



KENYA POWER PENSION FUND INCOME DRAWDOWN



KENYA POWER
PENSION FUND

Introduction

The Trustees of the Defined Contributions (DC) Scheme established an inhouse Income Drawdown Fund (Fund) in January 2020. The Fund became operational in the same month following approval from the Retirement Benefits Authority (RBA).

What is an Income Drawdown?

This is an arrangement that allows a member at retirement to draw his/her benefits into regular instalments while the balance remains invested.

What are the Key Features of an Income Drawdown?

i. Flexibility

A member has the flexibility of choosing the frequency, timing and amount of income withdrawals based on their income requirements.

ii. Duration

The Minimum membership period in an income drawdown is 10 years.

However,

- Transfer of benefits to another IDD fund is allowed after 5 years of membership.
- Transfers shall be done in full, and no partial transfers shall be allowable.

iii. Withdrawable Income

A member may withdraw an income from their drawdown Fund subject to a maximum of 12% per annum of the member's residual balance.

iv. Investment Return

The remaining amount is invested, and returns are achieved based on the prevailing market conditions.

- v. After the 10 year minimum drawdown period, a member has the following options:-
 - Continue with the drawdown arrangement; or
 - Purchase an annuity; or
 - Access the remaining balance as a lumpsum.
- vi. On death of a member, the following options are available to the beneficiaries:-
 - Continue with the members drawdown arrangement; or
 - Purchase an annuity with the balance; or
 - Access the remaining balance as a lumpsum

Advantages of an Income Drawdown

- i. Member benefits will be retained and paid from Kenya Power Pension Fund and not an insurance firm.
- ii. Allows a member to benefit from any investment growth from their retained retirement benefits.
- iii. A member can increase or decrease their drawdown amounts depending on their financial requirements.
- iv. A member has the flexibility to choose how frequently he/she would wish to access their income.
- v. In the event of death, a member's beneficiaries are allowed to inherit the remainder of the benefits.
- vi. Allows a member to purchase an annuity or access their benefits as a lumpsum on expiry of the 10 years minimum period.



Risks Associated with Income Drawdown

- i. There is a possibility of a member depleting their funds before the expiry of the 10 years. This occurs when the member consistently draws at a rate higher than the investment return.
- ii. Investment risk: The members are exposed to financial market movements which are characterized by fluctuations.
- iii. Longevity risk: There is a risk that a member may outlive their benefits.

Who should consider this option?

It is recommended that members who opt for the income drawdown arrangement have a reasonable understanding of financial and investment risks.

Other Frequently Asked Questions

i. Who is eligible to be a member?

All retiring members of the DC Scheme can transfer all or part of their retirement benefits to the income drawdown fund.

ii. Is there a minimum drawdown amount?

Although there is a maximum drawdown rate of 12%, there is no minimum withdrawal rate.

iii. Can a member have a combination of an annuity and an income drawdown?

Yes, a member can opt to use a portion of their retirement income to purchase an annuity and transfer the rest to an income drawdown fund.

iv. How are the funds invested?

The Income Drawdown Fund is invested as per the provisions of the Fund's Investment Policy Statement (IPS) which emphasizes on preserving members' capital, maintaining adequate liquidity and providing adequate returns.

The establishment of the Income Drawdown Fund was partly in response to concerns raised by members about being referred to insurance companies for annuities on retirement.

Going forward, members will have the option of receiving all their benefits from the Scheme that they have always belonged to and can identify with.

Members can get more information about the Kenya Power Income Drawdown Fund from the Scheme's website www.kppf.co.ke

FOR MORE INFORMATION, PLEASE REACH US ON;
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