

# Tax Alert

## Phase 4 of NSSF Contribution Rates effective February 2026



### Background

In February 2026, the Government is set to implement the fourth phase of the five-phase increase in National Social Security Fund (NSSF) contributions, as stipulated in the Third Schedule to the NSSF Act, 2013.

The phased implementation of the NSSF Act, 2013 provisions, was designed to enhance retirement savings by transitioning from a flat-rate contribution model to a earnings based system.

### Implementation overview

The NSSF Act requires employees to contribute 6% of their pensionable earnings, with employers matching the employee contribution.

“Pensionable earnings” are computed with reference to the lower and upper earnings limits as prescribed in the table below.

Year	Lower Earnings Limit (KES)	Upper Earnings Limit
1	6,000	50% of national Average Earnings
2	7,000	1 Times National Average Earnings
3	8,000	2 Times National Average Earnings
4	9,000	3 Times National Average Earnings
Year 5 Onwards	Lower Earnings Limit shall be for each financial year, the amount gazetted by the Cabinet Secretary from time to time, as the average statutory minimum monthly basic wage for the top urban centres, second tier urban centres and rural areas for the year.	Amount paid or charged to buy the lottery ticket

Source: NSSF Act, 2013

For the Upper Earnings Limit, NSSF has previously used the average monthly wage earnings for 2012 (KES 36,000) as the base value, multiplying it by the relevant factor each year

### Understanding the Two-Tier Contribution Structure

- Tier I Contributions means for any month, contributions in respect of Pensionable Earnings up to the Lower Earnings Limit.
- Tier II Contributions means for any month, contributions in respect of Pensionable Earnings above the Lower Earnings Limit.

Tier I contributions must be remitted to NSSF. Tier II contributions may either be remitted to NSSF or, with approval from the Retirement Benefits Authority (RBA), redirected to an approved private pension scheme.

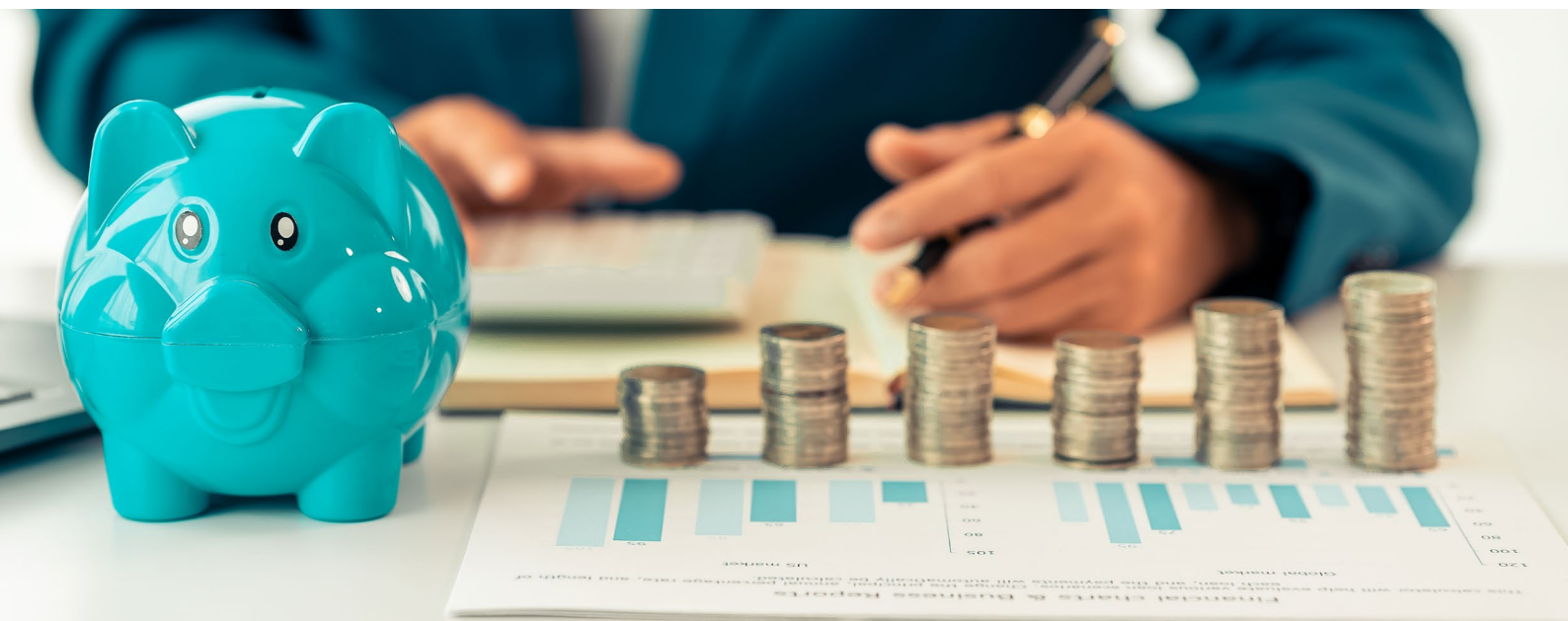
## New NSSF Rates Effective February 2026

The anticipated minimum adjustments for Phase 4 are as follows:

	Phase 3 (Current Rates) (KES)	Phase 4 (Commencing February 2026) (KES)
Lower Limit (Tier 1)	8,000	9,000
Total Contribution by Employee	480	540
Total Contribution by Employer	480	540
Total Tier 1 NSSF Contributions	960	1,080
Upper Limit (Tier 2)	72,000	108,000
Contribution on Upper Limit (Upper Limit-Lower Limit)	64,000	99,000
Total Contribution by Employee	3,840	5,940
Total Contribution by Employer	3,840	5,940
<b>Total Tier 2 NSSF Contributions</b>	<b>7,680</b>	<b>11,880</b>
<b>Total NSSF Contributions</b>	<b>8,640</b>	<b>12,960</b>

## Practical Examples of the NSSF Contributions Impact

Gross salary	Tier I @ 6% (KES)	Tier II @ 6% (KES)	Total Employee Contribution (KES)
9,000	540	-	540
15,000	540	360	900
50,000	540	2,460	3,000
100,000	540	5,460	6,000
200,000 and above	540	5,940	6,480



## Impact on Employees and Employers

- Employees will continue to contribute 6% of their pensionable earnings, with employers matching this amount.
- The maximum employee contribution will rise from KES 4,320 to KES 6,480 per month, with employers contributing an equivalent amount. This increases the maximum total monthly NSSF contribution from KES 8,640 to KES 12,960.
- While this will boost retirement savings, it will reduce employees' net pay and impact their purchasing power.

## Our Opinion

The increase in NSSF contributions is a positive step towards strengthening long-term retirement savings and improving social security coverage. However, in the short-term, it increases payroll costs for employers and reduces employees' net take-home pay, which may strain businesses and households spending power and ultimately constrain the economy's liquidity.

Employers will need to factor the higher contributions into staff costs planning, while employees may feel the impact more immediately despite the long-term benefits due to their reduced disposable income. The new rates will further limit the amount available to employers in respect of any excess pension contributions that are deemed disallowable for tax purposes which will ultimately increase their effective corporate tax rate.

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



KPMG is happy to assist on any issues arising from this alert. Contact our tax and regulatory team on [taxandregulatory@kpmg.co.ke](mailto:taxandregulatory@kpmg.co.ke) or [cakora@kpmg.co.ke](mailto:cakora@kpmg.co.ke).

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