KPMG

Tax Alert

Enhanced NSSF rates effective February 2025

Background

The National Social Security Fund (NSSF) Act, 2013 (the Act) has undergone several amendments in recent years. Some of the key changes included the introduction of increased contribution rates and the expansion of the contribution base to include workers in the informal sector, as well as the creation of the two-tier system for contributions.

Following the enactment of the Act, The Kenya Tea Growers Association (KTGA) and other petitioners filed the case against the National Social Security Fund Board of Trustees, challenging some aspects of the Act.

The KTGA petition was ultimately resolved on 21 February 2024 when the Supreme Court issued judgment in the case of **Kenya Tea Growers Association & 3 Others (Appellants) vs The National Social Security Fund Board of Trustees & Others (Respondents) Petition No. E004 of 2023 as consolidated with Petition No. E002 of 2023** affirming the previous decision by the Court of Appeal faulting the Employment and Labour Relations Court's decision to declare the NSSF Act unconstitutional. The Court of Appeal had on 3 February 2023 delivered a judgement upholding the legality of the Act and the effective contribution period thus became February 2023 going forward.

The implementation

With the courts affirming the validity of the NSSF Act, the government is now moving forward with its implementation, in accordance to the third schedule, which outlines a five-phase approach for gradually adjusting the mandatory contribution rates.

The Act mandates that all individuals subject to the Employment Act, who are 18 years or older and have not yet reached retirement age, contribute 6% of their pensionable earnings to the Fund. This contribution is shared equally between the employee and employer.

In this context, "pensionable earnings" refers to the lower of an employee's monthly wages and the Upper Earnings Limit.

The Act establishes two levels of contributions: Tier I and Tier II. Tier I contributions are for pensionable earnings up to the Lower Earnings Limit, while Tier II contributions apply to earnings above that limit.

Tier I contributions are paid directly to the NSSF, while employers have the option to direct Tier II contributions to a contracted-out scheme that they choose to participate in or set up.

New NSSF Rates

Starting 1 February 2025, Kenyan employees and employers will see changes in NSSF contribution. This adjustment marks the third phase of the phased implementation of the NSSF Act of 2013, which aims to enhance retirement benefits for workers by gradually increasing contribution rates over a five-year period.

The upcoming adjustments, effective from February this year, are summarized as follows:

	Year 2 (Current rates)	Year 3 (Commencing February 2025)
Lower Limit (Tier 1)	**7,000**	**8,000**
Total Contribution by Employee	420	480
Total Contribution by Employer	420	480
Total Tier 1 NSSF Contributions	**840**	**960**
Upper Limit (Tier 2	**36,000**	**72,000**
Contribution on Upper Limit (6% of Upper Limit less Lower Limit)	29,000	64,000
Total Contribution by Employee	1,740	3,840
Total Contribution by Employer	1,740	3,840
Total Tier 2 NSSF Contributions	3,480	7,680
Total NSSF Contributions	**4,320**	**8,640**

Contributions using the new rates are expected to be effected on February payroll and going forward. Remittance to NSSF should be made by the 9th day of each subsequent month.

Our Opinion

The expected increase in NSSF contributions will result in a rise on the national savings rate and individual pension savings. The immediate impact of the increased NSSF contributions will be a reduction in the net pay of employees that will further reduce their purchasing power.

From an employer's perspective, this change will lead to higher staffing costs and increased compliance obligation, particularly considering other statutory deductions, such as the Social Health Insurance Fund, the Affordable Housing Levy, and the revised upper PAYE bands that have been implemented over the past two years.

KPMG is available to provide support on any issues arising from this transition or any future amendments to the Act.

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