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Impact of the progressive Implementation of NSSF Act, 2013

An expert opinion on the new NSSF contributions, covering various perspectives, including employees, employers contributions, economic impact, regulatory compliance and long-term implications.

The progressive implementation of The National Social Security Fund (NSSF) Act (No. 45 of 2013), whose first year of implementation commenced in February 2023, brings with it a year on year increase in contributions. The analysis below highlights the impact on employees' payslips and employers' cost of compliance expected in the next three years based on the contribution rate of 6%.

				Tier II base: National average earnings, currently set at Shs. 36,000						
Year of implementation	**Commencement Date**	**Tier I base**	**Tier I Amount Shs.**	**% applied**	**Maximum amount applicable Shs.**	**Tier II Amount Shs.**	**Total Employee contribution**	**Total Employer matching contribution**	**Total NSSF contributions**	**Increase in contributions year on year**
Second	February 2024	7,000	420	100%	36,000	1,740	2,160	2,160	4,320	100%
Third	February 2025	8,000	480	200%	72,000	3,840	4,320	4,320	8,640	100%
Fourth	February 2026	9,000	540	300%	108,000	5,940	6,480	6,480	12,960	50%
Fifth and thereafter	February 2027	Average statutory minimum monthly basic wage Shs. 15,200	912	400%	144,000	7,728	8,640	8,640	17,280	33%

For the fifth year of implementation, Tier I will be equated to the Average statutory minimum monthly basic wage, currently set at Shs. 15,200. The above analysis has been done on the assumption that the National Average Earnings will be maintained at Shs. 36,000. The National Average Earnings as per the NSSF Act, 2013, means the average wage earnings per employee as published by the Kenya National Bureau of Statistics in the Economic Survey for the prior year, currently Shs. 74, 519. If this was to be applied as required in the Act, then there will be significant increase in contributions.

From the above analysis, the monthly contributions increase by 100%, 50% and 33% for the years 2025, 2026, and 2027 respectively for both the employees and employers which will result to more deductions from employees' salaries and increased employers' contributions. As a result, employees' disposable income will reduce, thereby affecting their purchasing power which will adversely affect the economy through reduced consumption. This will in turn again affect production and by extension the gross domestic product. In addition, businesses will have to incur additional costs, stretching business cash flows in this already challenging economic time.

The NSSF Act, 2013 provides leeway to pay Tier II contributions to a contracted-out scheme for employers who have already established occupational schemes or are contributing to an umbrella or individual schemes (Contracted-out schemes). The regulations require employers to apply to the Retirement Benefits Authority at least 60 days prior to the intended date of contracting-out and also obtain a Contracting-out Certificate.

Our Recommendations

In light of the above, it is clear that there will be a decrease in employees' disposable income and a significant increase in operational costs to businesses operating in Kenya with a greater impact on employers who have established occupational schemes or contributing to umbrella or individual schemes.

Employers will need to relook at their pension contribution provisions for the occupational, umbrella or individual schemes with possible amendments to the scheme's trust deed and rules to allow them to offset NSSF contributions against contributions to their schemes. This will enhance better management of costs and increase employees' disposable income.

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