members (including active members very close to retirement), assets which are expected to:

Produce payments which increase in value in the long term with price inflation, if pensions increase in payments are in line with price inflation.

Produce known nominal payments, if pensions are known in nominal terms (for example if they increase at 5% p.a fixed).

A matched investment position involves holding a portfolio of assets that will behave loosely in the same manner as the liabilities, that is, the portfolio will contain a mixture of real and nominal assets.

Normally, liquidity is a low priority for pension fund investment managers, although keeping funds liquid also allows investment managers to take advantage of short term opportunities. The need for liquid investments depends on the particular circumstances of the scheme.

Pension fund investment managers generally invest in a range of sectors, and within sectors they invest in a range of assets to spread the risk. There are two aspects of poor diversification: few sectors and few individual assets. Most pension fund investment managers try to avoid both "problems". However, some trustees consider that the long term expected returns from equities will exceed those from other asset

classes to such an extent that they accept the risk from poor sector diversified portfolio.

A with-profit deferred annuity can offer very good "surrogate" diversity. The firm offering the deferred annuity will normally be able to invest in a wide range of investments to back up the deferred annuity. A deferred annuity is therefore a way for a small pension fund to achieve (indirect) diversification. For slightly larger pension schemes, managed pension funds offer good diversification. The investment manager pools the investments of a large number of pension schemes and can thereby achieve a wider spread of assets than individual schemes can achieve.

Self investment (or employer related investment) is best defined by example. The main examples are:-

- ownership by the pension fund of the equity or debt of the employer of the scheme members.
- ownership of land or property used by the employer
- unpaid employer contributions

The motivation for self-investment comes from employers who wish to use pension fund assets to support their own business. The particular problem with self

investment is that one particularly needs the pension scheme assets exactly when self investment turns out badly.

Tax

A pension fund manager should be attempting to maximise gross investment return. The advantageous tax position of a pension fund means that certain investments are likely to be relatively attractive to it because of the tax position of other investors who may suffer differential tax rates on different parts of an overall investment return. Thus, tax consideration are effectively only another aspect of maximising the gross return.

Costs

Investment management costs money. Small pension funds in particular may have to compromise their expected gross investment return to achieve low cost investment management thereby maximising their net of expenses investment return.

Low investment expenses (for example, administration expenses costs of actual and legal advice) are one of the fundamental reasons why the trustees of small pension funds should sometimes choose to invest in insurance company deposit administration or deferred annuity schemes. Even if these investments give lower expected gross of expenses investment returns, when we consider the very low investment

management and other administration fees, they may become the best option for the small scheme.

Market Values

The abilities of pension funds are normally long term. Pension funds can normally cover their cash commitments with contribution income plus a low running yield on assets. Short volatility in market values is not therefore normally seen as a problem for pension funds.

2.6 NEED FOR INVESTMENT

Investment is concerned with the application for funds which are not immediately required for expenditure or in the case of a pension scheme for payment of benefits.

The modern concept of pensions as deferred pay implies that funds should be put aside during each employee's working life to meet the cost of his or her pension entitlement, so that even if the business should fail these funds will still be available to back the promised benefits in whole.

In practice, employers' schemes in this country, outside the public sector, are also most invariably operated on the basis of advance funding to a greater or lesser degree. The employer has therefore to decide how the contributions paid into the scheme should be invested until they are required for payment of benefits. The choices range from operating what is known as a self administered scheme, where all

investments is the responsibility of trustees, to applying all the contributions premiums under insurance policies which are arranged to provide exactly the benefits payable to members under the scheme or use investment fund managers.

Investment Selection

The basic strategy for maximising long term return is to select investments with the highest expected long term return. Empirical evidence suggests that a scheme attempting to maximise long term expected return should invest in equities rather than conventional or index-linked gilts. There are compelling reasons to oppose that overseas equities will produce better or worse investment returns than Kenya equities. In the longer term, Kenya equities and property should (in theory) be affected by much the same type of factors (for example high inflation means high profits growth and high rental growth). Thus, a potential strategy for maximising investment return might be to invest wholly in Kenya and overseas equities.

The common stock component of any institutionally managed portfolio has traditionally been actively managed. Implicit in this approach is the belief that, at any given time, some stocks are overpriced and some are underpriced in terms of the capital asset pricing model. While the issue of some dominant blue-chip companies are sometimes held indefinitely with little thought being given to their replacement, most portfolio companies are kept under period of not continual review to determine their suitability for retention, not only in absolute terms but in comparison with the issues available for acquisition. In a volatile business environment, a third or half of

a common stock portfolio may turn over within a one-year period. In the process, the portfolio may become "unbalanced" in the sense that certain groups of stocks may be over-weighted or under-weighted, as compared to their representation in the market portfolio. This is an almost inevitable result of identifying under-priced and over-priced stocks and abandoning the concept of perfect diversification.

Until recent years in the US, the bond component of an institutional portfolio was typically managed in accordance with different concept, characterised as buy and hold. However, by 1970, active bond management in the US was well on the way to supplanting the buy-and-hold philosophy. It was developed more as a response to unprecedently volatile interest rates. Sharp and rapid changes in the level and structure of interest rates create opportunities as well as challenges for bond managers. While active bond managers rely on a number of strategies and techniques to achieve better results than those of an unmanaged portfolio, success depends primarily on the ability to forecast future interest rate movements. There is little evidence that any manager can do so consistently. Nevertheless, there is widespread belief that active bond managers as a group over time out perform the long term mixed indexes on a cumulative basis.

In-House Versus External Management of Portfolio

The plan sponsor must decide whether the pension plan assets are to be managed "in-house" by the financial staff or the plan sponsor - or by outside money managers. Today, an overwhelming proportion of the vast accumulation of pension assets is

managed by professional money managers. However, in response to the mounting sums paid to outside firms for investment services, and the unimpressive performance of the investment community over the last decade or so, more and more firms are evaluating the situation, and many have taken some or all of the pension portfolio management back in-house. Another response to the same phenomenon is to place some or all of the plan assets in an index fund or funds. A significant number of large plan sponsors perform cash management services for their pension plans with the staff that performs that corporate function.³² ("Asset Allocation for Institutional Portfolios, 10-11 Feb., 1986).

Allocation of Assets

A third strategy that must be made or affirmed at each meeting of pension investment committee or similar body is the allocation of assets among (1) cash or cash equivalents instruments with original or remaining maturity of less than one year, (2) intermediate and long-term fixed-income instruments and (3) equities, predominantly common stocks and real estate holdings. In some respects, this is the most challenging investment decision that the plan sponsor must make, and it must be made on a continuing basis as the economic and financial outlook changes. It involves a judgement as to the relative investments of equities and fixed-income securities over the near term under a projected economic scenario. Cash and cash equivalents provides flexibility in investment decision, making a hedge against unforeseen developments. A common reason for holding cash equivalents today is to enable the

plan sponsor to postpone an allocation decision until it can be made with increased insight and confidence.

Non-Traditional Investment Objectives

In recent years, various groups have sought to have pension plan assets invested in a manner to promote certain economic, social and political goals, some of which are in conflict with the traditional objective of maximising return within acceptable risk levels. These interest groups are diverse in nature - including *inter alia* labour unions, church organizations, state and local governments, and ethnic constituencies - and their goals are diverse.

Unions are on record in the US favouring the investment of "union" pension funds in ways to create jobs, promote unionism, provide housing, and increase the pool of funds for mortgage lending. By and large, organized labour takes the position that pension assets are "owned" by the plan participants (since they represent deferred wages) and should be invested in a manner that is supportive of their general welfare, and, as a minimum, not in direct conflict with their interests.

Many state and local government officials favour investing the assets of their public employee retirement systems in ways that will stimulate the local economy, rebuild the inner core of their cities, reduce borrowing costs, and achieve other local goals. It seems likely that the twin issues of who shall control pension plan assets and how

they are to be invested will become important over the next decade or so.³³ (McBill, D., 1984).

Forms of Investments

Despite periodic publicity concerning various "exotic" investment opportunities, the great bulk of pension plan portfolios remains invested in common stocks, intermediate and long-term bonds, money market instruments, group annuity, contracts, and other conventional investments. In the US, modest percentages may be found in real estate equity and mortgages, oil and natural gas properties, collectibles, option, future contracts, foreign securities, and other innovative investment opportunities believed to offer the prospect of higher-than-average returns.

Asset Managers

The assets of a pension plan may be managed by the staff of the sponsoring firm or by outside firms that specialise in providing investment services. The decision is one to be made by the plan sponsor. The sponsoring firm may manage certain types of assets, such as cash equivalents in which it has special skills, leaving the remaining assets to external managers. Assets managed in-house must still be held in trust, but an individual or group of individuals may be designated as the plan trustee under the trust agreement.

Bank or Trust Company

Trust Companies and banks with trust powers manage a substantial proportion of all pension plans assets. They may perform this function as a trustee of the pension plan or as a professional asset manager engaged by the trustee to manage a portion of the pension portfolio. Whatever the role, the function falls within the purview of the trust division of the bank.

As a trustee-investment manager, the bank or trust company performs the traditional services of a trustee, all in accordance with the trust indenture entered into between the plan sponsor and the trustee. It receives contributions from the plan sponsor, invests and re-invests the accumulated assets, and renders periodic accounting of its stewardship to the plan sponsor. As a minimum the trustee provides the plan administrator with all the financial information called for in governmental reports.

The trustee may make benefit payments on instructions from the plan sponsor. The trustee is under legal obligation to invest funds received under a pension plan. In the absence of any specific instructions in trust instrument, the trustee would have to invest the funds in accordance with any applicable state statute governing fiduciary investments. It is customary, however for the plan sponsor to free the trustee of the constraints of the state fiduciary investment statute and to bestow on the trustee varying degrees of authority over the investments of the trust. Many trust agreements give the trustee complete discretion in the performance of its investment function,

with the trustee being held to a commensurate degree of responsibility for the investment results.

In acting as an asset manager but not as plan trustee, a bank or trust company would perform all the conventional services of a trustee except the disbursement function. Benefits are paid by the trustee or by the plan sponsor acting as the trustee's agent. A trust company or a bank with trust powers may perform other trust services that are supportive of the investment function. The plan trustee, usually a bank or trust company, must hold legal title to possession (or "indicia" of ownership) of specifically identifiable plan assets.

With the advent of multiple investment managers of the assets of a single pension plan has come the need for a master trustee and custodian, a service offered by many large banks in money market centres.³⁴ (Cottre, S., et al, 1980, P207-26). Such fiduciary may offer a broad range of services logically associated with that function, but the plan sponsor need not avail itself of all the services. As a minimum, the master trustee holds legal title to, and effective possession of, all the plan assets. The master trustee may perform cash management services for the plan. The master trustee is the logical party to see that cash balances are continually and favorably invested and that the cash needs of the plan are met.

In an effort to match the popularity of insurance company guaranteed income contracts (discussed below) and to meet a perceived need of many plan sponsors, a number of banks offer a bond management service usually described as immunization of plan liabilities or dedication.³⁵ (Redington, M., 1952, P.286-340). The basic

objective of the technique is to eliminate the interest rate risk associated with re-investing the income (and the proceeds of maturing investments) from a fixed-income portfolio. More broadly, it is an attempt to match the assets of the portfolio to the liabilities of the pension plan (or other financial entity).

Life Insurance Companies

These compete head-on with banks and trust companies for the management of pension plan assets. They offer a number of contractual arrangements, under which the insurer assumes legal responsibility for the payment of all plan benefits that have been fully funded with the insurer. Insurance of annuity contracts representing the insurer's obligations become assets of the pension plan. The investments for the insurance company are not assets of the plan, although under certain contractual arrangements, they may be deemed to the plan assets for purposes of fiduciary responsibility.

Deferred Annuities: A deferred annuity is an annuity which is to be paid at a later date. The insurer, not the plan sponsor, has all rights to possession, control and disposition of the investments acquired with the sponsor's contributions. Life insurers offer certain contractual arrangements that do not contemplate the purchase of annuities for vested or retired employees and are designed to be purely investment vehicles for purchase of annuities for vested or retired employees.

Fully Insured Schemes

In its simplest form an insured scheme consists of the employer affecting separate assurances for each member of the scheme. These may be provided under individual policies or under collective 'group' or 'master' policies. In either case, specified benefits are guaranteed under the policy for each employee. Once the employer has paid the required premium, subsequent mortality and investment risks are carried entirely by the insurance company - some of the most common varieties are the following:

An actuary to the scheme will be appointed who will be responsible for:

1. **Immediate annuities:** An annuity is a guaranteed income payable by installments, for example, at monthly, quarterly or yearly intervals. Usually it is payable during the lifetime of a specified person.
2. **Deferred Annuities:** A deferred annuity is an annuity which is to commence from an agreed future date, provided that the intended annuitant is still alive at that date. The contract may include a 'cash option' under which part or all of the annuity may be exchanged at the maturity date for a lumpsum payment at a guaranteed conversion rate.

Self-Administered Schemes

Self-administered schemes are always operated by trustees. The trustees will be entirely responsible for the investment of the contributions paid by the employer and employees and for the payment of the benefits as they fall due. They will have authority to choose between different types of investments, usually including both 'fixed interest' (examples - debentures and government securities) and potential growth investments (ordinary shares and property).

An actuary to the scheme will be appointed who will be responsible for:

- a) Conducting a periodical valuation (a comparison between the scheme's assets and expected liabilities of benefits) and
- b) Giving advice as to the level of contributions which should be paid into the scheme. The actuary may also give advice on investment aspects. At least in line with price inflation, (if pensions increases in payment with price inflation).

Registered Investment Advisors

There are hundreds of firms and individuals who provide investment advice to pension plans, institutional endowments, financial institutions, and other individuals. Often the investment advisor is also designated investment manager for part or all of the plan's assets, with authority to make investment decisions within investment policy guidelines. Many of these firms, large and small, offer their services to qualified pension plans. Some specialise in one sector of the capital market. For example, one firm may specialise in common stocks, one in conventional bonds, and another in convertible bonds.

Some investment advisors offer a full range of, investment services, including execution of trades. Others merely advise the plan sponsor or trustee on investment policy, interinvestment strategy, and stock or bond selection but leave executing, custodianship and record-keeping to the trustee. Some advisors also manage stock or bond mutual funds or as index fund, which can be used by pension plans. In one form or the other, investment advisors play an important role today in the management of pension plan assets.

Use of Multiple Managers

There are three basic reasons - all related - why a plan sponsor might decide to use more than one manager.

1. To broaden the diversification of risk. Since successful investing is very much an art and not a science, and involves a high degree of subjective judgement, risk can be reduced by reflecting the judgement and skills of more than one firm. A portfolio put together by three investment managers, for example, even when operating under the same guidelines will inevitably be different, and more diversified, than if it had been assembled by one manager.
2. To have the benefit of research resources, contacts, and innovative ideas of several firms. These things get reflected, of course in the stock and bond selections that make up the portfolio.
3. To blend the investment styles and strategies of several managers in such a way as to reduce risk and take advantage of the special skills that they may have.

2.7 INVESTMENT SELECTION AND OPTIONS AVAILABLE IN OTHER COUNTRIES

Other countries offer pension plans and provident funds but differ in several ways. Some of the other countries schemes are discussed below.

DENMARK

Denmark has a three-tiered system of pension provision: Apart from the flat rate state pension, almost all employees are required to belong to a statutory pension scheme run by private foundation, the Danish Labour Market supplementary Pension (ATP). In addition, there are about 5000 voluntary pension schemes which must be either funded or insured. The investment requirements for both the ATP scheme and funded schemes are fairly stringent, and the board of the ATP is specifically required by the Act (Statutory plan which was enacted in 1964) to invest the assets with a view to the greater possible benefit to the supplementary pension scheme. The investment of assets shall accordingly aim at satisfactory security, maintenance of the purchasing value of assets and the highest possible yields.

Both the ATP and other pension schemes are generally required to invest in:

- a) Danish bonds issued or guaranteed by the Danish state or municipalities;
- b) Danish bonds issued by Danish credit associations and second mortgage associations (the ATP may also invest in third mortgage associations approved by the Government), and funded schemes may invest both in financing institutions for residential building approved by the Minister of housing and in bonds issued by other Danish financing institutions to the extent approved by the Minister for Commerce;

c) the deposits in Danish bank and, for funded schemes, in accounts in the public trustee's office;

d) Der securities which by their character and security are comparable to those in (a) of the to (c) above, and

e) property owned by the scheme but not in excess of four fifths of its taxable value.

In Denmark, pension schemes may also invest in those loans guaranteed by registered mortgages in land and buildings in which trust funds are permitted to invest, or in loans against securities which are equally safe, but only, in the former case, up to a maximum of two-thirds of their taxable value.

The amount of a fund which may be invested in other investments is strictly limited in Denmark. As in the case of the required investments there are differences between the detailed provisions for the ATP and funded schemes. Broadly, however, both types of schemes may invest upto 15% of their assets in property; as deposits in investment trusts or investment corporations approved by the government; or on stocks.

Concentrations of investment are strictly controlled in Denmark in both ATP and other funded schemes. Thus, no more than 1% of a scheme's assets may be invested

in the same company and this is subject to a further limit that no scheme may own more than 15% of the share capital of any one company.

In Denmark, self-investment is prohibited for pension schemes without the permission of the Ministry of Commerce, which may be given in special circumstances and after consultation with the insurance Board. Loans to participating employees are permitted within ATP, for up to 50% of their contributions. In this case, however, loans may only be made indirectly through banks or savings banks at their usual rate of interest, and the banks must accept responsibility for repaying the loan.

The securities in which pension scheme assets are invested must be registered or deposited with the Danish National Bank or other approved custodian. The register of stock or custody certificate must be annotated to the effect that the securities belong to the scheme and are tied up to meet its pension obligation.

THE USA

Here, the investments of pension funds are controlled by laying down a code of conduct of fiduciaries which include among other things, a requirement that all schemes should be established by written instrument, and that all scheme assets must be held in trust by one or more trustees. (A fiduciary is any one who exercises any power of control or management of disposition over the moneys or other property of the scheme, or also has authority or power to do so).

"The 1974 Act requires a fiduciary to act solely in the interest of the scheme's members and beneficiaries and to perform his duties with the care, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims" As any fiduciary can be made personally liable for losses caused by any breach of his trust, every administrator, officer and employee holding a scheme's funds or property must be bonded.

In the USA there are no set limits for investment in any one company or property, but a fiduciary is required to diversify the scheme assets in order to minimise the risk of large losses unless, in the circumstances, this would clearly not be prudent.

SOUTH AFRICA

Registered schemes must hold at least 40% of their assets in the Republic in one or more of the following areas:

- a) money in hand in the Republic,
- b) deposits in specified banks and building societies,
- c) bills, bonds and securities issued or guaranteed by the government of a provincial administration (at least 10% of the scheme's assets must be of this type),

d) securities, issued or guaranteed by and deposits with a local rating authority,

e) securities, issued or guaranteed by specified public utilities or sound institutions approved by the registrar,

f) deposits with or quoted debentures issued by the land and agricultural bank of South Africa, and

g) South African Reserve Bank Stock.

For this purpose, the scheme's assets may not include the value of insurance policies, or any asset which is encumbered. Moreover, in South Africa, there are permitted assets and, subject to their rules, funds may:

1. grant loans to members, secured by first mortgage on dwelling houses, but these must not exceed 75% of the property's market value plus the amount the member would have received he/she terminated service voluntarily at the date of the loan;

THE NETHERLANDS

2. grant unsecured loans to members up to one-third of the amount due had they left as in (a); and

3. contribute to another registered scheme or other scheme conducted for benefit of its employees.

In connection with self-investment, schemes may not invest in or make loans to the business of a participating employer, or any associated company schemes, established or conducted by a statutory body or utility undertaking may be exempted from this provision.

WEST GERMANY

Social security is well advanced in West Germany, the Germany State Pension being one of the most generous in Western Europe. Dating from 1957, the pension earnings is related with past earning revalued. Since 1968, the State Pension Scheme has been compulsory for all employed persons, except immigrants, who can still contract out on certain conditions - pensions in course of payment are adjusted each year according to changes in national average earnings. Under the insurance Supervision Act of West Germany there is strict Government supervision of the insurance companies responsible for insured schemes and pension funds. (Pension funds are treated as insurance carriers because they are, in effect, private insurance companies set up by employers to provide the benefits they promise).

THE NETHERLANDS

Occupational pension schemes are voluntary in the Netherlands. When an employer gives an undertaking to provide a pension plan he/she must, however comply with the pension and savings Fund Act 1954 which, apart from establishing solvency and

investment standards with a detailed system of financial supervision, also covers preservation, members participation and disclosure of information.

All employers in the Netherlands who undertake to provide pensions for their employees are required to fund or insure the promised benefits. They must do this in one of the three ways:

- a) by joining an industrial pension fund if one is available;
- b) by establishing a funded company pension scheme; or
- c) by insuring the benefits with an approved insurance company.

All pension schemes in the Netherlands must be approved by the Minister for Social Affairs, who is advised by the Insurance Chamber in cases where a fund is not reinsured. It is a condition of approval that the rules of funded schemes should include provision concerning:

All investments of funded schemes in the Netherlands must be made in a responsible manner the purpose and management of the scheme. Chamber to ensure both that individual investments are sound and that there is an adequate distribution. There are the categories of scheme member from a requirement that direct or indirect loans to, or investment in the employer's firm must be limited to 5% of the scheme's assets the benefits provided and the system of financing them

- the income of the scheme and the investment of its assets which give a complete picture of the financial situation of the scheme and show that
- the manner in which board members are appointed
- amendments to the rules and regulations, particularly where modification of rights and obligation of members are made necessary by the financial situation of the scheme
- the circumstances (if any) in which the employer has reserved the right to reduce or terminate his contributions; and
- the liquidation of the scheme, the duties of the liquidator, and the uses to which assets would be applied on liquidation.

In industrial pension funds the rules and regulations must also define the industry, or branch of industry, and the geographical area to which the scheme applies.

All investments of funded schemes in the Netherlands must be made in a responsible manner, and they are checked by the Insurance Chamber to ensure both that individual investments are sound and that there is an adequate distribution. There are no general guidelines for investments, apart from a requirement that direct or indirect loans to, or investment in the employer's firm must be limited to 5% of the scheme's assets plus an amount equal to the general reserve of the scheme.

CHAP The Act provided that annual financial reports must comprise of audited accounts which give a complete picture of the financial situation of the scheme and show that the statutory requirements have been met. A detailed report is required with the scheme itemising their investment portfolio, loans, and other assets and to show changes in the value of each item. changes in the value of securities must be shown every year and those in the value of property every five years. All the reports must be verified by an auditor.

will consist of all registered pension plans and provident funds in Kenya. These are registered with the Income Tax Department. The registration of these funds is not a must but it is done for the purposes of not paying tax. There are 2000 registered pension schemes. However, it is believed that there are many pension schemes in Kenya which are not registered. The population consists of self-administered schemes, insurance companies, banks and investment fund managers. Currently, there are 2000 registered pension schemes.

3.2 SAMPLE

Since this area is diverse and wide and little has been documented about the investment portfolios of these funds in Kenya, a convenience sample will be selected for this survey. This entails interviewing or including in the sample the readily available items of the population or interviewing those items in the population found first.

CHAPTER THREE

3.0 RESEARCH DESIGN

3.1 POPULATION

The population of this study will consist of all registered pension plans and provident funds in Kenya. These are registered with the Income Tax Department. The registration of these funds is not a must but it is done for the purposes of not paying tax. There are 2000 registered pension schemes. However, it is believed that there are many pension schemes in Kenya which are not registered. The population consists of self-administered schemes, insurance companies, banks and investment fund managers. Currently, there are 2000 registered pension schemes.

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These funds will be categorised into four groups and from each, funds will be selected conveniently depending on the ease of data collection. The study therefore intends to survey on: pension funds. In addition, any other document available will be analysed such as Trustee Deeds.

1. Self-administered schemes,
2. A public scheme,
3. Investment Fund Managers
4. Banks.

It is also the intention of the researcher to survey at least on actuarial firm. This will provide more information on pension and provident funds management and operations.

3.3 DATA COLLECTION

Both primary and secondary data will be used in this study. Primary data will be collected using an open-ended questionnaire which will be self-administered. This will be coupled with face to face interview where the researcher will ask questions and responses recorded regarding the issues that are of interest. These methods have been selected so that the researcher is able to obtain as detailed information as practicable. Further, from a preliminary survey, the researcher found that, many investment managers are willing to discuss pension schemes and provident funds management and investments.

CHAPTER 4.0 Secondary data will be obtained through analysis of the financial statements lodged with the Commissioner of Income Tax or actuarial reports and/or management account reports of pension funds. In addition, any other document available will be analysed such as Trustee Deeds.

3.4 DATA ANALYSIS

The qualitative data from the various funds will be analysed and compared to see whether it converges to particular factors of areas or diverges. For the available quantitative data, returns as percentages and proportions will be calculated. The percentage returns of various funds will be tabulated and then compared.

were not covered by the Civil Service Pension Scheme or other Pension Schemes approved by the Minister for Labour, with some form of financial support on retirement. The new scheme was not only appropriate in providing protection to workers in old age but it also had the potential long term savings which could in the short term provide investment capital to finance economic and other development projects.

In the late seventies, banks began to invest their own schemes within their trustee departments which soon started to offer investment services to the general public. Recently, in the 1990s, Investment Fund Managers have been established in the country. This clearly indicates the continuous growth of pensions management.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

Pension and Provident Fund Schemes in Kenya first developed in the 1940's and 1950's as branches of multi-national companies sought to provide benefits similar to those they offered to their employees in the developed countries. Almost 90% of these schemes were invested in insurance policies. The rest were self administered arrangements invested by in-house managers. In the mid 1960s, the National Social Security Fund (NSSF) was established by an Act of Parliament, Cap.258, Laws of Kenya. The principal objective of the fund was to provide workers who were not covered by the Civil Service Pension Scheme or other Pension Schemes approved by the Minister for Labour, with some form of financial support on retirement. The new scheme was not only appropriate in providing protection to workers in old age but it also had the potential long term savings which could in the short term provide investment capital to finance economic and other development projects.

In the late seventies, banks began to invest their own schemes within their trustee departments which soon started to offer investment services to the general public. Recently, in the 1990s, Investment Fund Managers have been established in the country. This clearly indicates the continuous growth of pensions management.

4.1 Investment Portfolios

Investing is the process of placing funds in selected investment vehicles or investment portfolio with the expectation of increasing their value and/or earning a positive return. This activity has broad economic importance, provides rewards, and can be pursued by following a logical progression of steps.

The functioning and growth of our economy depend on the ready availability of funds to finance the increased needs not only of government and business, but also of individuals. Because individuals as a group are net suppliers of such funds while government and business are net demanders, the process of investing thus has a profound impact. The rewards, or returns, for placing funds in the investment process may be received in either of two basic forms - current income or increased value - which is the cornerstone and the major requirements of pension and provident funds. The magnitude of returns depends on such factors as the type of security or property transaction, the length of time involved, and the risks embedded in the transaction.

The Pension and Provident Funds in Kenya as at the end of 1994, was estimated to be worth shs.100 billion, with NSSF having about 40% of the total. This value was for those pension schemes registered with Income Tax Department. However, it is also estimated that many other pension schemes are being operated in-house and perhaps more than twice the registered ones. This means that the value or the worth of pension schemes could be higher.

Investment Portfolio(s) are the various combinations of investment vehicles or avenues that are available to investment managers. Portfolios are necessary in order to diversify the investments so that risk can be minimized and at the same time increase the returns. In theory, we use return and standard deviation to put together any combination of individual securities to meet our portfolio that will provide the highest return with the smallest amount of risk from among all the choices of portfolios that could be put together. There are various investment vehicles allowed by the Pensions Act and it is upon the investment managers to come up with the best portfolio of Pension and Provident Funds.

	Money Markets	Mortgage Instruments	Equities	Properties	Offshore Investments
Public Pension Scheme	28.26	10.11	13.79	25.91	N/A
Self Insurance Companies	60.00	N/A	10.00	30.00	N/A
Investment Fund Managers	58.00	N/A	20.00	22.00	N/A

There are various investment avenues available to investment managers in Kenya. These include:

- Money markets: Bank deposits, Treasury Bills, Commercial Paper
- Treasury Bonds
- Corporate Debt Instruments
- Mortgages, Loans and Debentures, Lease hires
- Equities, Quoted and Unquoted
- Properties
- Offshore Investments

Table 1: Investment avenues available and percentage of funds invested

	Money Markets	Mortgage Institutions	Equities	Properties	offshore investments
Public Pension Scheme	29.96	10.34	13.79	45.91	N/A
Self Administered	50.00	N/A	5.00	35.00	10.00
Insurance Companies	60.00	N/A	10.00	30.00	N/A
Investment Fund Managers	58.00	N/A	20.00	22.00	N/A

There are various investment avenues available to investment managers in Kenya.

These include:

- Money markets - Bank deposits, Treasury Bills, Commercial Paper

- Treasury Bonds

- Corporate Debt Instruments

- Mortgages, Loans and Debentures, Lease hires

- Equities, Quoted and Unquoted

- Properties

- Offshore Investments

In Kenya, there are no set limits for investment in each class. However, from the available data and information from both public and private pension and provident funds, it is necessary to set some limits. This is necessary to protect the pensioners from funds mismanagement and investments which are not benefitting the employees. Pension funds investment portfolios differ in the public pension scheme, that is, the NSSF, self-administered schemes, Investment Fund Managers and the insurance companies. Each is discussed separately since different factors shape how they operate.

Public Pension Scheme

The National Social Security Fund (NSSF) was created by an Act of Parliament in 1965, Cap.258, Laws of Kenya. The Act established N.S.S.F. as a compulsory saving scheme to which an employer pays a statutory contribution for every employee who is a member. Half of the contribution is deducted from the employee's pay. In 1987, the Government initiated an amendment of the NSSF Act and this had the effect of transforming the fund into a state corporation as it is today. NSSF, therefore, is an autonomous body under the management of Board of Trustees. The Board of Trustees comprises of members drawn from the Government, Federation of Kenya Employers (FKE) and the Central Organization of Trade Unions (COTU).

The research found out that as at 30th June, 1995, the Fund had a total investment portfolio consisting of shs46.4 billion. This portfolio comprises of Government

securities, Nairobi City Council stocks, properties, deposits in banks and non-bank institutions and shares and equities.

Self-Administered Schemes

These are schemes run or operated in-house. The parent company organizes such a scheme and it can be contributory or non-contributory. The twenty self-administered schemes researched on indicated that though separate entities from the parent company, the influence of the latter is considerable. The parent company in certain circumstances pays the administration and all other related costs. While in others, the schemes operate independently. In addition, the Trustees are appointed from the senior members of staff. Presently, majority of the in-house pension schemes indicated that their investment portfolios consists of equities, money market instruments and property.

Investment Fund Managers

Pension and Provident Funds can be managed by professional investment managers through investment companies. The main criterion for selecting investment companies has, overwhelmingly, been security. Internationalization has however, now led to the increased importance of other criteria; investment performance, quality service, crediting rate, investment policies, claims settlement record, administration fees and termination clauses. Where funds are invested through investment managers, funds sponsors are always involved in the investment decisions. Investment managers

normally perform their duties on behalf of trustees within the Trustee Act or the provisions of the Trust Deed. A Trust Deed is provided in appendix (i) for a pension fund whose identity has been disguised. This is necessary since a Trust Deed is a confidential document. Investment managers therefore follows investment portfolios being guided by the Trust Deed. The Funds under professional investment managers is not substantial. This is because most of the investment companies are relatively new and hence not well known in Kenya. At present, there are asset allocation guidelines as well as specific guidelines within the asset classes. However, the setting of the guidelines is an ongoing process.

Insurance Companies

Insurance companies manage a substantial amount of Pension and Provident Funds in Kenya. One of the insurance company studied, ALICO, started managing pension funds 32 years ago with 2 pension schemes and as at the end of 1995, it was managing 200 pension funds. The reason perhaps why insurance companies control a large share is because of having established life departments and also generally being subsidiaries of multinational corporations which are doing similar businesses in other countries especially developed economies. Another insurance company, ICEA (Insurance Company of East Africa) has by the end of 1995, managing 238 pensions funds, with an estimated value of Sh.10 billion.

In insurance companies, fund sponsors are not actively involved in the funds investments. However, the Trustees can make suggestions. The insurance companies

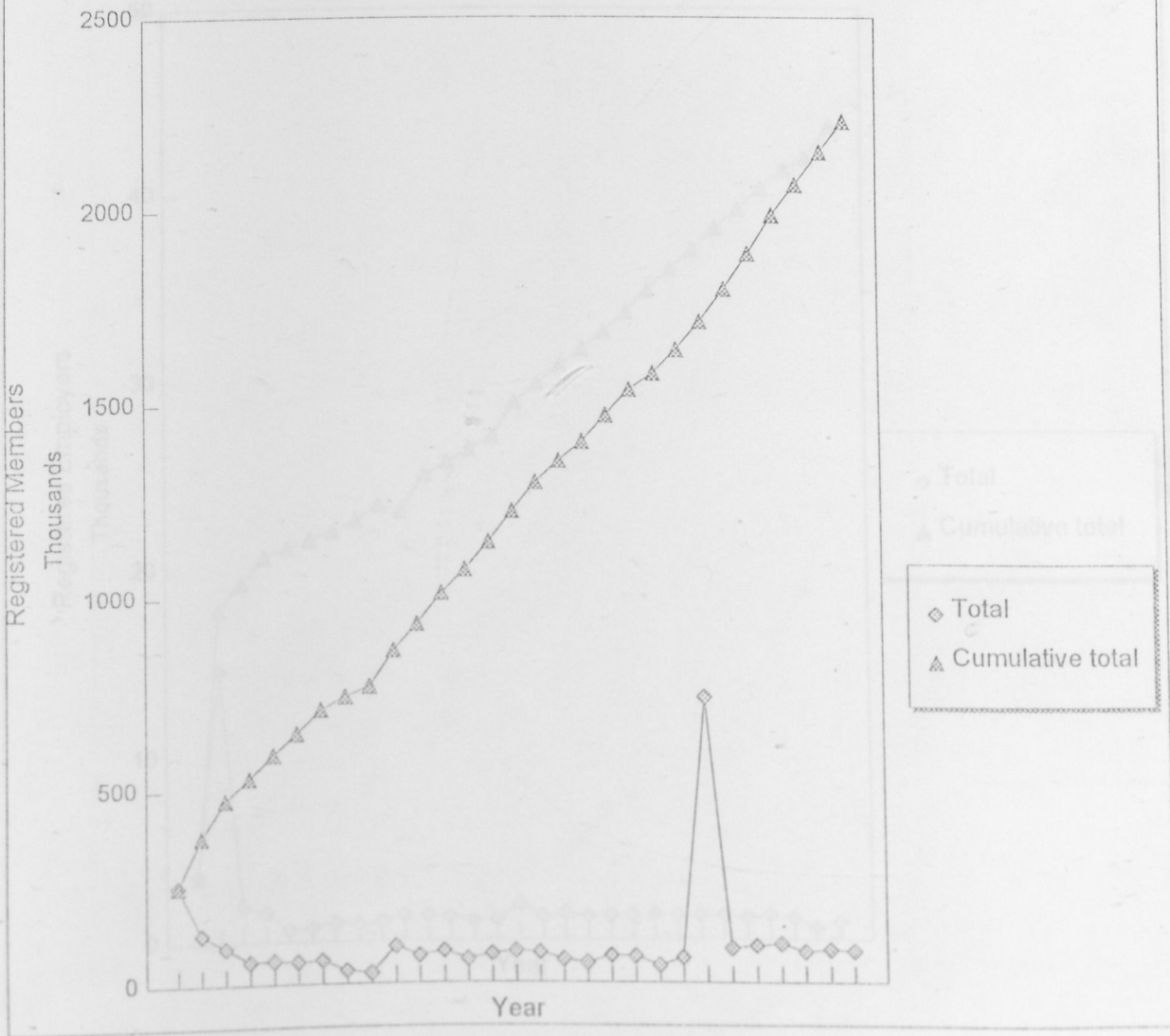
are governed by the Insurance Act. This Act sets prescribed investment percentages for insurance companies. As at May 1996, the insurance companies studied indicated various investment portfolios. Some were on one extreme, investing only in Treasury Bills and Government Bonds only. While others, had invested in a wide variety of investment vehicles.

4.2 The Investment Criteria

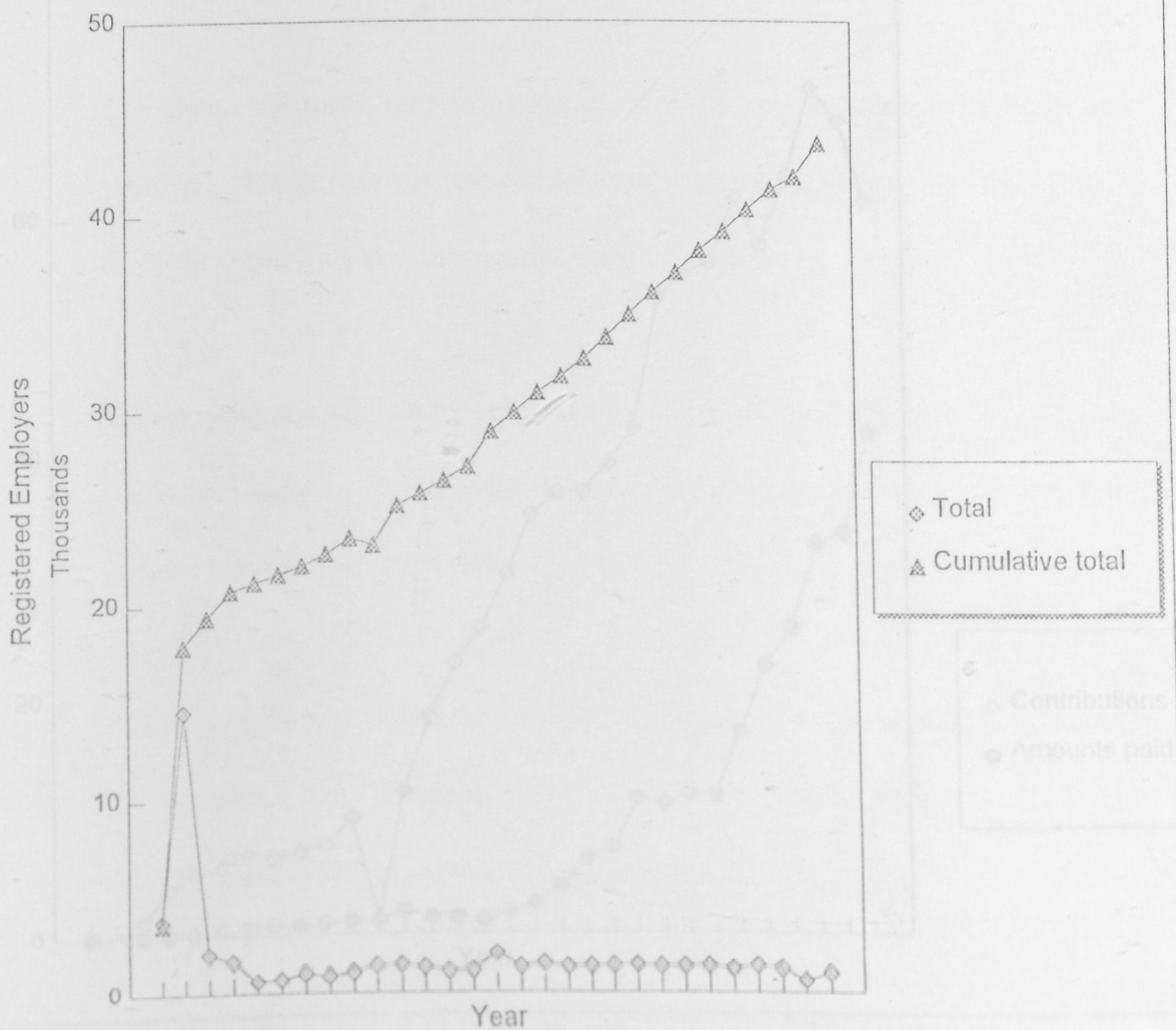
The investment criteria for Pension and Provident Funds is set by the Trustees in the Trust Deed. However, for insurance companies, the individual company formulate its own investment criteria so long as it falls under the Insurance Act. Since the Trust Deeds are different, then each criteria is discussed separately for each pension scheme.

The NSSF mobilises savings from members contributions and invests it in various sectors of the economy. Figure 1 below, shows the NSSF registered members from 1966 to June 1994. Figure 2, shows the NSSF Registered employers for the same period and figure 3, shows the financial statistics of NSSF in the same period.

NSSF Registered members from 1966 to June 1994

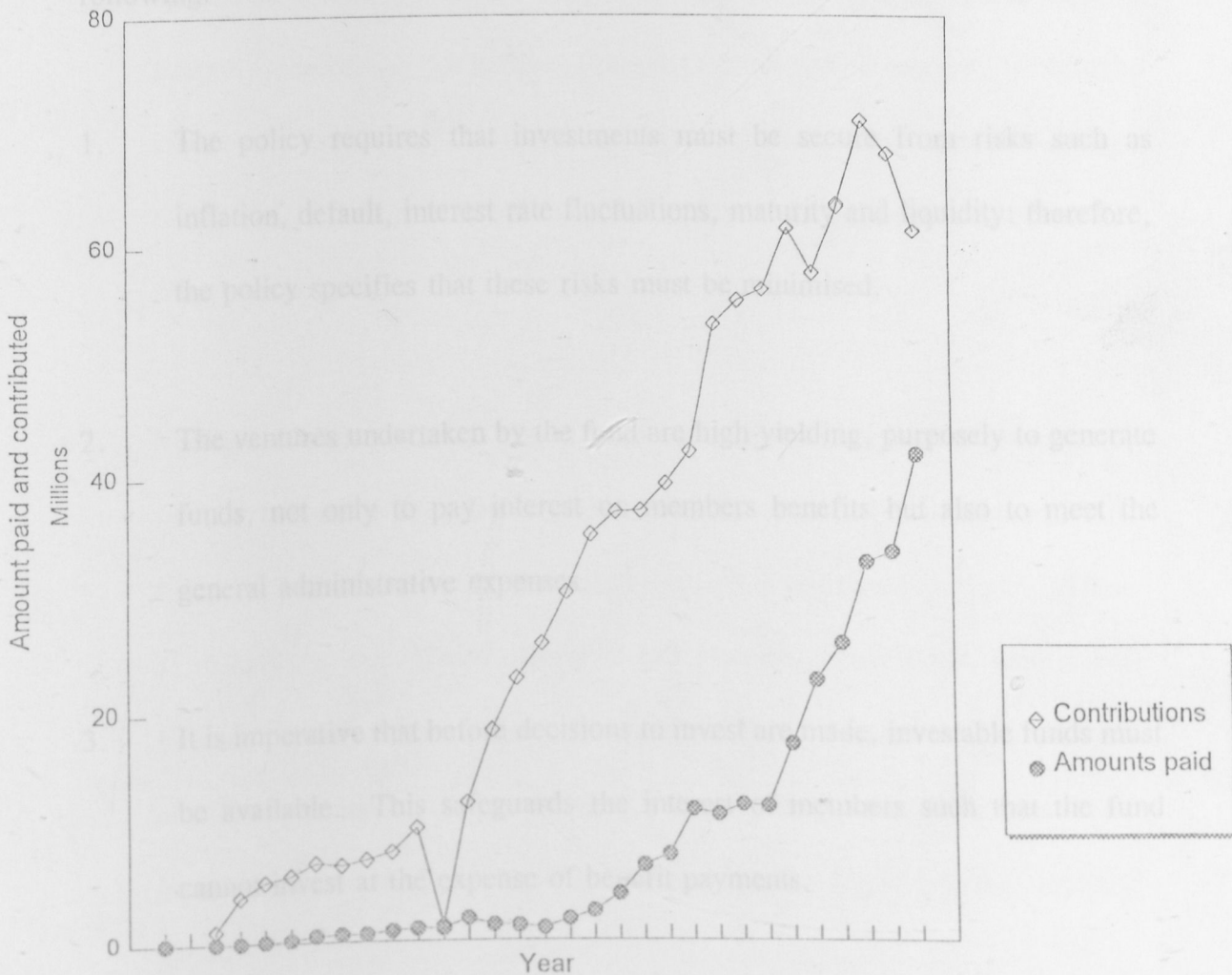


NSSF Registered employers from 1966 to June 1994



From the above figures, it is clearly shown that NSSF is owned by the workers and employers. Also, the fund it is managing for the workers is very large in Kenyan standards. Therefore, the question we would ask is, "does the Government play its right role in NSSF operations?"

NSSF Financial Statistics from 1966 to June 1994



From the above figures, it is clearly shown that NSSF is owned by the workers and employers. Also, the fund it is managing for the workers is very large in Kenyan standards. Therefore, the question we would ask is, "does the Government play its right role in NSSF operations?"

In determining the criteria for investing of surplus funds, the fund is guided by the following:

1. The policy requires that investments must be secure from risks such as inflation, default, interest rate fluctuations, maturity and liquidity: therefore, the policy specifies that these risks must be minimised.
2. The ventures undertaken by the fund are high-yielding, purposely to generate funds, not only to pay interest on members benefits but also to meet the general administrative expenses.
3. It is imperative that before decisions to invest are made, investable funds must be available. This safeguards the interest of members such that the fund cannot invest at the expense of benefit payments.
4. The fund also take into account the long and short-term requirements, depending on the actuarial data available. Some members will claim for benefits in the long-run, while others in the short-run, and therefore a proper investment portfolio which takes care of these requirements is made.

The criteria stated for investments is good, however, "what is the practice?" The study established that the National Social Security Fund (NSSF) has overspent in certain sectors than the amount recommended by the Board of Trustees. The report indicates that the NSSF as at 30 June, 1995 had an investment portfolio as follows:

- **Property** - Sh.21.3 billion or 45.91 percent of its total investment. This was against the Board of Trustees' recommendation to spend 35% in this sector. Property is necessary for hedging purposes against risk. However, the returns are usually low, therefore, the percentage of the total investment should not be so high. Further, it is believed that much of the property owned by the fund is over-valued.
- **Mortgage Institutions** - Shs.4.8 billion or 10.34 per cent out of this figure, shs.1.4 billion or 3.02 per cent has been invested in banks and non-bank financial institutions which are under receivership or under liquidation. These includes Post Bank Credit, Rural Urban Finance, Trade Bank, Continental Finance, Middle Africa Finance, Pan African Bank, Pioneer Building Society and Trade Finance. It can be rightly argued that the fund has lost these investments and therefore, "how are the pensioners going to be compensated?"
- **Private Sector Banks and Non-Bank Institutions** - Shs.6.5 billion or 13.79 per cent. The largest recipient in the private sector is the National Bank of Kenya and Kenya Commercial Bank.

• **Others: Government Securities, Nairobi City Council Stocks, Shares and Equities, and Cash - Shs.13.9 billion or 29.96 per cent.**

The research established that some of the Board of Trustees members are worried over the NSSF deals. Some of the Trustees indicated that they feared that in future they may be personally held responsible for the acquisitions although they did not take part in their approvals. Therefore, "is the investment criteria at NSSF guided by Trustee Act or the Trust Deed?" The Trustee Act allows for the Board of Trustees or its nominees to be held responsible for mismanagement of the fund through wanting and irresponsible investments. It was also established that the fund is unable to service the pensioners smoothly due to cashflow problems. Some of the retirees take long before they are paid their dues. In addition, since the fund operates money purchase scheme (or the defined contribution), which means that the benefits received depends on the performance, this puts retirees on a shaky ground.

Therefore, what is required is a strict legislation with government playing only a role of regulation. The fund is owned by the workers, pensioners and the employers. These groups should compose the Board of Trustees. Further, they should also appoint professional qualified management staff. Information as to investment policy, fund performance measurement should be availed to the public.

However, it should be noted that these proportions are changed depending on the Self-administered schemes are directly controlled by the parent companies or institutions. The criteria of investments followed is largely influenced by the nature of the organization and the kind of management staff available. The Board of

Trustees is selected by the fund sponsor and their resolutions are binding. This means that the investment managers can only make suggestions. In certain cases, it was found that, and especially on government owned institutions, the senior staff, who are not professional fund managers, makes most of the decisions where the fund is to make investments.

Investment fund managers involve the fund sponsors in the investment decisions. The two parties set ongoing asset allocation guidelines as well as specific guidelines within the asset classes. In one case, the asset allocation was as follows:

- 20 percent is invested in equities as a result of a strategic decision in 1995 to underweight the class from the guideline weight of 35 percent. The overall weighing for equities was taken on the basis of the liability profile of the fund.
- 58 percent is invested in the money markets enjoying the high interest rates that have prevailed.
- 22 percent is invested in property, underweight as a result of the illiquidity inherent in the ownership of large property units.

However, it should be noted that these proportions are changed depending on the investment attractiveness of each class.

Investment criteria for insurance companies mainly depend on the prevailing circumstances in the country. In some cases, the companies have invested only in Treasury Bills and Government Bonds, while in others the portfolio include property and equities and shares. Insurance companies invest without involving the Trustees and hence the various schemes funds are put into a common pool. In this case, the pension plans are final salary schemes (defined benefit). This means that the fund performance and its management is important mainly to the managing company. The pensioners are guaranteed the agreed benefits. So the question investment managers of insurance companies should ask is, "what level of risk are we able to undertake?" Some indicates that equity investment is very risk and hence must be avoided.

4.3 Rates of Return on Investment Portfolios

Investment performance is an important criteria in selecting an investment company and also evaluating the investment manager. Each fund should be able to set a criteria that should measure the performance of the fund over a given period of time.

To determine the rates of return on the investment portfolios of Pension and Provident Funds, an assumption was made regarding the contributions. The contributions were assumed to have been made at the end of the year and also used to pay benefits in the same period. Therefore, rate of return on portfolio was determined as follows:

$$\text{Rate of Return (\%)} = \frac{\text{Closing Balance} - (\text{opening Balance} + \text{Contributions})}{\text{Opening Balance}} \times 100$$

$$\text{ROR(\%)} = \frac{\text{CB} - (\text{OB} + \text{C})}{\text{OB}} \times 100$$

Client	1992	1993	1994	Value as at 31.12.94
1	25.38	31.70	38.90	726.5m
2	29.40	40.70	34.30	2438.4m
3	32.78	39.70	60.60	547.0m
4	34.65	41.40	54.65	1778.0m
5	29.10	55.60	53.00	122.7m
6	18.00	41.40	33.43	1588.6m
7	7.75	153.20	61.80	21.3m

Where,

ROR = Rate of Return

CB = Closing Balance

OB = Opening Balance

C = Contributions.

For example, in 1992, for a given client:

Opening Balance, Shs432,617,112.00

Closing Balance, Shs780,283,291.90

Contributions, Shs127,382,451.30

Therefore,

$$\begin{aligned} \text{Net} &= \text{Shs}780,283,291.90 - (\text{Shs}432,617,112.00 + \text{Shs}127,382,451.30) \\ &= \text{Shs}220,283,728.60 \end{aligned}$$

Hence,

Table 3. Returns from 1992 to 1994 (An average) in percentage

$$\text{Rate of Return} = \frac{220,283,728.69}{432,617,112.00} \times 100 = 50.92\%$$

The performance criteria may be against Nairobi Stock-Exchange (NSE) index, Consumer Pricing Index (CPI) and/or on an agreed benchmark. For instance, a five year Treasury Bond coupon. Table 1 below, shows client returns from 1992 to 1994.

The identity of the client and fund managers are not disclosed, and figure 4, shows the same in graphical form.

Client	1992	1993	1994
Public Scheme	15.20	10.80	12.45
Self	25.50	18.75	18.75
Insur	00	65.65	42.25
Investment Fund Managers	35.75	72.50	49.55

Table 2 Client Returns from 1992 to 1994 in percentages

Client	1992	1993	1994	Value as at 31.12.94
1	20.58	33.10	38.90	726.5m
2	29.40	40.30	34.30	2438.4m
3	23.58	59.70	60.60	547.0m
4	16.10	20.50	34.65	1778.0m
5	29.10	55.60	53.00	122.7m
6	18.00	41.40	33.45	1568.6m
7	37.75	153.20	61.80	21.3m
8	37.70	110.95	116.60	26.7m

Table 3: Returns from 1992 to 1994 (An average) in percentage

	1992	1993	1994
Public Scheme	15.20	10.80	12.45
Self Administered Schemes	10.00	25.50	18.75
Insurance Companies	25.00	65.65	42.25
Investment Fund Managers	35.75	72.50	49.55

The reasons why they differ considerably is because the fund sponsors take an active role in determining the investment vehicles and also the different investment managers attitude toward risk. The figure also shows that the value of the fund does not influence the return. Some of the funds recorded very high rates of returns in the

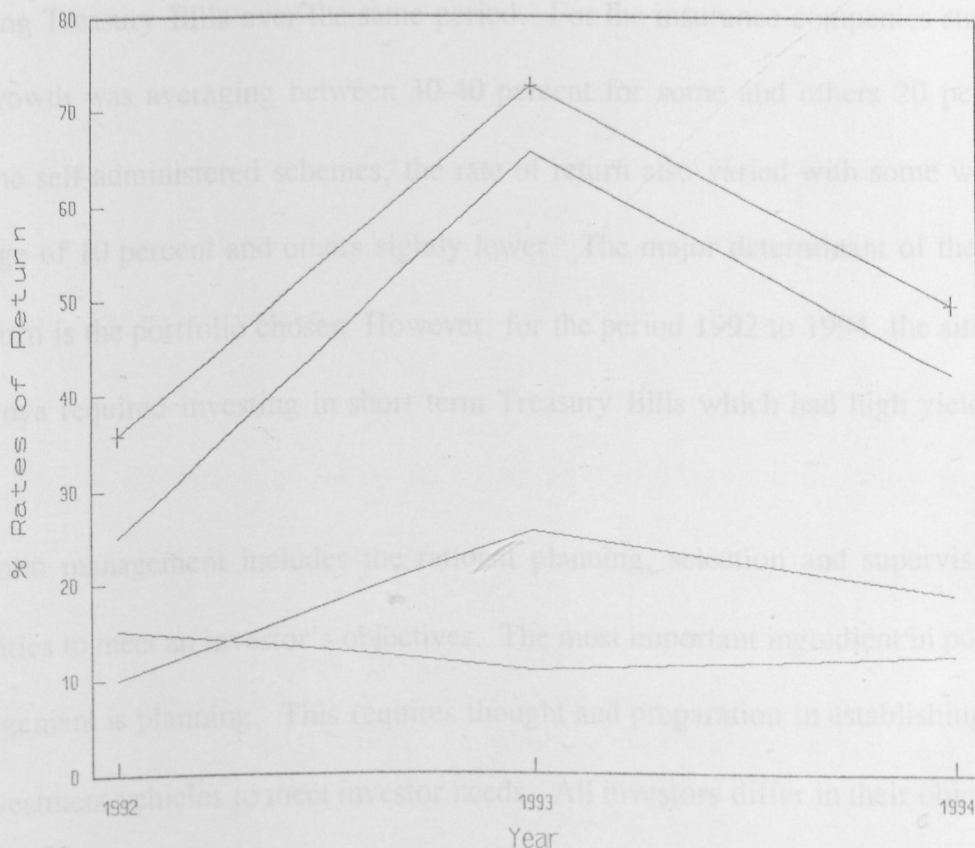
year 1993 and 1994. The average rate of return for the high yielding funds was averaging between 30-40 percent for some and others 20 percent.

For the self-administered schemes, the rates of return varied with some with an average of 10 percent and others slightly lower. The major determinant of the rates of return is the portfolio chosen. However, for the period 1992 to 1994, the situation in Kenya was investing in short term Treasury Bills which had high yields.

Portfolio management includes the process of planning, execution and supervision of securities to meet investor's objectives. The most important ingredient in portfolio management is planning. This requires thought and preparation in establishing a list of investment vehicles to meet investor's needs. All investors differ in their objectives, and they can select from a wide array of securities offering different degrees of risk and reward. Investors should seek for a portfolio that will seek security of principal, stability of income, growth of capital, a certain degree of marketability, liquidity and diversification to protect their assets. Also, the investor should seek the most attractive set up possible.

By judgement, the investor should select those securities that operate with or against the market, and identify those securities that are cyclical, growth, or regressive. It

Average Rates of Return for Different Schemes
1992 to 1994



— Public Scheme
— Insurance Companies
— Self-Admin. Scheme
+ Invest. Fund Managers

The reasons why they differ considerably is because the fund sponsors take an active role in determining the investment vehicles and also the different investment managers attitude toward risk. The figure also shows that the value of the fund does not influence the return. Some of the funds recorded very high rates of returns in the years 1993 and 1994. This can be explained by the investors choosing the high yielding Treasury Bills over the same period. For the insurance companies studied, the growth was averaging between 30-40 percent for some and others 20 percent. For the self-administered schemes, the rate of return also varied with some with an average of 10 percent and others slightly lower. The major determinant of the rates of return is the portfolio chosen. However, for the period 1992 to 1994, the situation in Kenya required investing in short term Treasury Bills which had high yields.

Table 4: Adequacy of funds in terms of remittances and ability to meet

Portfolio management includes the rational planning, selection and supervision of securities to meet an investor's objectives. The most important ingredient in portfolio management is planning. This requires thought and preparation in establishing a list of investment vehicles to meet investor needs. All investors differ in their objectives, and they can select from a wide array of securities offering different degrees of risk and reward. In selecting securities for a portfolio, investors should seek security of principal, stability of income, growth of capital, a certain degree of marketability, liquidity and diversification to protect their assets. Also, the investor should seek the most attractive set up possible.

By judgement, the investor should select those securities that operate with or against the market, and identify those securities that are cyclical, growth, or regressive. It

It is important that securities are combined in an efficient portfolio, where more return cannot be accepted without additional risk. Selections should be made on the basis of expectations, and this fact therefore automatically assumes that there will be error in judgements.

4.4 Adequacy of Funds Operations

Adequacy of funds in terms of the current liquidity positions and remitting of contributions cannot be over-emphasized. The position of these determines whether the scheme can meet its obligations.

Table 4: Adequacy of funds in terms of remittances and ability to meet obligations (percentage)

Fund	Remittances	Ability to meet Obligations
Public Pension Scheme	90%	30%
Self Administered	55%	50%
Insurance companies	100%	100%
Fund Investment Managers	100%	100%

The table shows that remittances is highest for the insurance companies and fund investment managers. This is because the fund sponsors pays a fee for the services rendered and also failure to remit in time could result in the services withdrawn and/or obligations not honoured. In some of the parastatals, the ability to meet obligations was found to be extremely difficult and hence lowering the percentage. The public scheme has similar problems. For insurance companies and fund investment managers, meeting obligations is a hundred percent.

The study found that some fund managers usually face difficulties in settling their obligations as they fall due. This may have resulted from poor investment decisions in the past and in other cases the fund sponsors do not remit the contributions regularly as required in the Trust Deed. Due to these factors, some of the funds are under-funded and therefore are unable to meet their obligations as they fall due. In addition, the workers and pensioners do not get the optimum benefits which is the major objective of setting a pension scheme. This therefore, calls for legislations and a regulatory body that will ensure that pensions management is prudent. The legislations and formation of a regulatory body will ensure that examination of investment holdings will be done regularly to make certain that the investment vehicles are performing as expected. Performance should be measured when it is time to review the portfolio, while maintaining constant surveillance and supervision. Performance should be measured by computing the quarterly return obtained from the portfolio.

4.5 Critique of Pensions Management in Kenya

A progressive pension scheme will have a constantly increasing membership and therefore, the pension fund will become larger and larger. It will grow not only because its income will exceed its expenditure, but also because wise trustees will ensure that they receive interest and dividends from investment from the fund as well as contributions in respect of members who have not yet retired. Wise investment includes at least three features. Investments must be safe; they must be profitable; and they must also be capable of being realised when cash is required to pay benefits.

Most trustees are given wider investment powers than the Trustees Act allows through the Trust Deeds. Indeed, the rules of many schemes allow trustees to invest in any way which would be available to them if the funds were their own property. However, these increases greatly the risk that the trustees may lose money if they either gamble or operate beyond the limits of their knowledge. Because of this, trustees may need advice on how to invest.

Pensions management in Kenya has not been recorded and very little information is available to the public regarding the same. However, the management of NSSF, has raised several issues to the public and therefore it is expected that within the next decade, workers will have known much more. NSSF over the years have been mobilising workers contributions so that it can provide protection offer retirement. The fund has grown over the years but its investment practices has become very questionable as regarding the welfare of the beneficiaries and contributors. The

Government has condoned the malpractices and mismanagement of the fund through investments which are not beneficial to the fund. The government should not be involved in the management of NSSF. The fund should be given to the right owners. The government should set up a regulatory body with strong powers. The regulator should be fully funded by the government and should have the ability to conduct spot checks on schemes.

The other schemes like self-administered schemes are facing difficulties resulting from how they are operated. Some of the funds are under-funded since the sponsors do not remit contributions regularly and also investment decisions are made by people who lack the knowledge in investments and pensions management. These factors have ensured that these schemes cannot adequately cover a pensioner or the beneficiaries properly. At the same time, some organizations especially those owned by the government take a long period of time before they can pay the benefits. As a trustee, the scheme should be managed professional, invest safely and hold assets that won't put the members' benefits in jeopardy. The trustees must behave prudently.

CHAPTER FIVE

5.0 CONCLUSIONS AND RECOMMENDATIONS

Pensions funds have been used in both developed and developing economies to facilitate economic development. They not only provide protection after retirement but the massive funds in these schemes can be used by both the government and the private sector to finance programmes and business. For instance, the Central Provident Fund (CPF) of Singapore which was set up in 1955 has had a huge impact on the country's development. As a result of the CPF programme, Singapore today has one of the highest savings rate in the world. This high savings rate has allowed for a correlating high level of direct investment.

Pensions Funds in Kenya have an estimated value of Shs.100 billion as at December, 1994. A large percentage of this figure is in form of cash deposits and short term money instruments. These are massive funds which the government and the businesses can borrow to improve the status of the people. What is required is for the Government to set up a regulatory body that can facilitate the smooth running of the schemes. At the same time, it would be necessary to create awareness and educate the public on the need for joining pension schemes. This in a way would be a form of saving and also contributing indirectly to the economic development of the country. However, before the government can be trusted by the contributors, it must pull out and rectify the situation at NSSF. This will build workers confidence and set the way to the growth of the industry. The government should facilitate and

encourage the growth of investment fund managers so that pensions management can mainly be in the hands of the private sector. This will introduce competition, therefore, offering a wider choice to the contributors to seek the best investments companies. The provision for retirement plans is a major component in retirement planning and should be mandatory to an employment contract. Employees should be an equal partner in pension plans and should contribute to the plan as well as providing some trustees. It is suggested that a legislation geared towards 50-70% replacement of income at retirement is necessary. This should have an inbuilt inflation factor. Therefore, to prepare for retirement, Kenyans must ensure that they are members of an occupational pension scheme or an individual retirement plan.

Trustees and sponsoring employers have always had to bear their benefit promises in mind when considering investment. The trustees must behave prudently to ensure that appropriate rate of return is achieved. It is also necessary that fund sponsors remit contributions regularly and appoint professional staff to be investment managers. The Board of Trustees should also be composed of people who can provide the right direction and be able to discuss objectively with the nominees or investment managers. It should therefore be acknowledged that, when one is responsible for people's futures, one needs information that can be trusted. It is vitally important for the public to be informed about the role of portfolio managers, the fiduciary duty that they are to carry out and why it is important for the best interests of the fund members. For example, as a contributor of NSSF, one is left wondering whether funds are invested or thrown away, not as a means of achieving any investment goals of the members but yet for some other alternative reason. "Why are contributors not

standing up for their rights and complaining about the misuse of their funds?" If the fund could be properly managed, it could have enormous positive growth implications for this country rather than growth implications for certain individuals. In other cases, contributions have been deducted from employees and yet the employer has not been remitting the same. The situation must be rectified since the burden of caring for the old lies with the productive lot. This means that nothing can be left for direct investment. Finally, the principal thing which investment managers in this country do not do is to reconcile the analysis of the world and what is actually happening at the grass roots of companies. Once this reconciliation has taken place, then it is possible to identify investment themes. Each security or investment vehicle selected should reflect this theme.

RECOMMENDATIONS

The Government intends to table a Bill in Parliament to make the NSSF autonomous. However, it is recommended that a Pensions Bill should actually be formulated and tabled in Parliament that will cover pensions management in Kenya. The Pension Bill should be formulated in a way that recognizes the link between trustees, employees and employers. Trustees should be made ultimately responsible for the proper investment of their fund. Other specific recommendations are:

- The Government should set up a regulatory body that is fully funded. This body should have the ability to conduct spot checks on schemes.

- There should be a minimum solvency requirement.
- The Board of Trustees should include at least one pensioner. There should be a mandatory number of member elected trustees who sits in the Boards and should form the majority. Trustees have the responsibility to ensure that their pension plans assets are suitably invested. The trustees should therefore be required to prepare and maintain a statement showing the principals to follow as concerning investments. This is important since the investment return achieved by a pension plan is critical to its financial state. An inappropriate investment policy for a defined plan increases the likelihood of greater cost to the sponsoring company or could put benefits at risk. Members of defined contribution plans will face lower or very uncertain levels of pension, unless suitable investment options are made available. The statement must cover the trustee's policy on the following:

1. For defined benefit plans, compliance with minimum solvency requirement;
2. Appropriate diversification of investments;
3. Types of investments to be held, the suitability of investments and the balance between such investments;
4. Risk and expected return;

5. Realisation of investments.
 - An index necessary for appraising the value of pension schemes. The index should compare scheme's benefits to best industry practice.
 - Minimum information disclosure to the members of the scheme by the trustee should be set. Failure to communicate the benefits of the pension scheme message to members is a cardinal sin. Therefore, effective communication will help get the pension scheme message across to a wider audience.
 - The government should facilitate the establishing, growth and development of Investment Fund Managers. This will ensure that enough skills will be available as the industry sets to grow. Further, with establishment of more investment companies, and therefore, competition, these firms will carry out more research in pensions management offering choice to the fund sponsors and contributors.

Further research is needed in this area and should cover the following aspects:

Problems Encountered in the Study

1. Data availability - Most of the people practising or in the industry - Pensions Management - could not get most of the required data. Records have not been properly kept and hence only scant information was available about the Pensions Management.

2. The National Social Security Fund (NSSF) - The management was apprehensive and feared providing the information claiming that the issue is too sensitive.
3. The Pensions Management also seemed to be in the hands of people who are not professionals.
4. Some of the information provided could not be verified and hence its authenticity may be in question. Therefore some issues might be controversial.
5. In certain instances, it took too long for management of organizations to authorize for the research to be undertaken there.

Areas for Further Research

Further research is needed in this area and should cover the following aspects:

1. The role of Fund sponsors in the Funds Investments.
2. The role the Government should play in Pensions Management.
3. Whether it is necessary for the Government and other participants in Pensions Management to establish a regulatory body in the wake of de-regulation.

4. Trustee Dilemmas: The Trustees views and fund sponsors views on Fund Investments.

5. What aspects should fund sponsors look for in deciding whether to have a self-administered scheme, use Investment Fund Managers or an Insurance Company?

6. The Board of Trustees: Should Pensioners and Employees be the majority?

Fund Assets

3. The assets of the Fund shall comprise: (a) contributions made by the Contributing Companies and any by employees of the Contributing Companies, and, with the consent of the Commissioner of Income Tax, (b) any annuity or assurance contracts or policies under any retirement benefits schemes on the lives of members, deferred pensioners, pensioners or other beneficiaries of such retirement benefits scheme or superannuation fund.

TRUST DEED

Establishment
of Fund

1. The Parent Company namely _____ hereby establishes and constitutes the Fund under irrevocable trust to commence on and operate from the first day of January, nineteen hundred and eighty two and initially the Trustees of the Fund shall be _____

Obligations of
the Fund

2. The Parent Company hereby covenants and obliges itself with the Trustees to observe and perform the provisions of the Trust Deed and the Rules of the Fund as contained in the annexed Schedule.

Fund Assets

3. The assets of the Fund shall comprise (a) contributions made by the Contributing Companies and any by employees of the Contributing Companies, and, with the consent of the Commissioner of Income Tax, (b) any annuity or assurance contracts or policies under any retirement benefits schemes on the lives of members, deferred pensioners, pensioners or other beneficiaries such as _____ Trust _____ and _____ and unrestricted powers _____ benefits scheme or superannuation _____ to the Trustees for the purpose of _____ Fund which represent secured benefits in respect of any members, deferred pensioners, pensioners or other beneficiaries of such retirement benefits scheme or superannuation fund.

Objects of the Fund 4. The main object of the Fund is to provide pensions to Members on retirement from the service of the Contributing Companies.

Declaration of Trust 5. The Trustees shall hold the assets of the Fund upon trust to apply the same in or towards providing the pensions and other benefits payable under the Fund.

Powers of Investments 6. (a) The whole or part of any assets belonging to the Fund which the Trustees are not required to be expended immediately in making any payment or payments pursuant to the provisions of the Fund may either be placed on current or deposit account with a bank or invested in or upon the security of such stocks, funds shares, securities or other investments or property of whatsoever nature and wheresoever situate and whether involving liability or not and whether producing income or not as the Trustees shall in their absolute discretion think fit to the intent that the Trustees shall have the same full and unrestricted powers of investing and transposing investments in all respects as if they were absolutely entitled there- to beneficially and so that, without prejudice to the generality of the foregoing, assets belonging to the Fund may-

(i) be invested in or upon any securities the holding of which is restricted to a particular class of persons the Trustees being a member of that class,

(ii) be used for entering into underwriting or sub-underwriting contracts of all kinds and whether resulting in the actual investment of assets belonging to the Fund or not,

(iii) be invested by effecting with one or more insurance companies policies or contracts for the purpose of providing pensions or benefits whether immediate or future and whether contingent or otherwise for the purposes of the Fund and the Trustees shall have

full power to deal with and dispose of any policy or contract effected by them whether by sale surrender or otherwise in such manner in all respects as the Trustees shall in their absolute discretion think fit.

(b) Any company or partnership to which the Trustees shall have delegated their powers of investment pursuant to Clause 9. (b) of the Trust Deed shall have power to raise any money required for the purposes of the Fund by the sale, conversion, calling in mortgage or charge of all or any part of the assets of the Fund for the time being in its possession in the same manner and to the same extent as if it was the absolute and beneficial owner thereof and generally shall have power to borrow for the purposes of the Fund.

Powers of Trustees

Additional Powers of Trustees

Holding of Investments

7. Any investments of the Fund as provided in Clause 6 of the Trust Deed may be held

in the name of the Trustees or any two or more of them or, with the consent of a majority of Trustees in writing, in the name of Bank nominees, or in the name of any company limited either by shares or by guarantee with or without a share capital formed for the purpose of holding such investments.

Powers of Trustees

8. The Trustees shall have the whole rights, powers and privileges and indemnities conferred by the Law of Kenya on gratuitous trustees at common law or by statute and shall not be liable for errors, omissions, mistakes in judgement or otherwise than for personal or wilful default.

Additional Powers of Trustees

9. The Trustees shall have following powers/ in addition to powers vested in them by the Trust Deed and by statute or otherwise, viz:-

- (a) power to delegate to any committee consisting of two or more persons (any of whom may be a trustee) appointed by them such of the powers, duties, authorities and discretions conferred on the Trustees by the Trust Deed or the Rules as they may deem necessary or desirable for the convenient administration of their duties hereunder.
- (b) Powers to delegate their powers of investment to any company or partnership.
- (c) power to institute and defend all legal proceedings at the instance of or against the Fund,
- (d) power generally to execute and do all acts and things as the Trustees consider necessary or expedient for the maintenance and preservation of the Fund and of the rights of the

members and others therein.

Transfer of
Members' Interest
from or to other
Funds

10.(a) If any Member has an interest in any other retirement benefits scheme, fund or other arrangement (hereinafter referred to as "the transferring scheme") the Trustees may, with the consents of the Member, the Parent Company and the Commissioner of Income Tax and having regard to the provisions of the transferring scheme accept from the trustees of the transferring scheme or other person or persons having the necessary powers thereunder,

- (i) a cash sum equivalent to a part or the whole of the Member's interest in the transferring scheme, or
- (ii) an assignation of any annuity or assurance contract or policy comprised in the underlying assets of the transferring scheme and representing a part or the whole of the Member's interest in the transferring scheme, or
- (iii) the issue of a new annuity or assurance contract or policy or an amendment of an existing annuity or assurance contract or policy of which the Trustees are the gurantees which may secure benefits in respect of the Member similar to and in substitution for those secured for him under the transferring scheme, or
- (iv) investments representing part or the whole of such interest and upon such acceptance shall confer on the Member such rights and benefits under the Fund

and in such form as Actuary shall certify to be appropriate

- (b) If any Member becomes a member of a retirement benefit scheme (other than the Fund) then with the approval of the Commissioner of Income Tax, the Trustees, the Member concerned and the Parent Company the Trustees may in substitution or benefits which would otherwise arise under the Fund in consequence of his membership thereof:-

(i) pay to the trustees of the receiving scheme or other person or persons administering such scheme a cash sum of such amount as the Actuary shall certify to be the value of the Member's interest in the Fund, or

(ii) If the assets of the fund shall comprise in whole or in part annuity or assurance contracts or policies with any insurance company, enter into an agreement with such insurance company whereby it shall be released from all liability to pay any benefits secured on the life of the Member under the whole or any part or parts of any such contract or policy in consideration of such insurance company agreeing to issue a new annuity or assurance contract or policy to the trustees of such retirement benefit scheme or other person or persons administering the receiving scheme or to amend an existing annuity or assurance contract or policy

by
in
Comp
Number of Trustees 15. The
than
Appointment 16 (a)
and Removal

issued by such insurance company in favour of the trustees or such other person or persons administering the receiving scheme in order to secure in respect of the receiving scheme benefits similar to and in substitution for those benefits in respect of which the Trustees shall have released such insurance company from liability as aforesaid, or

(iii) transfer to the trustees or such other person or persons administering the receiving scheme investments representing the Member's interest in the Fund or investments representing such part of the Member's interest in the fund as is not dealt with by a payment or the agreement under paragraphs (i) or (ii) of this sub-clause, and upon such payment, agreement and/or transfer being made the member shall have no further interest in the Fund.

Expenses 11. The Parent Company shall pay all management expenses and keep the Fund free thereof.

Appointment of Actuary and Auditors and Fund Secretary 12. The Trustees shall from time to time appoint on such terms as they think fit an Actuary or Actuaries and an Auditor or Auditors and a Fund Secretary and such other officers as they consider necessary for the proper management of the Fund and the Trustees shall also have power to revoke or vary any such appointment.

Accounts 13. The accounts of the Fund shall be kept in regular form and audited and a statement shall be prepared annually showing the income and expenditure of the Fund.

Actuarial Valuations 14. The Trustees shall as soon as may be after each valuation date selected by them, the first such date to be not later than the first day of January Nineteen Hundred and Eighty Two and each subsequent valuation date to be not later than three years after the last preceding valuation date, cause the financial condition of the Fund at such valuation date to be investigated

by the Actuary and the Actuary shall report in writing to the Trustees and to the Parent Company thereon.

Number of

Trustees 15. The number of Trustees shall not be less than three or more than five.

Appointment 16
and Removal

(a) The Parent Company may call upon any of the Trustees to resign from the office of trustee hereunder by serving upon such Trustee seven days' notice to that effect which shall be delivered to him or sent by registered post to his last known place of abode and at the expiration of any such notice the Trustee therein named shall be deemed to have resigned from the office of Trustee hereunder and shall execute such documents and do such things (if any) as may be necessary to give proper effect to such resignation.

(b) Without prejudice to the power contained in sub-clause (a) of this clause the Parent Company may be deed appoint any person to be one of the Trustees in place of one of the Trustees who has died or resigned or been removed from office or become incapable of acting for any reason.

Prohibition

of Assignment 17. No benefit or contribution accruing or payable shall be capable of assignment.

Additional 18.
Parties

Any company which desires to become a party to the Fund at any time after the date hereof and is associated with the Parent Company to such a degree that its participation therein would not prejudice the approval of the Fund for registration purposes under the Law of Kenya and the participation of which therein is approved by the Parent Company, the Trustees, and the Commissioner of Income Tax, shall

enter into an agreement with the Parent Company and the Trustees supplemental hereto binding and obliging itself to observe and perform the provisions of the Trust Deed and of the Rules and shall thereby become a party to the Fund as from a date to be specified in such agreement. This agreement shall be noted as a Deed of Adherence and shall be executed only with the authority of the Commissioner of Income Tax.

Alterations and Additions 19.

The provisions of the Trust Deed and the Rules shall only be altered or added to as provided in Rule 2 and with the consent of the Commissioner of Income Tax.

Winding-up of Fund 20.

- (a) The Contributing Companies or any of them may, at any time, give to the Secretary of the Fund six calendar months' notice in writing of their or its intention, after the expiry of such notice, to cease to contribute to the Fund.
- (b) The Fund may be wound up at any time, if after discussions with the Trustees, the Directors of the Parent Company confirm this decision.
- (c) (i) In the event of all the Contributing Companies having given to the Secretary of the Fund such notice as is referred to in sub-clause (a) of this clause the Trustees shall ask the Actuary to propose a scheme. The scheme shall make provision for such amended benefits and contributions as may be necessary. A copy of the scheme shall then be circulated to all Members, deferred pensioners, pensioners and beneficiaries. The scheme

shall be submitted to the Parent Company and the Trustees which shall then decided as to adopting the scheme or that the Fund shall be wound up. Should the scheme be adopted the Trustees shall resign from the office of trustees of the Fund and be succeeded by trustees to be appointed at such adjourned meeting, and thereafter at each annual meeting. The Contributing Companies and the Trustees shall thereupon be relieved of any further liability in respect of the Fund.

(ii) In the event of one or more, but not all, of the Contributing Companies having given to the Secretary of the Fund such notice as is referred to in sub-clause (a) of this clause, the part of the Fund applicable to the deferred pensioners, pensioners, members and beneficiaries who have been or are employees or are dependants of employees of such company or companies shall be ascertained actuarially and shall be wound up in the same manner mutatis muntandis as provided in paragraph (iii) of this sub-clause.

(iii) Should it be decided to wind up the Fund under the provisions of this clause, the Trustees shall apply the assets of the Fund available to meet the liabilities of the Fund, after payment of all charges and expenses,

FIRST in making provision in full by the purchase from the office of an Insurance Company with its registered office in Kenya of individual non-commutable and non-assignable annuity bonds in favour of each deferred pensioner, pensioner, Member or beneficiary who is entitled to retire on pension at the date of winding up, securing benefits of the same amount as those to which he has become entitled, and in favour of each other Member securing benefits in accordance with entitlement under the Rules, but if the pension to be conferred on any Member would be less than Kshs.1,000 p.a. then the Member shall in lieu of all other benefits receive (subject to any deduction of Income Tax) a lump sum of such amount as shall be certified by the Actuary to be appropriate.

SECOND in repaying, subject to the provisions hereof and subject to any claims for Income Tax thereon, any remaining surplus to the Contributing Companies.

In the event of the Fund being wound up and the assets being insufficient to meeting the liabilities of the Fund, the Trustees shall give priority over other liabilities under the Fund to the following purposes which shall rank pari passu and in priority to any other liabilities of the Fund:-

1. Existing pensions, in payment, whether payable to pensioners, spouses of pensioners, children of pensioners

QUESTIONNAIRE

General

A survey on investment strategies of Pension Plans and Provident Funds in Kenya. Please comment as detailed as practicable.

1. Briefly describe the historical development of Pension Plans and Provident Funds investment in Kenya.

12.

or other beneficiaries.

2. What are the types of Pension Plans available in Kenya?

2. Pensions due to be paid to Members at normal retirement age or earlier in the appropriate circumstances.

3. Pensions due to be paid to deferred pensioners.

3. What is the criteria of selecting Pension and Provident Funds investment companies?

Schedule referred to in the foregoing Deed.

4. Are Pension Fund Sponsors actively involved in the fund investment?

5. What are the regulations or standards governing Pension and Provident Funds investments in Kenya?

6. How is the Board of Trustees selected and composed? Are the members guidelines legally binding? What role does the Government play?

Appendix 2

QUESTIONNAIRE

General

A survey on investment strategies of Pensions Plans and Provident Funds in Kenya. Please comment as detailed as practicable.

1. Briefly describe the historical development of Pension Plans and Provident Funds investment in Kenya.

2. What are the types of Pension Plans available in Kenya?

3. What is the criteria of selecting Pension and Provident Funds investment companies?

4. Are Pension Fund Sponsors actively involved in the funds investments?

5. What are the regulations or standards governing Pension and Provident Funds investments in Kenya?

6. How is the Board of Trustees selected and composed? Are the members guidelines legally binding? What role does the Government play?

7. What are the tax implications of Pension Plans and Provident Funds to both investors and investment companies?

8. What are the available avenues where investment companies or investment managers can invest the Funds? Do they have any limitations?

9. Should investment companies be regulated on the minimum information they should disclose to the funds sponsors, employees and the public?

10. Should companies be concerned about employees' welfare? That is, should they offer Pension Plans to their employees? What should be the role of employees in Pension Plans?

11. What should Kenyans do to prepare for retirement?

12. Please add other comments and opinions about Pension Plans and Provident Funds in Kenya.

Investment Managers/Auditors/Actuaries out in the last two years?

1. What are the provisions regarding the appointment of an Investment Manager?

2. On what grounds can the Investment Manager be Changed?

3. How and who appoints Auditors and Actuaries?

4. Who are the Fund's Auditors?

5. How often is the Auditors appointment reviewed?

6. Is the Investment Manager Involved in the appointment of Auditors and Actuaries?

7. Who are the Actuaries of the Fund?

Why is % invested in Money Market Instruments?

8. Has any actuarial review been carried out in the last two years?

9. Does the Trust Deed allow the Trustees to delegate their powers?

10. Can the Trustees borrow using fund assets for collateral?

11. What does the Trust Deed state regarding the appointment of nominees?

12. Others Specify.

Investment Performance Review

1. What investment guidelines have been given to the Investment Manager? How often are these guidelines reviewed?

2. Why is % invested in Equities?

Why is % invested in Money Market Instruments?"

Why is % invested in Property?

Terms: Fees, Withdrawals, etc

1. What fees are charged for investment of the Fund?

3. How much discretion have been given to the Investment Manager?

2. Are these fees charged up front or at the end of a period? How frequently are the fees payable?

4. How often do the Investment Managers report to the Trustees?

3. What are the withdrawal terms for the Fund? How much notice is required?

5. How is the performance of the Investment Manager measured?

4. Can investments be transferred or are they required to be liquidated? What are the

6. What was the Fund's performance in the last five years?

7. Fund Is there a separate performance trading for each investment vehicle?

1. Is membership of the Fund Compulsory?

8. Are any comparisons made to any other Investment Managers' returns? If so, how often are such comparisons made? What about comparisons between the investments? How frequently are such comparisons made?

3. Are the contributions in addition to the NSSF contributions?

9. Is there an Investment Committee of the Fund?

4. How frequently are the contributions remitted to the Investment Manager?

Terms: Fees, Withdrawals, etc

5. What are the terms for withdrawal by participants?
1. What fees are charged for investment of the Fund?

2. Are these fees charged up front or at the end of a period? How frequently are the fees payable?

3. What are the withdrawal terms for the Fund? How much notice is required?

4. Can investments be transferred or are they required to be liquidated? What are the charges, if any, on withdrawal?

Fund Participation

3. What is the procedure for any complaint a member may wish to lodge?
1. Is membership of the Fund Compulsory?

2. What is the proportion of the contribution is from employer and the employee?

3. Are the contributions in addition to the NSSF contributions?

4. How frequently are the contributions remitted to the Investment Manager?

5. What are the terms for withdrawal by participants?

6. Are payments made in the Founder's, the Trustees' or the participant's name?

Records

1. What records are available for review by the members (Employees)?

2. Does the Investment Manager prepare individual records for each member? If so, how often are these prepared?

3. What is the procedure for any complaints a member may wish to lodge?

4. Can members be allowed to join other Pension Plans? If so, will the employer consent and continue with the contributions?

5. Please add any other comments

Appendix 3

NSSF Registered members from 1966 to June 1994

Year	Total	Cumulative total
1966	252107	252107
1967	127475	379582
1968	93988	473570
1969	57689	531259
1970	59471	590730
1971	55157	645887
1972	59613	705300
1973	33250	738750
1974	26605	765335
1975	93429	858784
1976	69290	928074
1977	80344	1008418
1978	59717	1068135
1979	71496	1139631
1980	78257	1217888
1981	74933	1292821
1982	56674	1349495
1983	49219	1398714
1984	67982	1466696
1985	65426	1532122
1986	42087	1574209
1987	61573	1635782
1988	733022	1708804
1989	86301	1795105
1990	92957	1888062
1991	99101	1987163
1992	78983	2066146
1993	83967	2150113
1994	79526	2229639

NSSF Financial Statistics NSSF Registered employers from 1966 to June 199

Year	No of Employers	Year Registered	Total	Cor Received (₦)	Cumulative total (₦)	claims	Amounts paid (₦)
		1966	3713		3564		
1966	3713	1967	14653		17918	31	
1967	14653	1968	2010		19376	732	1683
1968	2010	1969	1624		20732	2976	134855
1969	1624	1970	661		21158	4749	220461
1970	661	1971	719		21565	7138	559411
1971	719	1972	1013		22036	8392	655636
1972	1013	1973	859		22608	6666	644332
1973	859	1974	1031		23388	7792	924180
1974	1031	1975	1368		23053	8095	1101260
1975	1368	1976	1385		24994	8222	1097598
1976	1385	1977	1227		25638	7408	1988459
1977	1227	1978	1045		26283	10013	1400778
1978	1045	1979	1090		27028	8181	1337472
1979	1090	1980	1923		28754	5505	1094767
1980	1923	1981	1250		29739	6172	1850884
1981	1250	1982	1405		30750	13389	2604618
1982	1405	1983	1225		31602	15952	4069342
1983	1225	1984	1275		32536	21034	6522760
1984	1275	1985	1308		33610	19126	7467142
1985	1308	1986	1357		34769	21172	11411121
1986	1357	1987	1266		35920	18206	10934975
1987	1266	1988	1278		36948	20401	11841719
1988	1278	1989	1307		38107	27160	11735742
1989	1307	1990	1170		39072	26395	1716537
1990	1170	1991	1367		40220	31382	22595000
1991	1367	1992	1222		41297	30393	25704415
1992	1222	1993	673		41923	34788	32726460
1993	2296	1994	1009		43627	36514	33591335
1994	1009					31708	41854378

Appendix 5

NSSF Financial Statistics from 1966 to June 1994

Year	No of Employers	No of members Registered	Contributions Received (£)	No. of claims (£)	Amounts paid (£)
1966	3713	252107	1150300	31	39
1967	14653	122475	4052650	732	16835
1968	2010	93988	5336750	2976	134855
1969	1624	57689	5816500	4749	220461
1970	661	59471	6896950	7138	559411
1971	719	55157	6637150	8393	655636
1972	1013	59613	7112450	6666	644362
1973	859	33250	7758550	7792	924180
1974	1031	26605	9836150	8095	1101260
1975	1368	93429	1421424	8222	1097598
1976	1385	69290	12058008	7408	1988459
1977	1227	80344	18344232	10013	1400778
1978	1045	59717	22659250	8181	1337472
1979	1090	71495	25626095	5505	1094767
1980	1923	78257	30107869	6172	1850884
1981	1250	74933	34974364	13389	2604618
1982	1405	56674	36808900	15952	4069342
1983	1225	49549	36944123	21034	6522760
1984	1275	67892	39247845	19126	7467142
1985	1308	65426	42045981	21172	11411121
1986	1357	42087	53136168	18206	10934975
1987	1266	61573	55156353	20401	11841719
1988	1278	73022	56163168	27160	11735742
1989	1307	86301	61609562	25395	17165370
1990	1170	92957	57617233	31382	22595000
1991	1367	99101	63543103	30393	25704415
1992	1222	78983	70784750	34768	32726460
1993	2296	83967	67985631	36514	33591335
1994	1009	79526	61355586	31706	41854370

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How the rates of return on investment portfolios was determined.
The Pension Scheme illustrated has its identity distinguished,
referred to as client A900

Year 1990

Rate of Return (%)

Opening Balance	239,215,382.95
Closing Balance	304,679,999.95
Contributions	60,174,324.55
Net	5,290,292.45

2.47%

Year 1991

Opening Balance	304,679,999.95
Closing Balance	407,194,584.20
Contributions	75,390,656.60
Net	7,123,928.15

2.34%

Year 1992

Opening Balance	407,194,584.20
Closing Balance	532,617,112.00
Contributions	94,476,450.60
Net	21,946,077.20

5.39%

Year 1993

Opening Balance	532,617,112.00
Closing Balance	780,283,291.90
Contributions	127,382,451.30
Net	120,284,722.60

22.58%

Year 1994

Opening Balance	780,283,291.90
Closing Balance	1,086,953,349.60
Contributions	189,639,244.55
Net	117,043,813.15

15.00%

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