

**CHALLENGES FACING MANAGEMENT OF PENSION SCHEMES IN STATE  
CORPORATIONS IN KENYA: A CASE STUDY OF THE KENYA PORTS  
AUTHORITY PENSION SCHEME.**

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AWARD OF THE DIPLOMA IN MANAGEMENT AND LEADERSHIP AT THE  
MANAGEMENT UNIVERSITY OF AFRICA.

**JANUARY 2024.**

**DECLARATION**

This project is my original work and has not been presented for the award in any other University or institution. No part of this research should be reproduced without my consent or that of the Management University of Africa.

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

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## **DEDICATION**

This research project is dedicated to my loving husband Martin Kinyua who gave me total moral support throughout in pursuit for further education. To my beloved mum and siblings for their prayers and encouragement towards this achievement.

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I express profound gratitude to the Almighty for providing guidance throughout my academic journey. Additionally, I extend my appreciation to the Management University of Africa for the continuous support from the management, administrative staff, and faculty, fostering an environment conducive to academic excellence. A special acknowledgment goes to my supervisor, Mr. Jared Osoro, whose invaluable guidance, and encouragement were pivotal throughout the entire project. I am also thankful to the KPA management for granting permission to conduct my study at their organization and for facilitating connections with their employees during my research.

## **ABSTRACT**

A pension scheme serves as a tax-efficient retirement savings plan, offering individuals the opportunity to save during their working years and receive income upon retirement. Unfortunately, issues of misappropriation and mismanagement have been observed in various pension schemes, including the Kenya Ports Authority Pension Scheme. This research focuses on exploring the challenges encountered in the management of pension schemes, specifically delving into the Kenya Ports Authority Pension Scheme and its workforce of twenty employees. The research employs a survey method to scrutinize aspects such as management structures, investment decisions, adherence to government policies, and responses to economic volatility, all crucial for the effective operation of the pension scheme. Both qualitative and quantitative data was gathered using questionnaires, interview schedules, and document analysis. The outcomes and recommendations derived from this study aim to contribute significantly to the enhancement of management structures and the formulation of well-informed decisions. Additionally, the research seeks to understand the challenges faced by formal pension schemes, like the Kenya Ports Authority Pension Scheme, in adapting to the socio-economic characteristics of informal workers. It also aims to evaluate the financial sustainability of social security schemes in Kenya, with a specific focus on the hurdles encountered by pension systems. Furthermore, the study explores the potential for pension schemes to facilitate access to affordable housing, highlighting the Kenya Ports Authority Pension Scheme's pioneering role in this domain. Legal cases and regulatory notifications related to pension scheme management, including those involving the Kenya Ports Authority Pension Scheme, will also be examined as part of the research.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Purpose of the study**

The effective administration of pension schemes presents a substantial challenge within the Kenyan job market. This study is undertaken to pinpoint the primary challenges confronting the management of pension schemes within state corporations in Kenya, utilizing a case study approach focused on the Kenya Ports Authority pension scheme in Mombasa County. The research endeavors to scrutinize and establish the critical significance of interdependence between pension scheme management, specifically highlighting the roles of human resource professionals and the management of the Kenya Ports Authority.

This study will utilize a combination of qualitative and quantitative research methods to gather information. Qualitative research will involve interviews with key stakeholders, including pension scheme administrators, human resource professionals, and representatives from Kenya Ports Authority management. On the other hand, the quantitative approach will entail distributing questionnaires to employees of the Kenya Ports Authority pension scheme, aiming to collect data on their perceptions and experiences with the management of the pension scheme.

The insights derived from this research will play a crucial role in shaping decision-making processes, particularly in establishing more effective management structures for pension schemes within state corporations in Kenya. The recommendations put forth will be rooted in the challenges identified and the interdependence observed between pension scheme management, human resource professionals, and Kenya Ports Authority management. By addressing these challenges and leveraging the interdependence among these stakeholders, the study aims to make valuable contributions to the enhancement of pension scheme management in state corporations in Kenya, ultimately improving the retirement security of employees.

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

Pension schemes play a crucial role in securing economic stability and financial well-being for aging populations globally. They offer individuals a steady income during retirement, usually funded through contributions made throughout their working years. These

contributions are strategically invested, generating returns that enhance the accumulated funds for retirement (Bodie, 2001). It's important to distinguish pension schemes from generic retirement plans, as the latter may include individual savings initiatives independent of employer-sponsored programs (Munnell & Sunden, 2004).

Occupational pension schemes, commonly established by employers for their employees, are a prominent form of deferred compensation. This system offers tax benefits to both employers and employees, making it an advantageous arrangement (Mitchell & Pozen, 2012). Further, many pension schemes incorporate an insurance component, providing benefits to surviving dependents or disabled beneficiaries (Feldstein & Schieber, 2008). This feature mitigates longevity risk, ensuring financial security beyond the individual retiree.

In Kenya, the term "pension scheme" specifically refers to the pre-determined legal or contractual payments received upon retirement, typically at the age of sixty (Government of Kenya, 2023). The past decade has witnessed a growing appreciation for the crucial role pension schemes play in national economic stability and individual retirement security. Notably, the Kenyan pension scheme sector boasts a substantial value of Kshs 200 billion, representing 23% of the nation's Gross Domestic Product (Old Mutual, 2008). However, despite its significant size, the system remains fragmented, with coverage limited to only 15% of the Kenyan workforce (Retirement Benefits Authority, 2023).

The Kenyan pension scheme sector faces a significant challenge: low coverage. This issue can be attributed to two key factors: inadequate policy initiatives aimed at expanding access and a legal framework designed primarily for formal sector workers (Nyakundi, 2009). Currently, formal retirement benefits reach only 11% of the Kenyan workforce, with savings facilitated primarily through two channels: statutory contributions to the National Social Security Fund (NSSF) and employer-sponsored schemes. The legislative landscape governing this sector revolves around the Retirement Benefits Act of 1997, with the Retirement Benefits Authority (RBA) holding oversight as the industry regulator (Retirement Benefits Authority, 2023). Notably, the RBA's stated objectives include both boosting domestic savings to 25% and increasing retirement coverage, highlighting the awareness of the need for broader inclusion (Old Mutual, 2008).

The year 1997 marked a turning point for the Kenyan pension system. Previously marred by mismanagement and misappropriation of funds, the sector underwent a significant overhaul with the introduction of the Retirement Benefits Act. This Act aimed to fill the void of a unified legal framework and establish standards for regulating the industry. As part of this effort, the Act established the RBA with specific mandates: supervising and regulating the establishment and management of retirement schemes, protecting the interests of scheme members and sponsors, fostering the sector's development, and advising the Ministry of Finance on national policy pertaining to retirement benefits (Old Mutual, 2008).

Globally, pension systems are undergoing significant transformations. Moving away from the traditional defined benefit model, where the government guarantees a set retirement income, many countries are embracing defined contribution schemes. This shift, as exemplified by India's transition, offers employees greater investment flexibility while also reducing the government's long-term pension liabilities (Kumari, 2013).

While Europe's social security systems often rely heavily on current taxes and contributions, hybrid models incorporating funded elements are gaining traction. Spain's Social Security Reserve Fund and France's Pensions Reserve Fund represent such examples (European Commission, 2022). Similarly, Canada's CPP Investment Board manages assets for the wage-based retirement plan, while the U.S. Social Security system invests in special Treasury bonds (Congressional Budget Office, 2023).

Despite these global trends, Kenya's pension landscape faces unique challenges. The Kenya Ports Authority (KPA) exemplifies this, with retirees expressing frustrations in accessing their savings promptly and in full. Yet, a comprehensive understanding of these challenges remains elusive, as no empirical studies have examined the specific roadblocks hindering the smooth operation of the KPA pension scheme. This study, therefore, aimed at addressing this critical gap. By delving into the challenges faced in managing the KPA pension scheme, it seeks to shed light on the specific issues hindering its effectiveness and hindering retirees' access to their deserved benefits. Additionally, the study will examine the existing structures and processes in place to manage the scheme, evaluating their strengths and weaknesses in ensuring its smooth operation.

Through rigorous empirical investigation, this research aspires to contribute valuable insights into the Kenyan pension landscape, informing potential reforms and improvements that can benefit both KPA employees and retirees. By drawing upon global trends and tailoring them to the specific context of Kenya and KPA, this study holds the potential to pave the way for a more efficient and equitable pension system, ensuring financial security for future generations of KPA personnel.

## **1.2 Statement of the Problem**

While the global landscape of pension systems witnesses a change in basic assumptions towards hybrid models balancing flexibility and fiscal responsibility, the Kenya Ports Authority (KPA) pension scheme remains shrouded in a veil of opacity. Inefficiencies and bureaucratic hurdles plague its operations, impeding the timely and complete disbursement of rightful benefits to retirees. This research ventures into the previously unexplored realm of a malfunctioning system, aiming to uncover the specific factors contributing to its deficiencies and hindering its ability to maintain equitable distribution. Despite retirees consistently expressing frustration and vocal discontent over delayed and incomplete payments, the exact nature of the challenges impeding the KPA scheme has remained unclear. A lack of comprehensive empirical investigations has perpetuated this lack of transparency, leaving retirees and policymakers uninformed. This research seeks to dispel this pervasive opacity by employing rigorous empirical methodologies to analyze the institutional, procedural, and systemic obstacles that disrupt the smooth functioning of the scheme.

By scrutinizing the existing structures and processes governing the KPA pension system, this research will assess their strengths and weaknesses in ensuring efficient and transparent benefit distribution. It will identify and analyze the specific factors contributing to delays and discrepancies in payments, uncovering the sources of systemic dysfunction. This comprehensive examination will not only shed light on the specific issues plaguing the KPA scheme, but also contribute valuable insights to the broader understanding of challenges within the Kenyan pension system. The potential impact of this research transcends the confines of the KPA pension scheme. By unveiling the specific areas for improvement, it holds the potential to pave the way for a more equitable and efficient system that benefits not only KPA retirees but also the wider Kenyan populace. By drawing

upon global best practices and tailoring solutions to the unique context of Kenya and the KPA, this research aspires to spark a wave of positive change, ensuring a future where retirement security is not a privilege reserved for a select few, but a fundamental right enjoyed by all.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The primary aim of this study was to explore the difficulties encountered in the management of pension schemes within state corporations in Kenya.

#### **1.3.2 Specific Objectives**

The specific objectives of the study were:

1. To explore the potential repercussions of investment decisions on the proficient administration of pension schemes.
2. To examine the impact of government policy on the operational efficiency and sustainability of pension schemes within the Kenyan context.
3. To analyze the influence of economic volatility on the stability and performance of pension schemes in the Kenyan landscape.
4. To assess the frequency and ramifications of non-payment or delayed payment of pensions on the overall management and effectiveness of pension schemes in Kenya.

### **1.4 Research Questions**

The study was guided by the following research questions:

1. To what extent do investment strategies and decision-making processes within the Kenya Ports Authority (KPA) pension scheme influence its overall management effectiveness and financial sustainability?
2. In what ways do various government policies and regulatory frameworks impact the operational efficiency and long-term viability of the KPA pension scheme?
3. How do fluctuations and uncertainties in the Kenyan economic landscape influence the stability and performance of the KPA pension scheme, particularly in relation to timely and consistent disbursement of pension funds to retirees?

4. What is the prevalence, causes, and consequences of non-payment or delayed payment of pension funds for KPA retirees, and how do these factors affect their financial security and overall well-being?

### **1.5 Scope of the Study**

Conducted between September and December 2023, this study delved into the challenges confronting pension scheme management in Kenya, with a specific focus on the Kenya Ports Authority (KPA) scheme. It centered on investigating the impact of three pivotal factors—investment decisions, government policy, and economic volatility—on the operational efficiency and sustainability of the scheme. The study's target population included pension managers and a sample of twenty staff members within the KPA scheme. The potential benefits of this research are manifold. Retirees stand to gain insights into factors that could affect their income security and the basis for addressing any concerns. Staff members will be sensitized to the importance of participating in the contributory scheme and the potential benefits it offers. Additionally, the KPA pension scheme management will receive data-driven findings and recommendations to enhance the scheme's overall functionality and address identified challenges.

### **1.6 Significance of the Study**

The primary objective of this study is to identify and comprehend the challenges that the management of pension schemes in state corporations in Kenya faces.

The findings of this study have substantial implications for the following areas:

- 1) **Kenya Ports Authority (KPA) Pension Scheme:** The recommendations derived from this study provide valuable guidance for the management of the KPA pension scheme. Implementation of these recommendations can lead to improvements in operational efficiency, addressing identified challenges, and enhancing the sustainability of the scheme. Furthermore, the findings serve as a reference point for future research on pension scheme management, contributing to knowledge building and advancements in the field.
- 2) **Pensioners:** The research aims to contribute insights for the improvement of the administration and management of pension schemes in general. This directly benefits pensioners who depend on these schemes for financial security. The study's

insights can support advocacy efforts and policy changes, ensuring reliable and timely pension disbursements.

- 3) **Government:** The findings of this research are of significance to the Ministry of Labor and the Ministry of Finance. They inform the formulation of prudent policies for the management of pension schemes across the country. The study's data-driven evidence can guide policy decisions towards greater transparency, accountability, and efficiency within the Kenyan pension system.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

Drawing upon relevant theoretical frameworks and empirical data from prior research, this chapter critically examines the challenges encountered by state corporations in Kenya regarding the management of their pension schemes. It offers a comprehensive analysis of the existing literature in this domain, providing a nuanced understanding of the complexities and multifaceted nature of these challenges.

#### **2.1 Theoretical Literature Review on Pension Funds**

Similar to other organizations, pension funds can be conceptualized as open systems (Davis, 2005). Their operation involves the collection and accumulation of contributions from both employees and their sponsors (Davis, 2005). Subsequently, these contributions are invested, and the resulting returns are held in trust for the benefit of members upon retirement. Davis (2005) suggests that pension funds function through distinctive input-output transformations, converting contributions into future benefits. This systems-oriented perspective aligns with the OECD's (2004) definition of efficiency within pension schemes, emphasizing aspects such as cost control, resource optimization through long-term investments, and prudent budget management (OECD, 2004)

To understand the challenges encountered in the management of pension schemes, especially in state corporations such as the Kenya Ports Authority (KPA), a nuanced exploration of the open-system framework is essential. Despite widespread acknowledgment of the need for reform in managing contributory pension schemes in Kenya (RBA, 2023), the literature review exposes a lack of studies specifically addressing the management of the KPA pension scheme. This research intends to bridge this significant gap by thoroughly examining the specific challenges and potential avenues for improvement within the KPA scheme. It aims to provide valuable insights that contribute to a broader understanding of pension scheme management in Kenya.

#### **2.2 Empirical Literature Review**

The plight of Kenyan retirees, condemned to abject poverty due to inadequate pensions (The East African, 2007), highlights a critical challenge within the country's social security system. A World Bank study conducted by labor economists, actuaries, and social security

specialists (The East African, 2007) revealed a stark picture: a majority lacking secure retirement income, misalignment between contributions and benefits, and pension funds vulnerable to inflationary pressures. This "dysfunctional" system (The East African, 2007) often fails to provide even 10% of pre-retirement income to retirees, explaining the persistent attachment of many workers to their jobs beyond retirement age (The East African, 2007).

Globally, governments are implementing pension reforms aimed at improving efficiency and sustainability. Deregulation efforts are underway, removing restrictions on investment avenues and allowing for diversification into equities, foreign assets, and professional asset management (e.g., National Social Security Fund of Kenya outsourcing \$1 billion in 2006). However, these reforms must be implemented with careful consideration for economic growth and labor market dynamics. For instance, China faces the challenge of integrating migrant workers into urban pension programs and promoting portability across local government schemes. Transparency and robust regulatory frameworks are crucial for effective pension system operation. Governments need to invest in efficient administration, improved accounting practices, rigorous governance, and staff training. Disclosure to stakeholders is essential for performance monitoring and building public trust, thereby mitigating evasion risks.

Gender disparities in pension coverage and benefits remain a neglected policy area, despite limited research suggesting potential biases against women (Bertranou, 2001). While pre-reform systems may have favored women through earlier retirement ages, new standardized systems with gender-specific parameters could exacerbate the gap. The "Personal Pension Scheme" introduced in Chile presents an interesting case study, where women's higher participation suggests design features can mitigate gender disparities (Barrientos, 1998). This analysis highlights the urgency of addressing Kenya's pension crisis within a broader global context of reform. By implementing evidence-based policies that prioritize efficiency, transparency, and equity, governments can ensure secure retirement incomes for all citizens, regardless of gender or employment status.

### **2.2.1 Investment Decision**

Regarding investment decisions, pension plans serve as contributory retirement savings vehicles, designed to provide income upon retirement. They involve contributions from

both employers and employees throughout the working years (OECD, 2023). These plans, also referred to as retirement benefit plans or superannuation schemes, can be established by a variety of entities, including employers, insurance companies, governments, employer associations, and trade unions (International Labour Organization, 2023). Occupational pension schemes, specifically, are arrangements where employers or groups of employers offer pension plans and associated benefits to their employees (Lee, 1986).

Despite their importance, formal retirement income schemes have limited global reach. According to the World Bank, less than 15% of the world's households and less than 10% of the working-age population are covered by such schemes (Holzmann, Packard, & Cuesta, 2000; Turner, Bailey, & Latulipe, 2000). This lack of coverage disproportionately affects individuals in developing countries, where most employees without pension benefits reside and work (Holzmann et al., 2000). Reasons for non-participation include informal sector employment, unpaid caregiving roles, unemployment, and, notably, lower per capita income (Turner et al., 2000). Pension reform efforts have sought to address this gap, but they have often focused on privatization and individual account creation, strategies that have had limited impact on expanding coverage for the poor and marginalized (Wilmore, 2007). Ensuring adequate retirement security for all citizens, particularly those in vulnerable populations, remains a pressing challenge for policymakers.

The provision of adequate retirement security remains a critical challenge for many countries, including Kenya. While formal pension schemes offer a valuable safety net for retirees, their reach often falls short, leaving a sizable portion of the population vulnerable in their later years. This chapter delves into the complexities of the Kenyan pension landscape, focusing specifically on the National Social Security Fund (NSSF) and its role in addressing these gaps.

Established in 1965, the NSSF serves as the primary provider of mandatory provident funds for formal sector employees in Kenya (Kenya National Social Security Fund, 2023). Financed through a fixed contribution rate of 12% shared by employers and employees, the NSSF operates under strict regulations and oversight, ensuring transparency and accountability in its management (Mogere, 2005). However, despite its significant role, the NSSF's coverage remains limited, excluding public servants and most individuals employed in the informal sector (Mogere, 2005). This exclusion creates a significant

coverage gap, estimated to affect around five million workers, including half a million retirees who rely on informal support systems for their basic needs (Mogere, 2005).

Mogere (2005) further highlights historical weaknesses of the NSSF that contribute to this coverage gap and hinder its effectiveness. These include a lack of adaptation to changing employment trends, particularly the growing informality of the workforce, inadequate human resource development within the organization, and reliance on manual record-keeping systems. Additionally, the NSSF's low retirement age and susceptibility to external influence in investment decisions can exacerbate financial strain and jeopardize long-term stability (Mogere, 2005).

Addressing these shortcomings and expanding the NSSF's reach to encompass the informal sector and public servants remains a crucial challenge for the Kenyan government and the NSSF itself. Exploring alternative financing models, adopting flexible retirement options, and embracing technological advancements in record-keeping and investment management can all contribute to building a more inclusive and sustainable pension system. Additionally, fostering collaboration with stakeholders, including policymakers, employers, and employee representatives, is essential for developing effective policies and regulations that promote responsible pension management and enhance public trust in the system.

The Kenyan pension landscape presents a complex picture of opportunities and challenges. While the NSSF plays a vital role in providing retirement security for a huge portion of the population, its limited coverage and historical weaknesses highlight the need for comprehensive reform and expansion. By addressing these issues and embracing innovative approaches, Kenya can move towards a future where all citizens, regardless of their employment status, have access to a secure and dignified retirement.

In response to widespread mismanagement and misappropriation within the pension fund industry, the Kenyan government implemented a significant overhaul in 1997. The Retirement Benefits Act of 1997 (RBA, n.d.) established a comprehensive legal framework and regulatory body, the Retirement Benefits Authority (RBA), to oversee the sector. The RBA's mandate covers three key objectives:

1. **Regulation and Supervision:** The RBA oversees the establishment and management of retirement benefit schemes, ensuring compliance with legal

requirements and protecting the interests of both members and sponsors (RBA, n.d.).

2. **Sector Development:** The RBA actively promotes the growth and development of the retirement benefit scheme sector, fostering a healthy and sustainable environment for long-term savings (RBA, n.d.).
3. **Policy Advocacy:** The RBA advises the Minister of Finance on national policy matters related to retirement benefits, shaping strategic direction for the sector (RBA, n.d.).

The Act enforces mandatory governance structures for registered pension schemes, requiring appointed boards of trustees (with one-third member-elected), professional managers, and independent custodians for secure asset holding (RBA, n.d.). Furthermore, annual audited accounts are mandatory, with additional triennial actuarial reviews for defined-benefit schemes. The RBA establishes investment guidelines, setting limits on exposure to specific asset classes, mitigating risk and promoting prudence (RBA, n.d.).

Beyond regulatory oversight, the RBA actively engages in public education initiatives, emphasizing the importance of retirement saving for the public (Old Mutual, 2008). They also provide dedicated training workshops for trustees, equipping them with the knowledge and skills to fulfill their fiduciary responsibilities effectively (Old Mutual, 2008). The RBA maintains a publicly accessible website, serving as a valuable resource for stakeholders, with information on service providers, relevant legislation, and general guidance (Old Mutual, 2008).

Despite these reforms, proposed by a World Bank Institute group presentation in 2006 (World Bank Institute, 2006), coverage within the pension system remains a significant challenge. Nyakundi (2009) argues that the Retirement Benefits Act has not significantly expanded coverage, attributing this stagnation to the lack of effective policies targeting informal workers and limitations within the legal framework designed for formal sector participation.

This analysis highlights the Kenyan pension landscape's complexities, showcasing the regulatory advancements implemented through the RBA and the remaining challenges, particularly in expanding coverage beyond the formal sector. Addressing these limitations

and fostering broader participation will be crucial to ensuring a secure and financially sound retirement future for all Kenyans.

### **2.2.3 Economic & Market Volatility**

The Kenyan pension industry, particularly within state corporations, faces several significant hurdles hindering its growth. These challenges, outlined below, demand careful consideration and strategic solutions to ensure a sustainable and inclusive retirement system for all citizens.

- 1) **Market Volatility and Investor Apprehension:** The uncertainty surrounding investment returns and the inherent risks tied to market fluctuations have deterred many Kenyans from actively contributing to pension schemes. This concern is particularly pronounced for schemes with high equity allocations, making them more vulnerable to shifts during periods of market volatility. It is essential to recognize that pension benefits are structured for long-term savings, with equities historically delivering superior returns over extended periods. Encouraging members to embrace a long-term perspective and resist withdrawing funds during market downturns can prove advantageous.
- 2) **Macroeconomic Hurdles and Unemployment:** Negative macroeconomic factors, exemplified by the recent impact of the COVID-19 pandemic, have had a severe impact on the Kenyan economy. Widespread job losses and reduced income levels have compelled many individuals to prioritize immediate needs over long-term financial planning, further hindering their ability to contribute to pension schemes. As of March 2021, a staggering 16.9% of Kenyan youth (approximately 3.0 million) remained unemployed, underscoring a substantial portion of the population unable to engage in pension programs. This not only jeopardizes individual retirement security but also hampers the overall growth of the pension industry.
- 3) **Exclusion of the Informal Sector:** Current pension reforms and regulations predominantly focus on the formal sector, leaving out a significant number of individuals employed in the informal economy. This coverage gap represents a crucial missed opportunity and exacerbates the problem of insufficient retirement savings for a large segment of the population. To address this, the Retirement Benefits Authority (RBA) should collaborate with relevant stakeholders to

formulate and implement inclusive policies and regulations tailored to the unique needs and challenges of the informal sector. Increased awareness campaigns and well-regulated, accessible retirement savings schemes designed for informal workers can pave the way for broader participation, fostering a more comprehensive and equitable pension system.

#### **2.2.4 Nonpayment of Pension Funds and Complaints**

The Kenyan pension landscape emphasizes the importance of resolving conflicts within retirement benefit schemes through a formal mechanism. As stipulated by the Retirement Benefits Authority (RBA), all schemes are mandated to establish and maintain a structured process for addressing and resolving disputes (Retirement Benefits Authority, 2023). The RBA outlines specific procedural expectations for dispute resolution. Notably, complaints in relation to payment issues must first be addressed by the relevant scheme in writing before escalation to the RBA (Retirement Benefits Authority, 2023). Conversely, the RBA cannot intervene if the scheme has not yet issued a decision on the matter. Moreover, the RBA encourages informal dialogue between the parties involved as a preliminary step, recognizing that miscommunication or misinterpretation of scheme rules can often be the root cause of dissatisfaction (Retirement Benefits Authority, 2023).

All formal complaints must be submitted in writing to ensure proper documentation and transparency. Verbal complaints made during visits or phone calls require subsequent written submission for processing (Retirement Benefits Authority, n.d.). Importantly, the RBA stipulates the use of a standardized complaint form readily available at their offices and website at no cost. This form clarifies the expected information and facilitates efficient processing. Both members and scheme stakeholders, including trustees, sponsors, and service providers, are required to utilize this official format for lodging complaints (Retirement Benefits Authority, 2023).

The RBA acknowledges complaints within fourteen days and may request additional information as needed. Once all relevant documents are received, the investigation process commences, with all communication promptly shared with the involved parties (Retirement Benefits Authority, 2023). If the RBA determines that the complaint falls outside its jurisdiction, a written explanation will be provided to the complainant. Conversely, if the complaint holds merit, a formal investigation ensues (Retirement

Benefits Authority, 2023). While initial acknowledgment occurs within two weeks, the typical complaint resolution timeframe is approximately one month. However, complex cases requiring extensive investigation or detailed hearings may necessitate additional time. The RBA urges patience during such scenarios, emphasizing the importance of thorough investigation for fair and effective resolution (Retirement Benefits Authority, 2023).

### **2.3 Research Gaps in the Resolution of Pension Scheme Claims and Complaints**

The Kenyan pension landscape emphasizes the importance of resolving conflicts within retirement benefit schemes through a formal mechanism. As required by the Retirement Benefits Authority (RBA), all schemes are mandated to establish and maintain a structured process for addressing and resolving disputes (Retirement Benefits Authority, 2023). Regarding communication, the RBA outlines specific procedural expectations for dispute resolution. Notably, complaints in relation to payment issues must first be addressed by the relevant scheme in writing before escalation to the RBA (Retirement Benefits Authority, 2023). Conversely, the RBA cannot intervene if the scheme has not yet issued a decision on the matter. Moreover, the RBA encourages informal dialogue between the parties involved as a preliminary step, recognizing that miscommunication or misinterpretation of scheme rules can often be the root cause of dissatisfaction (Retirement Benefits Authority, 2023).

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Greenwood (2008) highlights the growing workforce mobility, both within and across national borders, as a significant challenge in designing effective pension systems. This trend presents difficulties for the Asia and Pacific region, where existing pension schemes often struggle to cope with the diverse needs of a shifting workforce. One example cited by Greenwood is Japan, which implemented individual defined-contribution plans in the early 1990s after the bursting of its asset bubble. This shift aimed to promote corporate restructuring and facilitate a more flexible labor market by easing the transition of employees between companies (Greenwood, 2008). Similarly, China grapples with an influx of migrant workers moving from rural to urban areas, straining local pension systems designed for more static populations (Greenwood, 2008). Such cases underline the necessity for policymakers to develop pension systems adaptable to increasing workforce mobility.

Unfortunately, Greenwood (2008) paints a stark picture of the unpreparedness of many existing pension schemes in the region for these challenges. Coverage often remains limited to formal sectors in urban areas, leaving large segments of the workforce, particularly in rural areas and the informal economy, without adequate provisions (Greenwood, 2008). Additionally, issues like underfunding, subpar returns, limited human capacity, and widespread evasion and underreporting further exacerbate the difficulties faced by these systems (Greenwood, 2008). These complexities suggest that the difficulty facing policymakers undertaking pension reforms in the Asia and Pacific region cannot be overstated. Carefully navigating the intricate dynamics of a mobile workforce, alongside

addressing pre-existing shortcomings in established pension systems, will be crucial to ensuring long-term stability and financial security for the region's aging populations.

### **2.3.1 Understanding Pension Schemes**

To comprehend the challenges inherent in managing pension schemes, it is imperative to develop an understanding of the pension landscape in Kenya. This section will offer an overview of the Kenyan context. A pension scheme operates as a contributory arrangement where employees' contributions are invested in a fund during their working years, generating interest that is disbursed upon retirement. Essentially, it serves as a tax-deferred savings plan facilitating the tax-free accumulation of funds for the future. The terms "retirement plan" or "superannuation pension scheme" denote a pension granted upon retirement. Such plans may be established by employers, insurance companies, government entities, or other institutions like employer associations or trade unions (Wikipedia, 2009).

Formal retirement income schemes are estimated to cover fewer than 15% of households worldwide (Holzmann, Packard, and Cuesta, 2000) and less than 10% of the global working-age population (Gillian, Turner, Bailey, and Latulipe, 2000). The majority of individuals without pension schemes reside and work in developing countries. Factors contributing to non-participation include being unpaid caregivers, unemployed, engaged in agriculture, or employed in the informal sectors of the economy. While pension scheme reformers are cognizant of this issue, efforts have predominantly centered on privatizing public pension schemes and establishing individual accounts, offering limited expansion of coverage to the poor and marginalized (Willmore, 2007).

The pension landscape in Kenya displays a combination of advancements and coverage gaps. The National Social Security Fund (NSSF), established in 1965, plays a pivotal role as the primary provider of provident funds for formal sector employees (Kenya National Social Security Fund, 2023). Originating as a government department, the NSSF underwent a transition to a state corporation in 1987, overseen by a tripartite Board of Trustees representing key stakeholders (Mogere, 2005). Despite its prominence, the NSSF's coverage remains restricted, excluding public servants and a significant portion of individuals engaged in the informal sector (Mogere, 2005). This exclusion results in a

notable coverage gap, impacting approximately five million workers, including half a million retirees reliant on informal support systems for their basic needs (Mogere, 2005). This fragmented landscape highlights the need for comprehensive reform and expansion. The current proposal to convert the NSSF into an all-inclusive social security pension trust recognizes the limitations of the existing system and seeks to address the exclusion of specific groups like public servants (Mogere, 2005). Additionally, the NSSF's historical focus on formal sector employees, with a contribution rate of 5% based on a wage ceiling of KES 4,000 per month, further restricts its reach and falls short of actuarially recommended levels (Mogere, 2005). Addressing this discrepancy through increased contribution rates or expanded coverage to include lower-income earners will be crucial for enhancing the scheme's financial sustainability and inclusivity.

While challenges remain, the Kenyan government's ongoing efforts to address the shortcomings of the existing system offer promising avenues for progress. Reforms aimed at expanding coverage to encompass the informal sector and public servants, alongside measures to adjust contribution rates to ensure financial stability, hold the potential to create a more inclusive and sustainable pension system for all Kenyans. Exploring alternative financing models, adopting flexible retirement options, and leveraging technology to improve efficiency and transparency are additional considerations that can contribute to building a robust and equitable pension system for the future.

Mogere (2005) delves into the NSSF's internal governance practices and highlights potential areas for improvement. Actuarial valuations, conducted by external firms every three years, aim to assess the fund's financial health, and ensure long-term sustainability (Kenya National Social Security Fund, 2023). The 2003 evaluation provided valuable insights into the fund's financial trajectory. Additionally, adhering to stringent financial reporting procedures remains crucial. As with other state corporations, the NSSF must produce audited annual financial statements within three months of the financial year-end, ensuring transparency and accountability (Mogere, 2005). The independent oversight of the Controller and Auditor General further strengthens financial governance (Mogere, 2005). Furthermore, legal adherence to the Retirement Benefits Authority (RBA) regulations ensures compliance with industry standards and best practices (Mogere, 2005).

Notably, the RBA also serves as the designated arbitrator for any disputes, although none have arisen within the NSSF (Mogere, 2005).

However, Mogere (2005) also paints a critical picture of the NSSF's historical weaknesses, attributing its limitations to several factors. Firstly, the NSSF's failure to adapt to changing employment trends has hampered its reach. In a landscape with an increasingly informal workforce, the NSSF's focus on formal sector employees significantly restricts its coverage (Mogere, 2005). Additionally, the static contribution rates, unchanged for 25 years, fell significantly behind inflation and wage increases, compromising the fund's financial stability (Mogere, 2005). Furthermore, the lack of a systematic review of benefit structures and levels created uncertainty and potential financial strain (Mogere, 2005).

Beyond financial matters, Mogere (2005) critiques the NSSF's internal human resource practices and operational culture. The absence of a dedicated corporate human resource development policy translated into insufficient skills and competencies among staff, hindering efficient operations (Mogere, 2005). Moreover, the NSSF's work culture, characterized by a rigid focus on regulations and tasks rather than process-oriented approaches, stifled adaptability, and innovation (Mogere, 2005). Reliance on manual record-keeping for membership further contributed to inefficiencies and vulnerabilities (Mogere, 2005). Finally, the low retirement age and external interventions influencing crucial investment decisions resulted in suboptimal outcomes and jeopardized the fund's long-term financial security (Mogere, 2005).

These historical weaknesses, according to Mogere (2005), had a detrimental impact on the NSSF's public image, leading to eroded stakeholder trust and low staff morale. Addressing these shortcomings and embracing best practices in governance, fiscal management, and internal operations will be crucial for the NSSF to regain public confidence and fulfill its mission of providing secure retirement provisions for a broader segment of the Kenyan workforce.

### **2.3.1 Structures of Pension Schemes**

The idea of a multi-pillar pension system gained prominence following the World Bank's 1994 report titled "Averting the Old Age Crisis" (World Bank, 1994). This framework advocates for a three-pronged approach, consisting of a basic pension, a mandatory earnings-related scheme, and voluntary savings options. In the Kenyan context, Odundo

(2008) provides specific recommendations for the administration and funding of pension schemes.

Regarding administration, Odundo (2008) proposes empowering trustees to appoint an administrator for daily tasks while retaining full liability towards members and the supervisory body. The formulation of scheme rules, a foundational document detailing key aspects such as eligibility, retirement age, vesting, benefit formulas, and winding-up procedures, is considered crucial. Robust funding mechanisms are essential, with Odundo (2008) suggesting minimum funding levels of 80% for defined-benefit schemes and 100% for defined-contribution schemes. Transparency and accountability are highlighted through mandatory record-keeping, audited financial statements, and regular disclosures of contribution remittances, benefit payouts, and member data. Enhancing transparency further, membership statements and easily accessible scheme rules, including amendments, are recommended. Holding annual general meetings is emphasized as a means to facilitate member engagement and open communication.

Odundo (2008) recognizes the significance of external expertise, advocating for trustees to enlist auditors, fund managers, custodians, and administrators without vested interests in the scheme. Additionally, he emphasizes that defined-benefit schemes should undergo regular actuarial valuations, typically every three years, to assess their financial health and ensure long-term stability. While existing studies propose various structures for pension scheme management, there is a specific gap in understanding the actual frameworks utilized by KPA. This study seeks to fill this void by examining the on-the-ground structures implemented by KPA for its pension scheme, providing valuable insights into its specific approach and potential areas for improvement.

## **2.4 Conceptual Framework**

The primary focus of this study was the management of pension schemes within state corporations in Kenya, treated as the independent variable. This intricate concept encompasses various crucial elements, including:

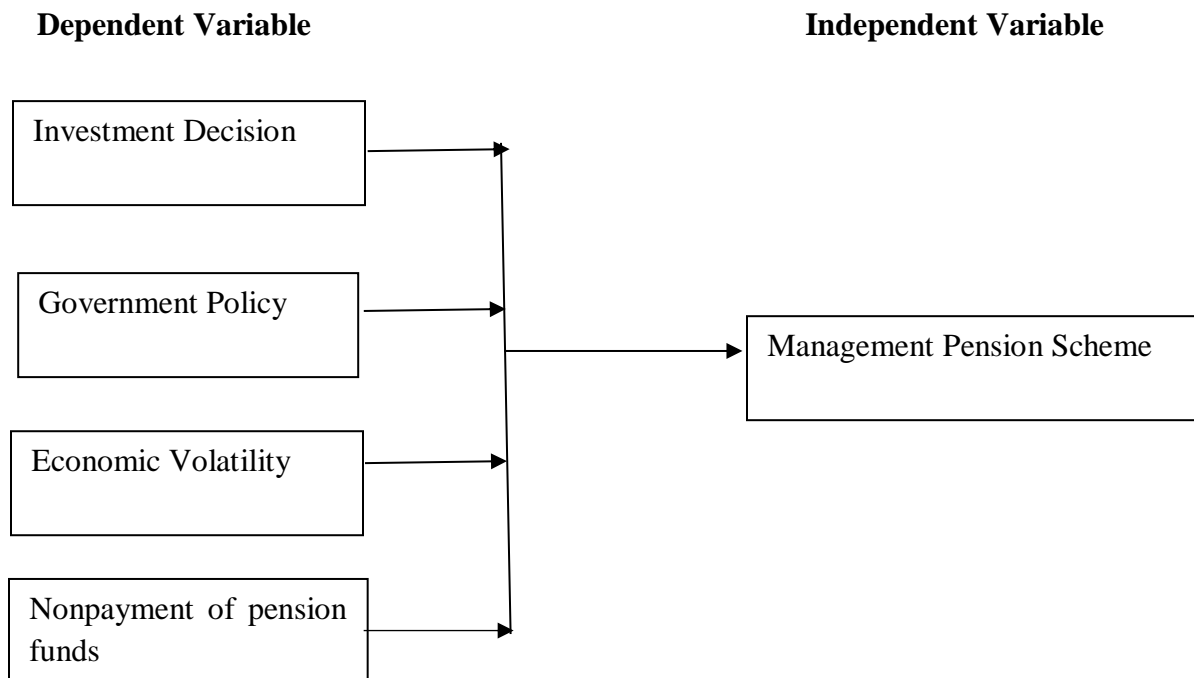
1. **Investment Decisions on Pension Contributions:** This aspect involves the strategies and processes employed for allocating pension funds. The goal is to maximize returns for members while considering risk tolerance and ensuring long-term sustainability. Key factors such as asset allocation, diversification, and the

selection of investment vehicles significantly influence the overall performance of the scheme.

2. **Government Policy and Regulatory Landscape:** The legal and regulatory framework governing pension schemes in Kenya constitutes another crucial element of the independent variable. This includes provisions related to governance, contribution rates, benefit structures, and oversight mechanisms. Policy changes and regulatory interventions can significantly impact the management and operation of state corporation pension schemes.
3. **Economic Volatility and its Impact on Real Value:** Fluctuations in economic conditions, such as inflation or market downturns, can affect the real value of members' contributions. This necessitates adaptable management strategies to mitigate risks and ensure the long-term value of pension benefits.

By analyzing the interplay of these interrelated elements, this study aims to gain a comprehensive understanding of how the management of state corporation pension schemes in Kenya is shaped by various internal and external factors.

**Figure 2.4 Conceptual framework**



## 2.5 Operationalization of Variables

An extensive examination of current literature underscores the urgency for reform in pension scheme management practices, as evident in relevant studies. Many countries and institutions are actively implementing various reforms and strategies to enhance the efficiency and effectiveness of their pension schemes, as evidenced by specific examples in the literature. However, this review also brings to light a notable void in the research landscape – a lack of studies dedicated to scrutinizing the challenges and structures inherent in the KPA pension scheme.

To date, no research has delved into the perspectives of KPA employees regarding the existing scheme, and there is a dearth of systematic studies examining the operational structures governing its administration. This critical knowledge gap not only hampers a comprehensive understanding but also impedes potential improvement efforts.

Therefore, this study aimed at addressing this critical gap by undertaking a two-pronged investigation:

1. **Structural Analysis:** We meticulously analyzed the existing structures governing the KPA pension scheme. This includes examining the roles and responsibilities of various stakeholders, decision-making processes, fiscal management procedures, and other relevant operational mechanisms.
2. **Employee Perceptions:** An examination of KPA employees' viewpoints regarding the pension scheme involves assessing their satisfaction levels, identifying perceived strengths and weaknesses of the scheme, and gathering insights on any challenges perceived in its management.

By integrating a thorough structural analysis with perspectives from employee feedback, this study aimed to offer a comprehensive understanding of the KPA pension scheme. This knowledge played a crucial role in pinpointing areas that could be enhanced, guiding potential reform initiatives, and securing the long-term sustainability and effectiveness of the scheme for KPA employees.

Operationalization of variables is herewith demonstrated as below:

<b>Management of Pension Schemes in State Corporations (Kenya)</b>
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Investment Decisions on Pension Contributions	Government Policy and Regulatory Landscape	Economic Volatility and its Impact on Rule Value
<ul style="list-style-type: none"><li>• Asset Allocation Strategy</li><li>• Diversification Score</li><li>• Average ROI</li><li>• Investment risk profile</li></ul>	<ul style="list-style-type: none"><li>• Regulatory Compliance</li><li>• Contribution rate structure</li><li>• Benefits structure complexity</li><li>• Frequency and nature of policy changes</li></ul>	<ul style="list-style-type: none"><li>• Real ROI</li><li>• Funding ratio</li><li>• Contribution adjustments</li><li>• Risk mitigation strategies</li></ul>

## **CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

### **3.0 Introduction**

This chapter provides a detailed account of the procedures employed by the researcher in conducting the study. It encompasses the research design, target population, sample and sampling procedure, data collection methodology, and data analysis techniques.

### **3.1 Research Design**

This study adopted the case study approach to explore the challenges associated with managing pension schemes within Kenyan state corporations, with a specific focus on the Kenya Ports Authority (KPA) pension scheme. The objective was to gain a comprehensive understanding of the critical issues affecting its effective operation. Additionally, the research design incorporated the survey method, chosen for its suitability in tandem with the case study approach. This method, as highlighted by Yin (2014), enables an in-depth exploration of a particular context or phenomenon, facilitating a focused examination of challenges within the KPA pension scheme. Simultaneously, it allows for broader insights into the overall landscape of pension management in state corporations across Kenya.

Secondly, the survey method proves particularly pertinent due to the small population of interest – KPA employees enrolled in the pension scheme. This enables the researcher to potentially reach the entire population through a well-designed and targeted survey, maximizing data representativeness and eliminating the need for sampling techniques. Moreover, direct contact with participants through surveys allows for capturing their individual perspectives and experiences, which is crucial for understanding the perceived challenges related to the KPA pension scheme.

However, it is important to acknowledge potential limitations associated with the survey method. Considerations such as survey response rates, potential biases, and the challenge of capturing nuanced details through questionnaire items necessitate careful attention. To address these limitations, incorporating a mixed-methods approach—integrating the survey with additional data collection methods like document analysis or semi-structured interviews—could prove highly beneficial. In summary, the selected case study approach and survey method establish a robust framework for investigating challenges in managing the KPA pension scheme. By delving into the specific experiences and perspectives of

employees, this research has the potential to yield valuable insights and contribute meaningful recommendations for enhancing the effectiveness and sustainability of pension schemes across Kenyan state corporations more broadly.

### **3.2 Target Population**

Mugenda and Mugenda (2003) distinguish between a population, representing the entire set of individuals with common characteristics, and a target population, the specific group on which a research study concentrates its analysis. In this study, the target population within the Kenya Ports Authority (KPA) was identified as middle and senior management employees from key departments involved in the procurement process. These departments include:

- Procurement Department
- Accounts and Finance Department
- Administration
- Human Resources Department
- The two technical departments

This selection was based on the rationale that these individuals are either directly engaged in the procurement process or directly affected by its outcomes as beneficiaries. Focusing on this particular group aimed to delve into their experiences, perspectives, and knowledge related to KPA procurement practices, providing essential insights into potential challenges and opportunities for improvement within the system.

### **3.3 Sample and Sampling Technique.**

This study employed a stratified random sampling technique to ensure representativeness and capture diverse perspectives within the target population. This method proved particularly appropriate given the focus on middle and senior management employees across the identified departments that are also involved in the Kenya Ports Authority (KPA) procurement process.

### **3.4 Instruments.**

This research employed a multifaceted data collection strategy encompassing both primary and secondary sources to gain a comprehensive understanding of the challenges facing KPA pension scheme management.

Primary Data Acquisition methods used in the study were:

- **Questionnaires:** A self-administered questionnaire was distributed to respondents at their workplaces within the KPA. This instrument was designed to elicit information directly from middle and senior management employees regarding their experiences and perspectives on the identified challenges.
- **Interviews:** Semi-structured interviews were conducted with key stakeholders within the KPA pension scheme and related organizations. This qualitative approach allowed for in-depth exploration of specific issues and facilitated the gathering of nuanced insights beyond the scope of the questionnaire.
- **Observations:** To complement data obtained from interviews and questionnaires, direct observation of pertinent KPA procurement processes and practices was employed. This method yielded valuable insights into the dynamic nature of the procurement system, contributing to the validation of information gathered through other means.

The choice of data collection methods within the primary category was guided by the principle of triangulation. Employing a combination of questionnaires, interviews, and observations strengthened the overall reliability and validity of the research findings by capturing diverse perspectives and minimizing potential biases inherent in any single method.

Secondary Data Acquisition methods in the study were:

- **Documents and Reports:** A review of pertinent documents and reports from the KPA pension scheme, the Retirement Benefits Authority (RBA), the National Social Security Fund (NSSF), and other relevant literature was conducted to acquire additional context and background information. This secondary data served to corroborate findings from the primary data collection and offer a broader understanding of the broader pension landscape in Kenya.

Through integrating these diverse data sources, this research aimed at painting a comprehensive picture of the challenges facing KPA pension management. The triangulation of methods and the utilization of both primary and secondary data contributed to the richness and rigor of the research findings, informing potential recommendations for improving the effectiveness and sustainability of the KPA pension scheme.

### **3.5 Pilot Study**

This research initially aimed at covering the entire target population within the Kenya Ports Authority (KPA) involved in the procurement process. This approach, known as a census sampling method, offers the theoretical advantage of capturing the complete information set and minimizing sampling bias (Scheaffer, 2012). However, logistical and resource constraints rendered a census infeasible in practical research settings.

Therefore, recognizing the potential challenges of directly accessing the entire population, the research design adopted a flexible approach incorporating both census and stratified random sampling techniques. While striving for a census sampling approach was considered ideal, the potential need for stratified random sampling was acknowledged as a contingency measure.

Stratified random sampling involves dividing the population into sub-groups, or strata, based on shared characteristics relevant to the research objectives (Cochran, 1977). Within each stratum, a random sample of individuals is then selected. This strategy offers several advantages when accessing the entire population becomes impractical. Firstly, it ensures proportionate representation from each relevant sub-group within the sample, reducing the risk of bias and enhancing the generalizability of findings. Secondly, it proves more efficient, and resource-conscious compared to attempting to contact every individual within the larger population.

Therefore, the research design adopted a flexible framework, initially aiming for a complete census but prepared to employ stratified random sampling in the event of encountering obstacles to accessing the entire population. This approach balanced the desire for comprehensive data with the practical realities of conducting research within a specific context.

### 3.5.1 Validity

Stratified random sampling represents a refined approach to random sampling, addressing limitations inherent in simple random selection. This technique involves dividing the target population into distinct sub-groups, known as strata, based on shared characteristics relevant to the research question (Cochran, 1977). Subsequently, a random sample is drawn from each stratum, ensuring proportionate representation of these sub-groups within the final sample. The sampling method also offers a valuable tool for researchers seeking to balance efficiency, cost-effectiveness, and robust representation in their studies, particularly when dealing with heterogeneous populations. Its ability to overcome the limitations of simple random sampling makes it a preferred choice in many research contexts.

### 3.5.2 Reliability test

While striving for a complete census of the target population is ideal, practical research considerations often necessitate alternative sampling strategies. Stratified random sampling offers a robust solution, balancing the desire for comprehensive representation with the realities of resource limitations.

This approach involves dividing the population into distinct sub-groups, or strata, based on relevant characteristics such as department, seniority level, or other factors aligned with the research objectives. Within each stratum, a random sample is then selected to ensure proportional representation of these sub-groups within the final sample. This targeted approach provides several advantages:

1. **Reduced time investment:** Compared to a full census, studying only a carefully selected sample significantly reduces the time required for data collection. This is particularly beneficial for researchers working within tight deadlines or constrained resources.
2. **Cost-effectiveness:** Focusing on a smaller sample through stratified random sampling minimizes personnel, materials, and other expenses associated with data collection. This results in a more budget-friendly research approach.
3. **Improved generalizability:** In cases where the population is heterogeneous, consisting of diverse sub-groups with potentially varying characteristics, a simple random sample might not adequately capture these differences. Stratified random

sampling, by ensuring proportionate representation from each stratum, mitigates this bias and enhances the generalizability of the research findings to the wider population.

However, it is important to note that the ideal sampling strategy may not always align perfectly with the initial aim of a full census. In this specific case, while the initial plan targeted the entire population, dividing it into categories based on divisions and using a sample of twenty staff to represent 100% suggests the adoption of a stratified random sampling approach. This shift acknowledges the potential challenges associated with reaching the entire population and aims to achieve a representative sample while optimizing resource allocation (Mugenda & Mugenda, 2003).

The choice of sampling methodology should be informed by careful consideration of the research objectives, target population, and available resources. Stratified random sampling offers a valuable tool for researchers seeking to balance comprehensiveness, efficiency, and cost-effectiveness in their studies, particularly when dealing with heterogeneous populations.

<b>Name of the department</b>	<b>No. of Respondents</b>	<b>Sample Size of 100% respondents to be represented by 20 staff Of the Targeted Population</b>
Procurement Department	5	5
Account and Finance Department	3	3
HR Department	7	7
Technical units	5	5
<b>Total</b>	<b>20</b>	<b>20</b>

**Table 3.1:** Table showing the sampling size.

Convenience sampling was also employed in this study to provide an equal opportunity for every individual available in the field when distributing the questionnaires.

### **3.6 Data Collection Procedures**

To encourage direct engagement and mitigate potential ambiguities, the researcher chose a self-administered questionnaire approach. This method allows for personal contact and clarification when needed. The questionnaire included a mix of open-ended and closed-ended questions, accommodating various response formats and eliciting a more comprehensive range of data.

### **3.7 Data Analysis and Presentation**

This research employed descriptive statistics, including means and percentages, to analyze the collected data. Recognizing the critical importance of aligning analysis with research objectives, all major variables were examined through the lens of the identified challenges facing state corporation pension scheme management in Kenya. This rigorous approach ensured that the research findings directly addressed the core concerns of the investigation. To facilitate efficient analysis, the data was meticulously coded prior to interpretation. Subsequently, the data will undergo a thorough editing process to guarantee the robustness and accuracy of the findings. This multi-phased approach to data analysis prioritizes data integrity and ensures that the extracted insights accurately reflect the realities of the research topic. Descriptive statistics proved particularly suitable for this study due to their ability to summarize key characteristics of quantitative data. The data analysis findings were then presented within the framework of relevant tables, allowing for clear and concise visualization of the results.

### **3.8 Ethical Considerations**

The rights of the participants were carefully safeguarded throughout the study. This was achieved firstly through obtaining informed consent from the respondents, wherein the involved parties were informed about their role in the study, its details, duration, and associated risks. Additionally, a significant number of participants, enthusiastic about providing informed consent, expressed their willingness to support the initiative and benefit from the research study. Confidentiality measures were implemented during data collection. Client confidentiality was assured by prioritizing informed consent, employing appropriate data collection methods, securely storing data, using data ethically, and

ensuring safe data disposal. The researcher also ensured participant privacy through robust data collection methods, signing an indemnity form to protect both parties, and maintaining respondent anonymity by using generalization to describe participant characteristics, such as age range, occupation, and gender.

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSIONS

#### **4.0 Introduction**

This chapter comprises the examination of data and the presentation of findings derived from the study. The analysis and findings are grounded in the data collected from both primary and secondary sources. Quantitative analysis will be conducted utilizing percentages, bar graphs, pie charts, and tables.

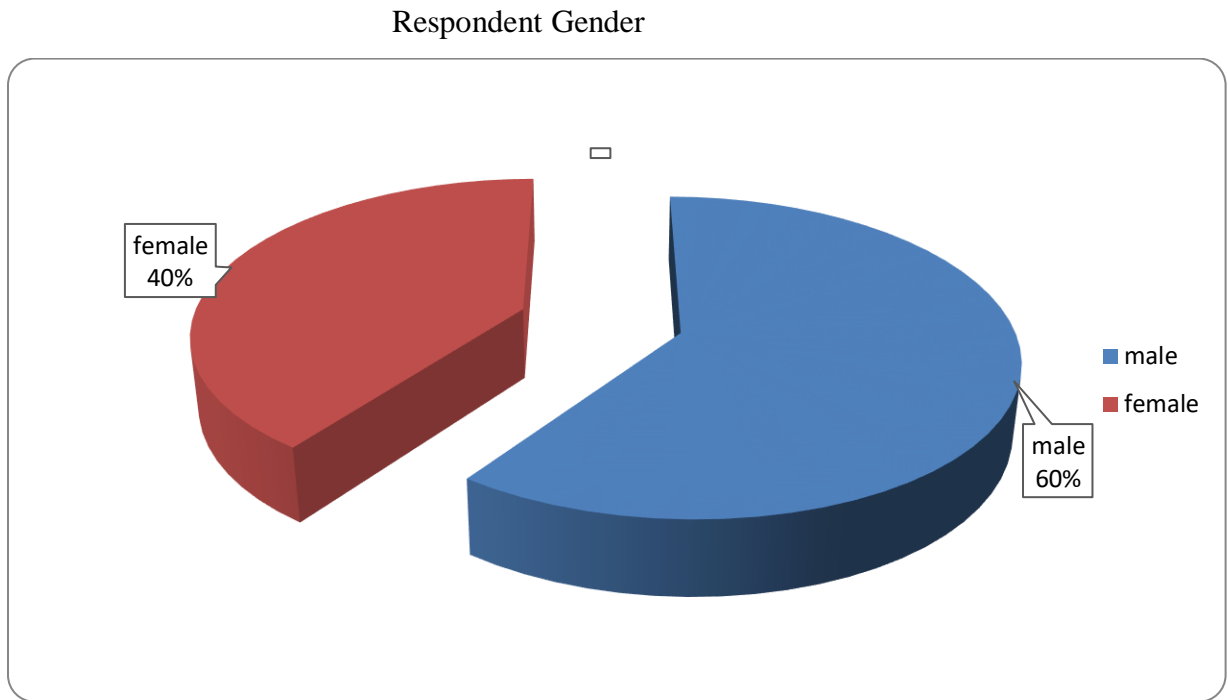
#### **4.1 Presentation of Research Findings.**

This research explored the critical realm of pension scheme management within Kenyan state corporations, with a specific focus on the Kenya Ports Authority (KPA) pension scheme. The study aims to pinpoint the main challenges faced by management in navigating this complex and crucial area. The data collected through this investigation will serve a two-fold purpose: firstly, to provide valuable insights for KPA management in assessing whether aspects, such as investment decisions, government policy, economic volatility, and non-payment/delayed payment of contributions, pose significant challenges to their operations. Secondly, the findings will contribute to a broader understanding of the landscape facing state corporation pension schemes across Kenya.

Utilizing a focused approach, the initial sample size for the study was set at 20 individuals. Significantly, all distributed questionnaires were returned without any defects or alterations, achieving a 100% response rate. This remarkable level of engagement highlights the significance of the topic to the target population and enhances the credibility of the collected data.

#### **4.2 Background information of the Respondents.**

To ensure the validity and reliability of the gathered data, the survey questionnaire included demographic measures capturing the respondents' organizational position, professional experience level, and educational background. This information served a critical purpose: understanding the respondents' knowledge base and expertise related to pension scheme management in Kenyan state corporations, thereby enhancing the confidence in their responses to the specific challenges assessed in the study. Data on respondents' gender was collected and is represented below.

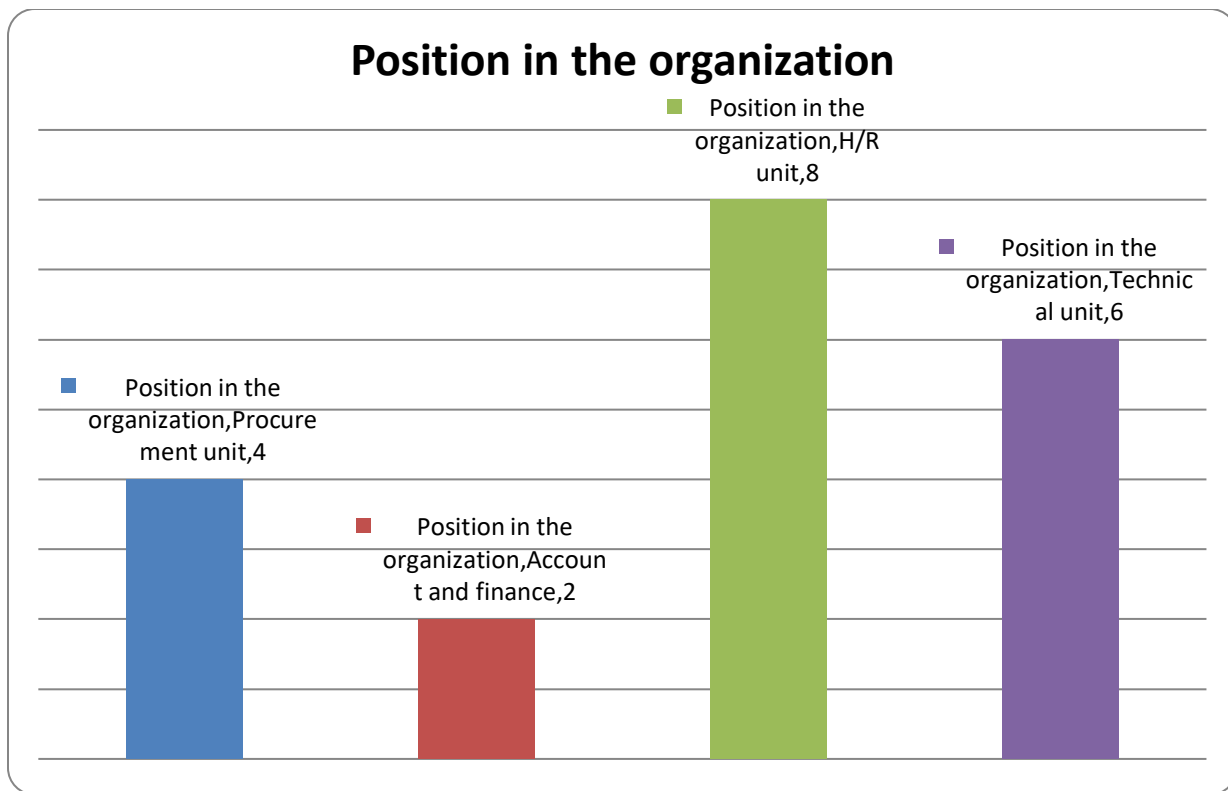


**Fig. 4.1:** Pie chart showing gender distribution for the study

The respondent pool comprised 60% males and 40% females, reflecting a gender imbalance with male representation exceeding female participation. While a minority of female respondents completed questionnaires and participated in interviews, this disparity is unlikely to have significantly impacted the research outcomes due to several reasons. Firstly, the sample size (60% + 40% = 100%) suggests completeness, potentially negating the need for proportional gender representation. Secondly, the research design focused on capturing diverse perspectives related to the study topic, not necessarily demographic parity. Any potential bias arising from the gender imbalance can be mitigated through rigorous data analysis and careful interpretation of findings.

### **4.3 Respondents' Work Position in Organization.**

Data on the position respondents held within KPA is represented below.



**Fig. 4.2:** Pie chart showing respondent’s position in the organization.

The bar graph above indicates:

- Significant presence of Procurement and HR departments: 40% (8 respondents) are from Procurement, representing the largest group, followed by 30% (6 respondents) from Human Resources. This suggests a focus on personnel directly involved in pension scheme management and those responsible for determining employee benefits.
- Technical support and financial oversight were represented: 30% (6 respondents) belong to the Procurement Technical unit, providing insights into the operational aspects of procurement related to pension schemes. Additionally, 10% (2 respondents) from the Accounts and Finance unit offer their perspective on financial considerations and collaboration with HR in managing pension entitlements.

However, it is important to note that the statement attributing "40% of members who responded are from the procurement unit" requires clarification. The bar chart indicates 40% of respondents, not necessarily members, are from Procurement. Further, claiming

they "clearly understand the challenges" requires justification beyond their departmental affiliation. Addressing these points will strengthen the analysis and prevent misinterpretations.

Overall, the chart highlights the diverse perspectives captured within the sample, encompassing key stakeholders from procurement, technical support, finance, and human resources. This breadth provides a comprehensive understanding of the challenges facing pension scheme management in Kenyan state corporations.

#### 4.4 Respondents' Work Experience in Years

Experience in Years	Experience in public service		Experience in current office in KPA	
	Occurrence	Percentage	Occurrence	Percentage
5 years and below	4	20	7	35
6 to 10 years	6	30	5	25
11 to 15 years	7	35	5	25
15 years & more	3	15	3	15
<b>Total</b>	<b>20</b>	<b>100</b>	<b>20</b>	<b>100</b>

**Table 4.3.2:** Table showing levels of experience.

The respondent pool in this study exhibits a noteworthy level of professional experience within the realm of public pension scheme services. A sizable portion, approximately one-third, boasts tenure within their current positions ranging from 6 to 10 years. This tenure provides a valuable foundation for their insights into the impactful challenges facing state corporation pension scheme management in Kenya.

#### 4.4 Respondents' Education and Training Levels

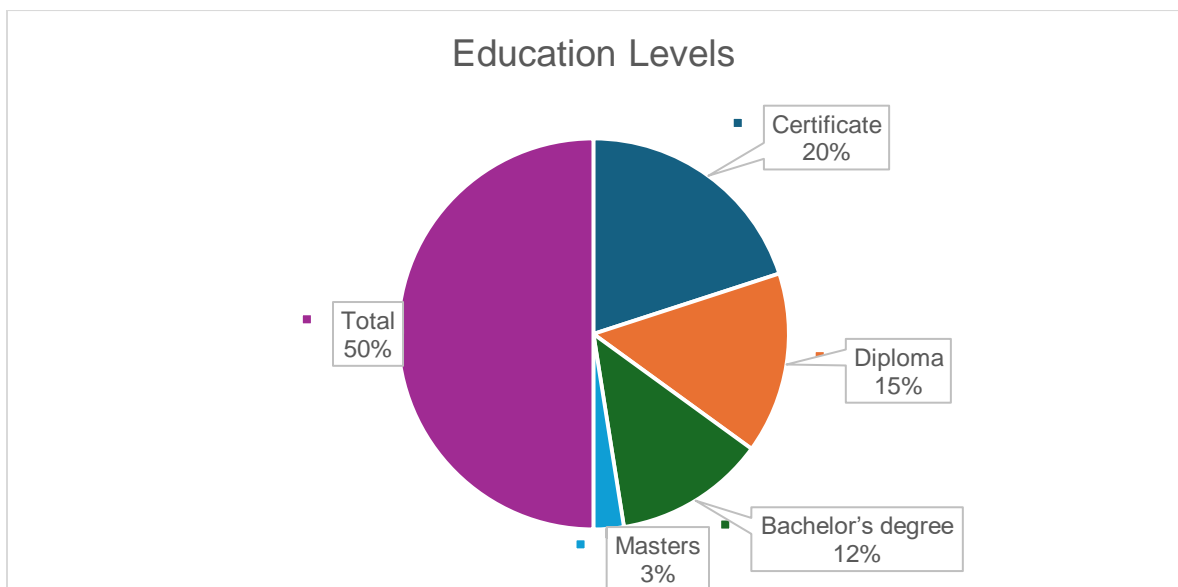
An analysis of the provided table reveals that most staff members, constituting 50%, possess a certificate-level qualification. Nonetheless, a noteworthy proportion hold higher qualifications such as diplomas, degrees, and even master's degrees. This latter group

exhibits notable self-motivation and demonstrates a commendable work ethic, actively pursuing opportunities for career advancement. Consequently, it is reasonable to expect that by the time they reach retirement, they will have attained senior job grades, securing their professional and financial well-being.

Education Levels	Occurrence	Percentage
Certificate	8	40
Diploma	6	30
Bachelor's degree	5	25
Masters	1	5
<b>Total</b>	<b>20</b>	<b>100</b>

**Table 4.3.3:** Table showing the level of education and training.

Level of education of the respondents is represented by the pie chart below:



**Fig 4.3.3** Diagram showing respondents' Level of education and training.

#### 4.5 Work Experience in Current Department.

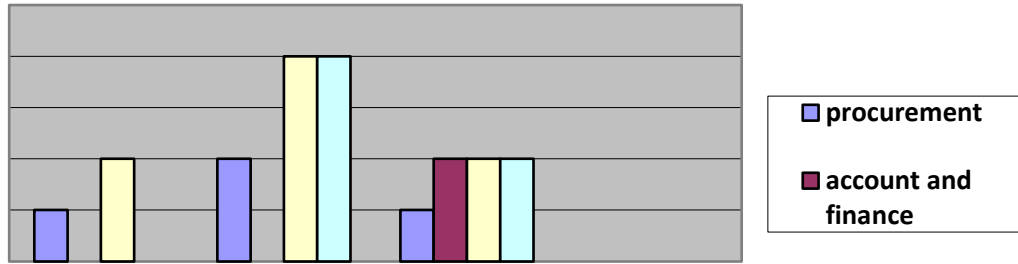
Table 4.4 below shows the duration in years the respondents have worked at KPA.

Department	No. of Respondents	Work Experience in Current Department
Procurement Department	5	Less than 5 years- 1 respondent 6 – 10 years- 2 respondents 11 – 15 years- 2 respondents
Accounting & Finance Department	3	All respondents have over 10 years work experience in current department
HR Department	7	Less than 5 years- 2 respondents 6 – 10 years- 4 respondents 11 – 15 years- 1 respondent
Technical units	5	6 – 10 years- 4 respondents 11 – 15 years- 1 respondent
<b>Total</b>	<b>20</b>	<b>20 respondents</b>

**Table 4.4:** Diagram showing years worked by respondents at KPA.

As evident in the presented table, a significant majority of the participants have accumulated work experience exceeding five years within their current roles. This substantiates the credibility of their responses to inquiries concerning the challenges associated with pension scheme management within state corporations in Kenya. Their extensive tenure ensures a robust understanding of their respective positions and the associated retirement benefits, thereby enhancing the reliability of their insights.

The length of service in the current departments worked by the respondents is represented below.

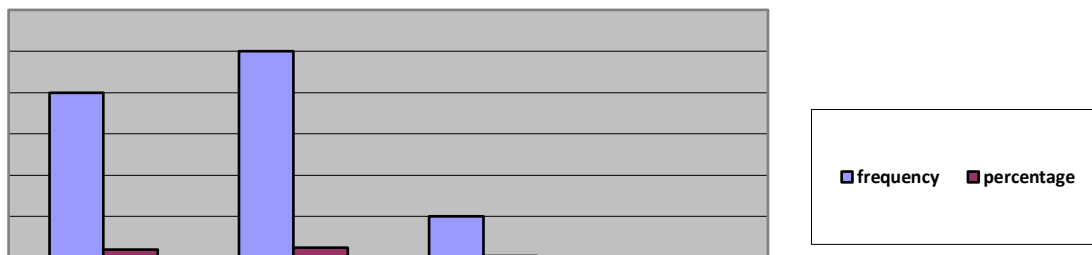


**Fig 4.4:** Bar graph showing the length of service in the current department.

Respondents also gave answers to questions on the impact of investment decisions on the management of pension schemes in Kenya.

Respondent opinion	Occurrence	Percentage
Yes	9	45
No	11	55
Not sure	2	10
<b>Total</b>	<b>20</b>	<b>100</b>

**Table 4.5:** Diagram showing investment decision affects the management of pension schemes.



**Fig 4.5:** Diagram showing the impact of investment decisions on pension schemes in Kenya.

Based on the presented data, this study reveals the following:

1. **Investment Decisions in Pension Scheme Management:** Views on the role of investment decisions in pension scheme management varied among respondents. A substantial 40% affirmed their belief in the significance of investment decisions by responding positively ("YES").
2. **Divergent Perspectives on Investment Decisions:** In contrast, a notable portion of respondents, constituting 50%, expressed dissent regarding the assertion that investment decisions have an impact on management, indicating a divergence in perspectives on this matter.
3. **Undecided Stance on Investment Decisions:** Additionally, a minority comprising 10% remained indecisive or uncertain ("NOT SURE") about the influence of investment decisions. This underscores the presence of ambiguity or hesitancy within a segment of the respondent cohort.

**4.1.1 How Pension Scheme Invests Member Contributions.**

The KPA employee pension scheme invests member pension contributions in several ways. First, the source of funds for the pension scheme are primary from personal regular contributions. That is, the KPA pension scheme operates on a defined contribution basis, requiring both member and employer contributions to individual accounts. Members contribute a minimum of 3% of their pensionable earnings as "Regular Contributions" to their personal accounts. The company (KPA) matches this contribution with at least 6% of the member's pensionable earnings, also deposited into their personal account as "Regular Contributions." Additionally, members have the option to voluntarily increase their contributions up to a maximum of 7% of their pensionable earnings.

Employee Contribution	Company contributions
3%	6%
4%	8%
5%	10%
6%	12%
7%	14%

**Table 4.5.2:** Showing details from KPA Staff data files.

#### 4.1.2 Deciding Investment Portfolios in Pension Scheme.

The Kenya Ports Authority has also formulated a comprehensive pension portfolio through consultations and research involving welfare advisors, employees, and clients. The prevailing preferences indicate a predominant desire for:

- i. Flexibility to accommodate evolving lifestyles.
- ii. A fee structure wherein clients remit payments solely for the utilized options.
- iii. A pension system characterized by transparency and accessibility.
- iv. Diverse investment opportunities and income drawdown options.

Opinions of respondents from the different department at KPA

	Flexibility in dealing with changing lifestyles	Clients paying for the options they use.	Transparency and accessibility of pensions.	Diverse investment and income drawdown options.	Total
Procurement Dept.	1	1	1	2	5
Accounts Dept.	1	1		1	3
H/R Dept.	1	2	1	2	6
Technical Dept.	1	1	1	3	6
Total	4	5	3	8	20

**Table 4.5.3:** Diagram showing opinions of different department respondents on the investment portfolio for the pension scheme.

#### 4.1.4 Effects of Investment Decisions on the Management of Pension Schemes

Respondent Data on the effects of investment decisions on management of pension schemes.

	Very little	Little	Average	Much	Very much	Total
<b>Procurement Dept</b>			1	1	1	3
<b>Accounts &amp; Finance Dept</b>	1		1		1	3
<b>HR Dept</b>	1	1	3	1	1	7
<b>Technical units</b>		1	4	1	1	7
<b>Total</b>	2	2	9	3	4	20

**Table 4.5.4:** Table showing effects of Investment Decisions on the Management of Pension Schemes

Based on the presented table, a predominant number of respondents, constituting 9 individuals, perceive the impact of investment decisions on pension scheme management as average. Consequently, they express a favorable disposition toward investment decisions. Minimal responses, with counts of 1 for "VERY LITTLE" and 3 for "LITTLE," suggest a nuanced concern, indicating that there is room for improvement in the management of pension schemes through more effective investment decisions.

On the contrary, the respondents who believe the effects to be "MUCH" and "VERY MUCH" each register counts of 3 and 4. These participants express the view that the current investment decisions employed by pension scheme management are suboptimal, characterized by inefficiency and ineffectiveness.

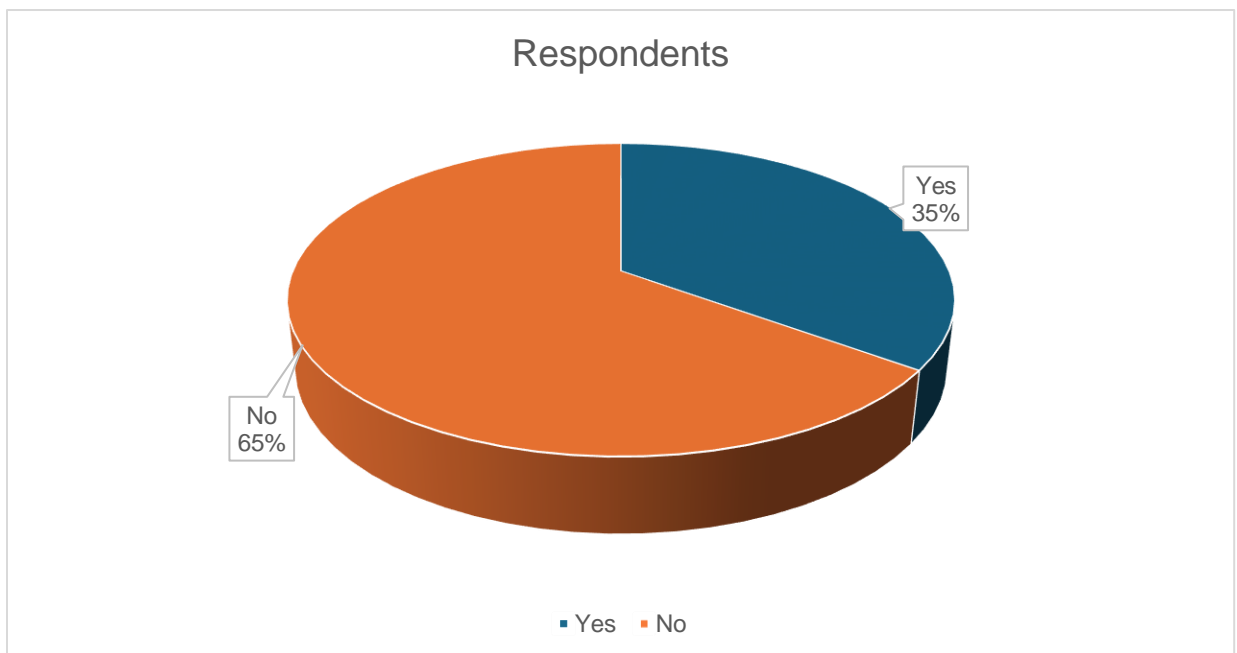
#### 4.1.5 Suitability of the Policy Environment in Kenya for Managing Pension Schemes

Respondent data on policy environment in Kenya conducive to pension scheme management is shown below.

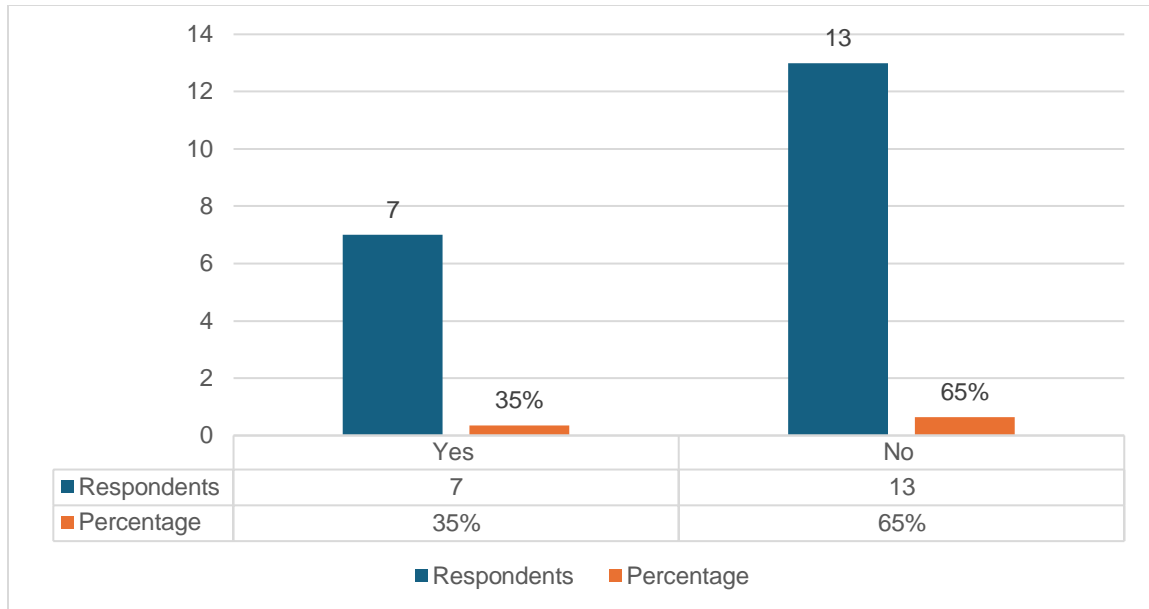
	<b>Respondents</b>	<b>Percentage</b>
<b>Yes</b>	<b>7</b>	<b>35%</b>
<b>No</b>	<b>13</b>	<b>65%</b>
<b>Total</b>	<b>20</b>	<b>100%</b>

**Table 4.5.5:** Diagram showing the conduciveness of policy environment in Kenya for pension scheme management.

The pie chart below shows the effect of policy environment in Kenya conducive to pension scheme management.



**Fig 4.5.5:** Pie chart showing the effect of policy environment in Kenya conducive for pension scheme management.



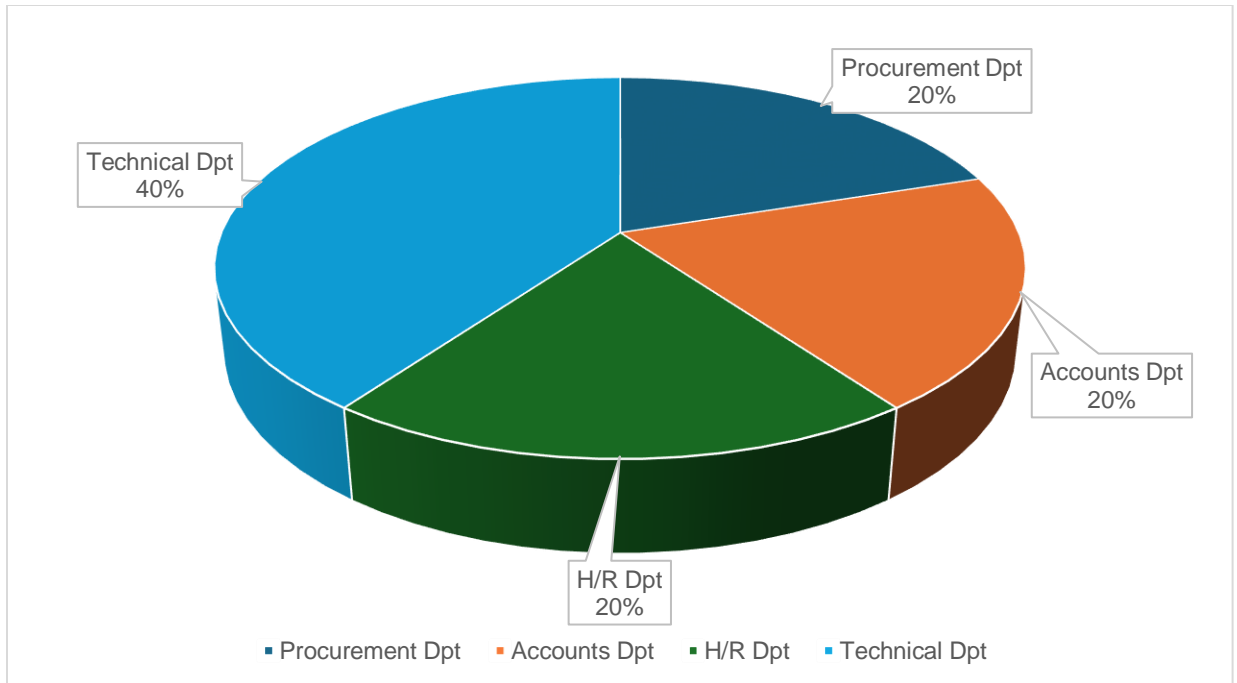
**Fig 4.5.5:** Bar graph showing the percentage of respondents' views on policy impacts on pension schemes in Kenya.

The above graph illustrates the opinions of participants regarding the suitability of the policy environment for pension scheme management in Kenya. A significant majority, constituting 65% of the participants, indicated that the current environment is not conducive to the effective management of pension schemes. In contrast, a minority, comprising 35% of respondents, affirmed the policy environment's suitability for pension scheme management by responding positively.

Below is an indication of the level of government policy's conduciveness for pension schemes in Kenya.

	<b>Very un-conductive</b>	<b>Un-conductive</b>	<b>Average</b>	<b>Conductive</b>	<b>Very conductive</b>	<b>Total</b>	<b>%</b>
<b>Procurement Dept.</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>4</b>	<b>20</b>
<b>Accounts Dept.</b>	<b>2</b>	<b>1</b>		<b>1</b>	<b>0</b>	<b>4</b>	<b>20</b>
<b>H/R Dept.</b>	<b>1</b>	<b>2</b>		<b>1</b>	<b>0</b>	<b>4</b>	<b>20</b>
<b>Technical Dept.</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>8</b>	<b>40</b>
<b>Total</b>	<b>7</b>	<b>7</b>	<b>2</b>	<b>4</b>	<b>0</b>	<b>20</b>	<b>100</b>

**Table 4.1.6:** Diagram showing the level of government policy's conduciveness for pension schemes in Kenya.



**Fig 4.5.6:** Pie chart showing respondent feedback from each department sampled.

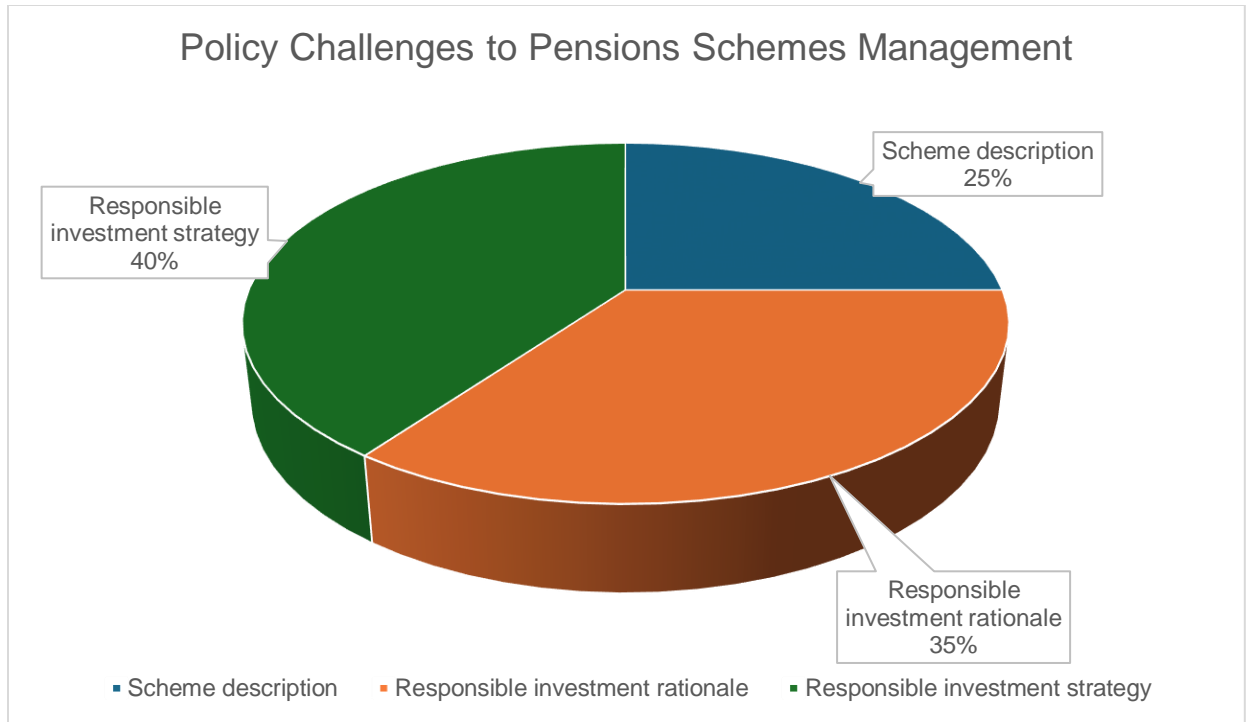
#### 4.1.7 Challenges in Managing Pension Schemes within Policy Frameworks

The table below shows key policies and challenges to pension scheme management in Kenya.

	<b>Respondents</b>	<b>percentage</b>
Scheme description	5	25
Responsible investment rationale	7	34
Responsible investment strategy	8	40
<b>Total</b>	<b>20</b>	<b>100</b>

Table 4.6.1 Source: author (2023)

**Table 4.1.7:** Showing key policies challenging pension scheme management.



**Fig 4.6.1:** Diagram showing policy challenges to pension scheme management in Kenya

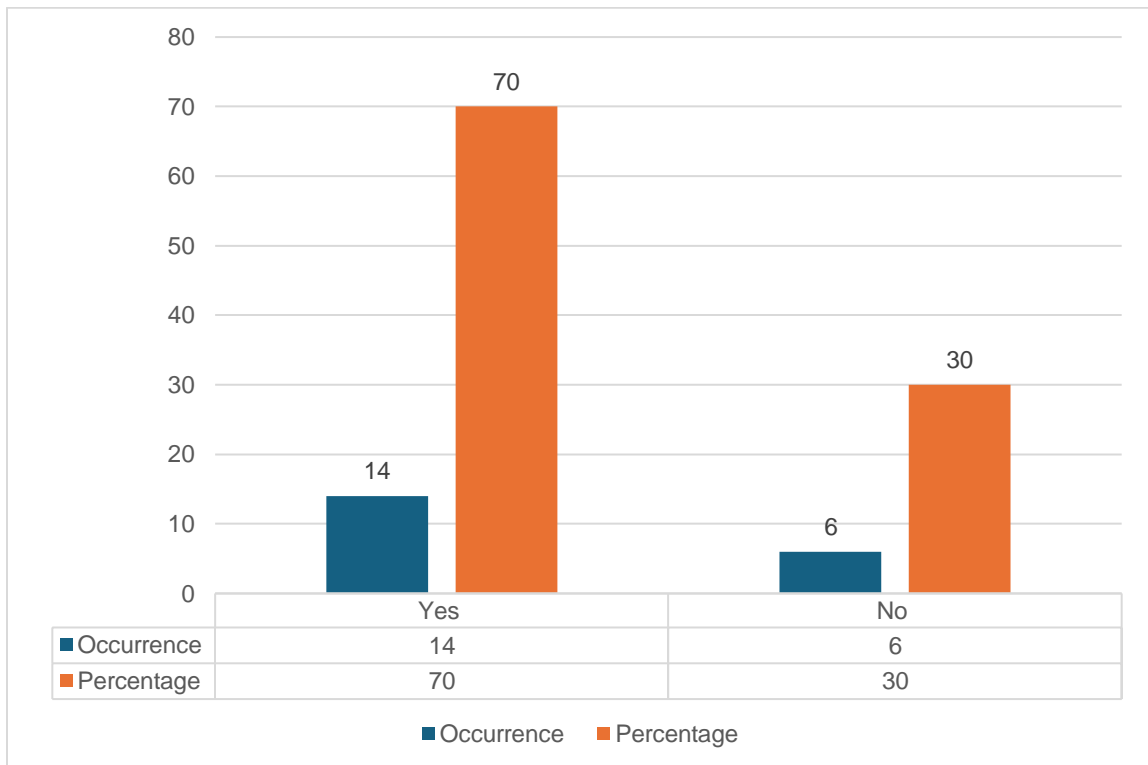
35% of the respondents perceive that the responsible investment rationale poses a significant policy challenge to pension scheme management. Another 40% of the respondents highlight the responsible investment strategy as a follow-up, presenting an equally crucial policy challenge to pension scheme management. Additionally, 25% of the respondents, while presenting scheme descriptions, believe that scheme description policies also present challenges to pension scheme management.

#### 4.1.8 Performance of the Economy and Administrative Decision-Making

Feedback	Occurrence	Percentage
Yes	14	70
No	6	30
<b>Total</b>	<b>20</b>	<b>100</b>

**Table 4.7.1:** Showing impact of performance of the economy and administrative decision-Making

The above data is represented by the bar graphs below.



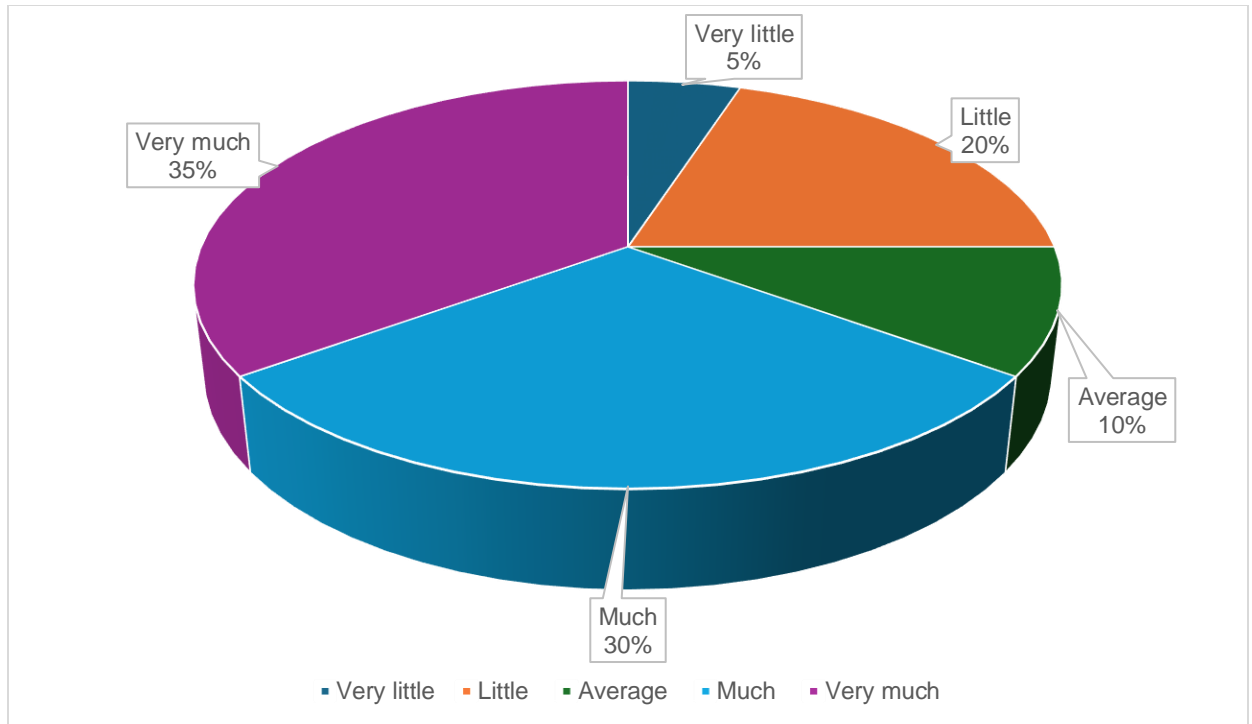
**Fig 4.7.1:** Diagram showing the impact of economic performance effects on management decisions.

An overwhelming majority of respondents (70%, n = 14) expressed the belief that economic performance significantly influences management decisions within the organization. Respondents cited specific elements of economic performance as impactful factors, including inflationary pressures, commodity scarcities, and the fluctuation of local currencies relative to international exchange rates. Conversely, a minority of respondents (30%, n = 6) disagreed, asserting that economic performance holds no sway over management decision-making processes.

#### **4.1.8c Impact of Economic Performance on Decision-Making in Pension Management in Kenya**

	<b>Occurrence</b>	<b>Percentage</b>
Very little	1	5
Little	4	20
Average	2	10
Much	6	30
Very much	7	35
<b>Total</b>	<b>20</b>	<b>100</b>

**Fig 4.1.8e:** Table showing feedback on the extent of economic performance on pension management decisions in Kenya.



**Fig 4.7.2:** Diagram showing the impact of economic performance effects on management decisions.

#### **4.1.8 Economic Considerations Prior to Making Decisions in Pension Scheme Management**

A significant majority (85%) of survey respondents emphasized the importance of thoroughly considering economic factors in the decision-making process for pension scheme management. They highlighted the crucial impact of variables like inflation, scarcity of essential commodities, the strength of local exchange rates, and government taxation rates. In contrast, a minority (15%) of participants either expressed uncertainty or disagreed with this viewpoint, advocating for a limited or no role for economic considerations in shaping decisions related to pension scheme management.

#### **4.6 Limitations of the Study**

The following challenges were faced by the researcher during the process of collecting data:

1. **Non-cooperation of Respondents:** Some respondents initially exhibited reluctance to provide the requisite information as outlined in the questionnaire. However, a visit to the organizational premises before questionnaire administration effectively altered their disposition, leading to eventual cooperation.
2. **Unavailability of Targeted Respondents:** Certain intended respondents were unavailable during the designated questionnaire completion period. Nevertheless, a contingency plan was implemented, enabling their assistants to undertake the questionnaire on their behalf.
3. **Infrastructure Challenges:** During the study, impediments related to inadequate infrastructure were encountered. These included suboptimal communication networks, transportation difficulties between various locations, and a dearth of available social amenities.
4. **Financial Limitations:** As a diploma student with irregular income streams, substantial financial constraints were encountered during the study, posing challenges to the realization of the primary objective.
5. **Perceived Lack of Seriousness Due to Student Status:** The status of the research being conducted by a student resulted in a perception of diminished seriousness by respondents, who perceived the study as primarily serving academic purposes. This perception potentially influenced their level of engagement and cooperation.

## **CHAPTER FIVE**

### **SUMMARY, RECOMMENDATIONS AND CONCLUSIONS**

#### **5.0 Introduction**

This concluding chapter serves as a comprehensive synthesis of the present study. It commences by succinctly summarizing the key findings derived from the research. Subsequently, it draws well-grounded conclusions based on the empirical evidence presented. Finally, it culminates in insightful suggestions and actionable recommendations, advancing the discourse on the study's central theme.

#### **5.1 Summary of Findings**

In the framework of a strong private pension system, the governance of pension schemes plays a crucial role in shaping investment performance, operational efficiency, and the overall security of pension benefits. Within this context, the Local Authority Pension Fund Forum (LAPFF) holds a strategic position. It not only acts as an advocate for the investment interests of Kenyan local authority pension funds but also actively endeavors to enhance their shareholder influence. LAPFF's initiatives go beyond mere financial returns; they include the promotion of corporate social responsibility and the advocacy for robust corporate governance practices within the companies where pension funds have investments.

Over the last five years, issues traditionally categorized as "non-financial," including climate change, human rights, and board remuneration, have experienced a significant increase in importance. These factors are now recognized as influential determinants with a substantial impact on investment value. Given the tendency of many investors, especially those overseeing pension scheme funds, to embrace a long-term outlook, the integration of these considerations into the decision-making processes of pension scheme funds has posed a challenge. As a result, there is a palpable sense of hesitation and confusion in the landscape, hindering the smooth incorporation of these crucial factors.

A pension scheme arises as a deliberate arrangement crafted to bestow benefits upon retirement. Commonly found within the private sector, these schemes operate under the principles of trust law, involving trustees and orchestrated by an employer or a collective of employers. Their primary aim is to furnish benefits for one or more employees, intricately intertwining the complex framework of pension scheme governance.

There exist two primary categories of occupational pension scheme fund management, namely:

1. **Defined Benefit Schemes:** These schemes prescribe a predetermined benefit formula, stipulating the level of retirement income participants will receive. Traditionally, this formula used final salary as the basis, but career average schemes are gaining traction. The onus of ensuring sufficient fund resources to meet these defined benefits lies with the scheme sponsors.
2. **Defined Contribution Schemes (Money Purchase Schemes):** On the flip side, the benefits within these schemes hinge on the amassed contributions, investment returns, and the selected annuity upon retirement. Contributions channel into a dedicated pension fund, constituting the capital base for subsequent benefit disbursements. Importantly, a pension scheme fund may not always manifest as a distinct legal entity; it can take the form of the consolidated assets linked to the scheme itself.

The sophisticated relationship between pension schemes and their underlying funds manifests in diverse configurations. This typology below outlines the types of pension arrangements in Kenya:

- **One-to-One Model:** This quintessential configuration features a dedicated fund exclusively catering to a single pension scheme. The entirety of the fund's assets directly corresponds to and serves the sole purpose of fulfilling the benefits promised by that specific scheme.
- **Many-to-One Model:** In this model, multiple pension schemes, often administered by a single employer or a consortium, pool their respective assets into a shared fund. Individual accounts within the fund represent allocated proportions corresponding to each contributing scheme. This model allows for economies of scale in management and may cater to diverse employee groups within the shared employer structure, potentially with distinct contribution and benefit rates.
- **One-to-Many Model:** This less prevalent model portrays a single pension scheme distributing its assets across multiple distinct funds. Each fund caters exclusively to a specific subset of participants within the overarching scheme. A noteworthy example is the local government scheme in some contexts, where unique retirement

funds serve different local authorities or smaller regional groupings, even though a set of uniform rules govern all local government employees under the single national scheme.

- **Personal Pension Alternatives:** Beyond employer-sponsored occupational schemes, individuals may opt for personal pension arrangements. These contracts established between individuals and financial institutions form the basis for another fund type. Employers may support or endorse such setups, where the individual's contributions, either directly or through a group personal pension scheme, serve as the basis for a dedicated fund. This fund subsequently furnishes retirement income upon conversion into an annuity.

## **5.2 Recommendations**

Government organizations, private sectors, NGOs (non-governmental organizations), and individual small businesses in Kenya are required to register with the government's local authority pension scheme. This scheme plays a crucial role in supervising pension funds and ensuring regulatory compliance within Kenya, especially concerning the management of pension schemes in corporate entities.

An essential element for the successful implementation of a pension scheme involves creating a clearly defined training program customized for senior staff within organizations. This initiative aims to strengthen the implementation and ongoing maintenance of robust pension contributions, cultivating a culture of responsible retirement planning among employees across various organizational contexts. In addition to training, key control mechanisms, such as quality policies, service charters, and company policies, should align with the terms and conditions outlined in public pension management schemes.

Regular awareness training sessions are imperative for all staff members to cultivate a comprehensive understanding of the advantages associated with pension contributions. This educational approach aims to instill a cultural paradigm wherein employees are not only well-versed in the benefits of pension contribution but are also empowered to adapt to and manage changes, if necessary, regarding their contribution levels.

Achieving strategic alignment between pension scheme management instruments, performance metrics, and staff retirement benefits necessitates an integrated approach. The

successful assessment of impact and the effective resolution of challenges faced by state corporation pension schemes in Kenya hinge upon the acquisition of expertise in strategic planning. Furthermore, the enhancement of capacity for comprehensive monitoring of work plans amongst pension scheme administrators is paramount for ensuring robust governance and facilitating successful adaptation to the dynamic environment of pension scheme administration.

### **5.2.1 Recommendations for Further Research**

To gain deeper insights into the obstacles encountered in overseeing pension schemes within state corporations in Kenya, this study proposes exploring additional research avenues. These areas of investigation are anticipated to offer a more comprehensive understanding of both the accomplishments and challenges, along with valuable lessons. Specifically, the research advocates for a comparative study that delves into the challenges confronting pension scheme management in state corporations in Kenya, with a specific focus on educational institutions in the country.

### **5.3 Conclusion**

The effectiveness of pension fund governance relies on the meticulous development of processes and decision-making structures. These structures should aim for alignment with organizational goals, competent information management supporting strategic objectives, and unwavering adherence to both regulatory frameworks and the collective interests of diverse stakeholders. Optimal performance thrives in an environment where trustees have sufficient autonomy to proactively address needs and preferences, allowing them to adapt to dynamic landscapes with minimal external influence. Achieving an equilibrium between economic efficiency and equitable considerations for those impacted by the fund is crucial. Effective pension fund design, administration, and management require continuous vigilance in balancing the often-competing interests of the fund's participants. To enhance governance efficacy, it is pivotal to formulate pragmatic pension legislation specifically targeting the improvement of leadership practices.

In conclusion, pension regulations play a substantial role in shaping the leadership of pension plans, with enhanced leadership evident in plans that adhere to regulatory frameworks. Similarly, the governance of pension plans is influenced by pension regulations, and superior governance is observable in plans that comply with prescribed

regulatory standards. The age composition of a plan's membership also impacts governance, with plans having a higher proportion of middle-aged members, particularly within the 31- to 40-year-old demographic, perceived to exhibit more effective governance compared to cohorts representing different age groups.

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