TRANSFORMING SOCIAL SECURITY: THE NSSF OVERHAUL IN KENYA AND ITS IMPACT ON FEBRUARY 2025 PAYSLIPS

Introduction

Kenyan workers will see a noticeable change in their February 2025 payslips due to a major overhaul of the National Social Security Fund (NSSF). This reform aims to secure better retirement savings but also means higher deductions. What does this mean for you? RSM delves into the key changes, their implications, and what Kenyan workers can expect.

Evolution of the National Social Security Fund (NSSF)

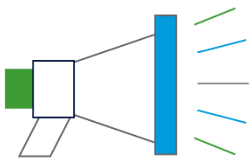
Since its establishment in 1965 through an Act of Parliament, the NSSF has evolved significantly. Originally, NSSF was part of the Ministry of Labour, before evolving into a State Corporation in 1987, managed by a Board of Trustees. The NSSF was created to provide financial security to Kenyan workers upon retirement, initially offering lump sum benefits.

In 2013, the NSSF Act was revised to address concerns about the adequacy of the framework and contributions. The revised Act aimed to expand benefit coverage, improve benefit adequacy, include self-employed individuals, provide an opt-out for Tier II contributions, and strengthen corporate governance.

However, the Act faced legal challenges, mainly from employer groups and stakeholders concerned about compliance costs. After years of litigation, it was revived in September 2022 and upheld by the Court of Appeal in February 2023.The revised Act was to be implemented in five Phases with the 1st Phase implemented from 1st February 2023, The 2nd Phase implemented from 1st February 2024 whilst now looking at implementing the 3rd Phase from 1st February 2025. The 4th and the 5th Phases will be implemented from 1st February 2026 and from 1st February 2027 respectively.

Key Changes and Their Impact

- **Higher Contributions:** Starting 1st February 2025, the maximum monthly contribution for both employees and employers will rise to KShs. 4,320 each, up from KShs. 2,160. This contributions will go to both Tier I and Tier II of the NSSF. However, both the employee and employer can opt out their contributions from Tier II of the NSSF to a pension fund scheme registered with the retirement benefits authority. This increase aims to ensure that workers save more for their retirement, providing greater financial security in their later years.
- **Expansion to Informal Sector Workers:** The NSSF now covers informal sector workers, broadening social security coverage. This is a significant step, as it brings millions of previously uncovered workers into the social security net, ensuring they too can enjoy financial security upon retirement. Informal sector workers whose earnings are below the Lower earnings limit (LEL) of KShs. 8,000 or at the mark of LEL from 1st February 2025, their contributions will be 6% of the actual earnings. Their contributions will go to Tier I of the NSSF.
- **Digital Transformation for Efficiency:** A mobile-based registration system has been introduced, making it easier for people in remote areas to enrol and contribute. This digital shift not only improves accessibility but also enhances efficiency, reducing the time and effort required to manage contributions and benefits.
- **Operational Enhancements:** Automation of services aims to speed up benefit disbursements and reduce administrative costs. This means that retirees can expect faster processing of their benefits, reducing the financial strain during the transition to retirement.



How February 2025 Payslips Will Change

Higher Deductions

Employees will see increased NSSF deductions. For instance, someone earning KShs. 50,000 per month will see their contribution rise from KShs. 2,160 to KShs. 3,000.

Comparison of NSSF Contributions in 2024 vs 2025

Phase	Year	Lower Earnings Limit (LEL) (KShs.)	Upper Earnings Limit (UEL) (KShs.)
2nd Phase	2024	7,000	36,000
3rd Phase	2025	8,000	72,000

	2024 (effective 1st February 2024) (KShs.)	2025 (effective 1st February 2025) (KShs.)
Lower Earnings Limit (LEL)	7,000	8,000
Tier I contribution (employer + employee) @ 12%	840	960
Upper Earnings Limit (UEL)	36,000	72,000
Tier II contribution (employer + employee) @ 12% less Tier I	3,480	7,680
Total Contribution	4,320	8,640
Employee portion	2,160	4,320
Employer portion	2,160	4,320

How Kenya Compares to Other Social Security Systems

When we compare Kenya with the other East African Countries, the social security rate for Kenya is 12% while that for Uganda is 15% and Tanzania is 20%. Notably, even with the increase, Kenya still has the lowest social security rates as at 2025 compared with its East African counterparts.

Further, on global trends on social security systems, the Netherlands has one of the best social security systems, combining a flat rate public pension with a semi-mandatory occupational pension linked to earnings. This system ensures a high replacement rate, meaning retirees receive a significant portion of their pre-retirement income.

Whilst South Africa integrates public and private sector contributions, with over 90% of formal-sector employees enrolled in retirement savings plans. The South African Social Security Agency (SASSA) also provides non-contributory grants to support the elderly.

Kenya would learn from this social security systems by implementing a mixed system that combines mandatory public pensions with occupational pensions which would enhance retirement security. Additionally, by combining mandatory contributions with voluntary savings options, it would increase coverage and sustainability.

Our View

Many social security systems globally have faced financial sustainability issues. Kenya must ensure that NSSF funds are prudently managed to prevent potential shortfalls. Lessons from other countries show that diversifying investment portfolios and ensuring transparency in fund management are key to long-term success.

While these reforms may feel like an added financial burden now, they align Kenya with global best practices in retirement security. The challenge remains in balancing affordability for employees and ensuring long-term sustainability. How well Kenya executes this reform will determine its success in securing a financially stable future for retirees.

Should you need any assistance/clarifications in respect of the above, please reach out to the below or your usual RSM contact.

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