

# Tax Alert

## Revised NSSF contribution rates effective February 2024

January 2024

### Get in touch

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### Introduction

The monthly payroll contributions to the National Social Security Fund ("NSSF") are set to increase with effect from 1 February 2024. The lower earnings threshold for the purpose of calculating the NSSF payable is set to rise from KES 6,000 to KES 7,000, and the upper limit will now be KES 36,000, doubling the current limit of KES 18,000.

Consequently, the monthly contribution from both employer and employee will be capped at KES 840 for the lower earnings limit, while the maximum contribution will be KES 3,480 for the upper earnings limit, equally split between the employer and the employee.

### Background

The NSSF Act No. 45 of 2013 ("The Act") was assented into law on 24 December 2013. However, due to an extended legal process, its implementation was delayed until

February 2023. Following the implementation of the Act, the monthly contributions by employees and employers increased from KES 400 (equally split between the employer and the employee), to 12% of the monthly pensionable earnings divided as follows:

- Employer's contribution - at 6% of the employee's monthly pensionable earnings (employer's cost); and
- Employee's contribution - 6% of the employee's pensionable earnings deducted from the employee's earnings.

As stipulated by the Act, both employer and employee contribution rates are set for annual reviews at the start of the anniversary of the commencement date of the Act, with incremental adjustments linked to the movement in the monthly national average earnings published by the Kenya National Bureau of Statistics ("KNBS") in the Economic Survey of the preceding year.

### Annual contribution adjustments

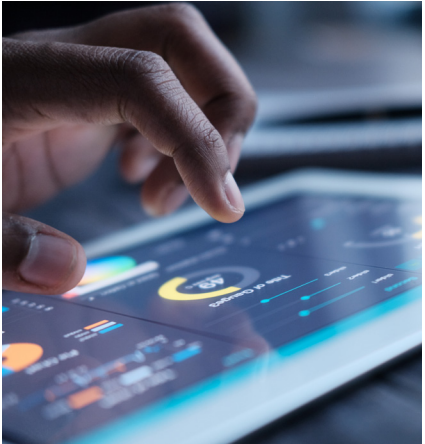
The contributions payable under the Act in the first four years of its implementation are based on the monthly Lower Earnings Limit ("LEL") and monthly Upper Earnings Limit ("UEL") provided below:

Year	Monthly LEL (KES)	Monthly UEL (KES)
1	6,000	50% of the monthly National Average Earnings
2	7,000	1 time the monthly National Average Earnings
3	8,000	2 times the monthly National Average Earnings
4	9,000	3 times the monthly National Average Earnings
Year 5 onwards	Amount gazetted by the Cabinet Secretary of Social Security	4 times the monthly National Average Earnings



As per the Act, contributions up to the monthly LEL will be credited to NSSF Tier I account, while contributions for the balance of monthly pensionable earnings between the LEL and the UEL will be credited to Tier II account. Based on this, Year 2 contributions which will take effect in the February 2024 payroll will be calculated as follows:

Lower Limit (Tier 1): KES 7,000)	
Employee contribution (6% of KES 7,000)	KES 420
Employer contribution (6% of KES 7,000)	KES 420
<b>Tier 1 NSSF Contribution</b>	<b>KES 840</b>
Upper Limit (Tier 2): KES 29,000 (UEL of KES 36,000 less LEL of KES 7,000)	
Employee contribution (6% of KES 29,000)	KES 1,740
Employer contribution (6% of KES 29,000)	KES 1,740
Tier 2 NSSF Contribution	KES 3,480
<b>Total Maximum mandatory NSSF contribution</b>	<b>KES 4,320</b>



**Impact of increased NSSF contributions**  
The increased contributions for NSSF will enhance the retirement savings for employees who did not have a private pension scheme. The NSSF contributions are tax deductible for individuals, so the increase in NSSF

rates will marginally reduce the tax payable by the employees. However, the net take-home for the employees will decrease due to the increase in the contributions.  
  
For employers, the increased NSSF contributions will increase the employment cost.

Additionally, updating payroll systems to accommodate the new contribution rates will impose an additional compliance burden.  
  
**Please feel free to contact your usual PwC contact or any of our experts listed herein should you wish to discuss this further.**