

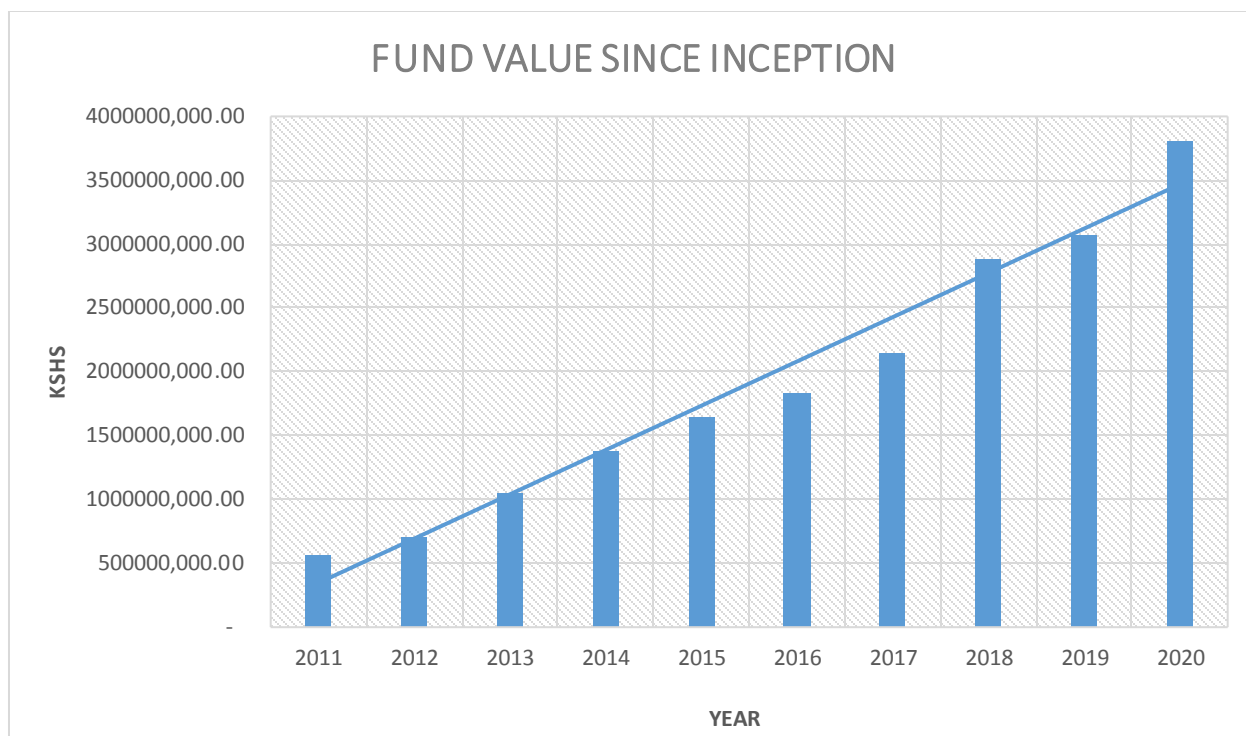
POSTAL CORPORATION OF KENYA STAFF RETIREMENT BENEFITS SCHEME

CHAIRMAN'S REPORT FOR THE YEAR ENDED 30TH JUNE 2020

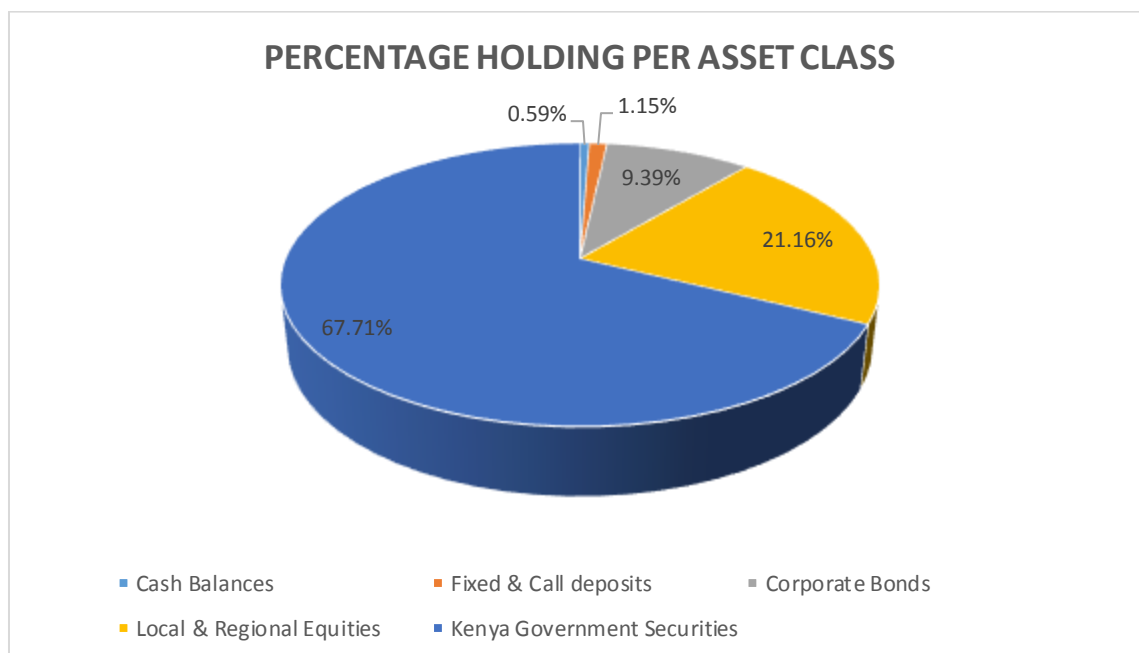
It is with great pleasure that I welcome all members and all stakeholders to our 11th AGM. I am delighted to present the pension scheme report for the year ended 30th June 2020. The year ended was characterized by challenging investment environment arising from COVID-19 that saw NSE 20 Share Index shed off 300 basis points. In spite of the challenges, the growth momentum and returns witnessed in the previous financial year continued to the year under review albeit at a lower rate. The objective of the Scheme is to provide cash and pension benefits to members on retirement or relief to families in the unfortunate demise of a member. Our vision is to be a model pension scheme anchored on the values of efficiency and trust.

Investments

The Value of the Schemes investment portfolio increased by 19.4% from KES 3.1 Billion in 2019 to KES 3.8 Billion as at 30th June 2020. The increase is attributed to the interest charged on the unremitted contributions which saw the assets increase by approximately Kshs 737 million. The Scheme was able to meet its objectives of paying out benefits to members, having paid approximately Kshs 161 million in respect to members who left service during the year and other expenses outlined in the statement of changes in net assets available for benefits. The Scheme has grown tremendously since its inception starting at Kshs 572 million in 2011 to close at 3.8 billion in 2020. The investment growth over the last eleven years to 30th June 2020 is as shown in the figure below:



As at the close of the year, the Schemes investment portfolio was distributed as follows:



Status of the Unremitted Contributions and payment of Retirement Benefits

The Sponsor ceased making contributions from the month of June, 2015 and Trustees have on a number of occasions engaged PCK regarding the matter, discussions which are still ongoing. During the year 2019/2020, the Scheme received contributions of Kshs 6,823,498.00 in respect to employee contributions for the month of February, 2017, December, 2017, February, 2018, April 2020, May 2020, June 2020 and July 2020 respectively. The Scheme has continued to charge interest in accordance with the law and as at the year end the outstanding contributions and interest amounted to **Kshs 2,193,914,995.00** made up as follows: -

DESCRIPTION	AMOUNT
Contributions due for upto 30 days	15,145,895.00
Contributions due for more than 30 days	1,003,356,879.00
Interest on overdue contributions	1,173,522,281.00
Investment income receivable	1,754,607.00
Prepayments	135,333.00
Total	2,193,914,995.00

The Scheme has continued to process benefits of members who leave service to the extent of the contributions received and interest earned on investment. The Scheme sought the advice of the Actuarial Consultant to determine the interest rate for the contributions received and those not received and it was determined that interest earned for contributions received was 5.2%, the interest charged on the unremitted contributions remains at 3% per month compounded in accordance with the law. PCK has committed to remit all contributions outstanding for members who leave service as they make arrangements to remit

the outstanding arrears in cash or through transfer of properties which are now awaiting cabinet approval. Meanwhile the Sponsor, PCK has started the process of transferring property to the Scheme worth Kshs 2.2 Billion.

In an effort to hasten the process of the transfer of the properties Trustees moved to Court to compel PCK to transfer the properties to the Scheme. This process is still ongoing in Court.

Strategic Plan

During the year, the Scheme launched its five-year strategic plan themed gaining altitude that aims at growing the Scheme from the current Kshs 3.8 billion to Kshs 5.7 billion by 2024 focusing on five thematic areas that include: growing Scheme assets by 15% annually, improving members service experience, deployment of new technologies to increase efficiency, risk management, regulatory compliance and governance and developing the institutional human capital. Members are encouraged to download the Strategic Plan from the Scheme website, www.postapension.co.ke.

Sector changes

During the year, the Pension Sector witnessed a number of changes that I would like to bring to the attention of members, some of which include:-

i) Mortgage regulations

The mortgage regulations have now been enacted into law where members are allowed to use upto 40% of their retirement benefits to purchase a residential house subject to a maximum of Kshs 7 million. The Trust Deed and Rules of the Scheme has been amended to allow for members to access 40% of their benefits to purchase a residential house. Details are being worked on by Trustees and will be communicated to members.

ii) Income draw down

This is an alternative to purchasing an annuity where a member opts to be paid his benefits in small chunks until the amount is exhausted subject to a minimum of ten (10) years. If the amount remains after ten years, the member may opt to take the entire amount or enter into a fresh draw down arrangement.

The income draw down arrangement is usually run by external service providers but the law allows the Scheme to set up its own draw down arrangements if it has the capacity.

iii) Post-Retirement Medical regulations

The Retirement Benefits Authority has now enacted the Post-retirement medical scheme which allows members to access medical facilities upon retirement. The objective of these guidelines is to facilitate the establishment, regulations and supervision of the management of post-retirement medical funds by:-

- a) setting out the framework for the management and administration of post-retirement medical funds;
- b) providing guidance to schemes to provide for additional voluntary contributions by members in respect of postretirement medical funds;
- c) providing guidance on transfers and access to postretirement medical funds; and
- d) other such guidance as may be required from time to time.

To comply with these guidelines, the Scheme has already amended the Trust Deed and rules to provide an option for members to make additional voluntary contributions that will go towards financing the Post-Retirement Medical Fund and members are encouraged to start making contributions through the new Scheme since this Scheme is closed and does not receive contributions.

iv) Good Governance guidelines

The Authority recently gazette the good governance guidelines whose objective is to:-

- a) to enable sponsors, members, trustees and service providers to implement and promote proper standards of conduct and sound governance practices; and
- b) to ensure that sponsors, members, trustees and service providers exercise their fiduciary duties effectively and diligently.

In compliance with good governance guidelines, the Scheme has already developed the necessary policies required to comply with this guidelines, the policies include:-

- Trustees Remuneration Policy
- Trustees Training Policy
- Trustees Induction Policy
- Communications Policy
- Board Charter and Code of Conduct Policy
- Trustees Resignation and Appointments Policy
- Conflict of Interest Policy

Members are required to approve the Trustees remuneration once every three years and Trustees will be presenting the Trustee remuneration for approval by members during this year's AGM.

Other amendments are contained in the RBA website and members are invited to familiarize themselves.

Member Self Service Portal

The Scheme has rolled out a member self-service portal available on the Scheme website at <http://www.postapension.co.ke/> and clicking on the portal link on the main page, where a member can register using a combination of data contained on the registration page.

Conclusion

The Scheme despite the challenges caused by the COVID-19 pandemic in the last quarter of the financial year was able to meet its obligations during the year and we expect the momentum to continue in the coming year.

I would like to appreciate the Trustees who served with me during the year for their support and dedication. The following Trustees joined the Board in the current year, Ms Freda Gachie, Ms Jennipher Oywer, Mr. John Tonui (rejoined), Mr Simon Gachara (re-elected) and Mr. Philemon Munai (newly elected).

Finally, I wish to appreciate the following for their dedicated support to the Scheme; The Sponsor (PCK Board), PCK Management, all members of the pension Scheme, The Secretariat - headed by Mr. Elijah Koskey, The Scheme Custodian – M/s Kenya Commercial Bank Group, The Fund Managers – ICEA Lion Asset Management and African Alliance Investments, The Scheme Auditor – Mazars Certified Public Accountants, and the Scheme Legal Advisor – the Corporation Secretary, Postal Corporation of Kenya.

Lastly we wish to thank all the members for actively participating in the AGM. We reiterate Trustees commitment to ensuring that the Scheme is well managed for the benefit of its members.

A copy of the Chairman's report and the Financial Statements are available in the Scheme website www.postapension.co.ke for members review.