Impacting Lives Positively

POST RETIREMENT MEDICAL FUND (PRMF)

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Medical expenses have been identified as one of the most significant expenses individuals face in retirement.

The incidence rates for most chronic illnesses including various cancers, diabetes, renal failure and cardiac issues tend to increase with age. These factors usually result in relatively expensive medical insurance premiums for the elderly, resulting in most retirees lacking a medical cover.

Most retirees therefore resort to Out of Pocket payment (either by depending on their children or well-wishers) to finance their incurred medical expenses. This has statistically been confirmed as the biggest contributor of old age poverty as it is estimated that 38% of Kenyans who finance their medical expenses through Out of Pocket have to either sell off their assets or borrow the funds.

A Post Retirement Medical Fund (PRMF) seeks to address this challenge as it enables retirees have access to adequate, affordable and comprehensive health care in retirement.

In definition, a PRMF is an arrangement that allows members while in active employment to save towards their medical costs incurred after retirement. Contributions are invested and used to pay for in-patient and out-patient medical bills upon retirement.

This article aims at shedding light on post retirement medical funds, reasons for set up and the current legislation around it.

How does a PRMF work?

In a PRMF, contributions are made while in employment to support the targeted level of benefits. These contributions are then invested and remain invested until the benefits fall due. The contributions and earned investment return are then used to pay for medical bills upon retirement. Benefits available broadly correspond to those under an insurance cover and may include in-patient cover, outpatient cover, family cover, maternity cover, dental and optical covers.

Key considerations in determining the level of contributions required include the current age of the principal member, the target level of benefits, the hospital care facilities one would access upon retirement, number of dependants among others.

Reasons for setting up a PRMF

Why then should you consider setting up or joining a PRMF?

1. Retirees face an increased risk of ill-health - the World Health Organization (WHO) attributes the decline in health as we age to the impact of the accumulation of a wide variety of molecular and cellular damage over time. This leads to a gradual decrease in physical and mental capacity and a growing risk of disease. With the increased risk of ill health, post-retirement medical insurance is vital to ensure dignity in old age. With an aging population and weakening social values retirees facing medical conditions end up being the government's responsibility. It further strains on a federal budget that already runs substantial annual deficits.

2. Decreased income - In retirement, most workers rely on their savings for retirement, unfortunately, most underestimate their expenses after retirement and retire with a low Income Replacement Ratio (IRR) which is the ratio of post retirement income (pension) to percentage of pre-retirement income (salary). With a low IRR, it becomes hard for retirees to meet their healthcare costs. The situation is further worsened by the increasing cost of healthcare. According to the ministry of health accounts, in 2015/16 Kenyans spent Ksh 346 billion (USD 3,476 million) in FY 2015/16, an increase of 27.7% from Ksh 271 billion (USD 3,188 million) in FY 2012/13. Total health spending in FY 2015/16 accounted for 5.2% of gross domestic product (GDP). Household out-of-pocket payments accounted for 27.7% of current health expenditure (CHE).

3. Harder to get insurance - According to the Kenya Economic Survey 2018, medical insurance is inaccessible to most retirees aged 65 years and above, leaving them to settle bills out of pocket. Where a retiree can afford medical insurance, securing it is dicey as insurers are generally unwilling to cover this age group because of the assumed elevated risk. Even when they do, most offer limited cover while charging high premiums to absorb this supposed peril. This locks out many senior citizens, who have to shoulder the burden of their medical bills.

Legislation around PRMF

In tandem with the Kenyan Government Development Agenda on Affordable Universal Health Care for citizens, various efforts have been made in a bid to make health care in retirement affordable for the common *'Mwananchi'*.

Back in 2015/16, the government included the implementation of the post-retirement scheme as one of the key performance indicators for public sector organizations. In 2016, the Retirement Benefits Regulations were amended requiring schemes to allow members and employers to contribute to a medical fund for purposes of securing the medical cover in retirement. Subsequently, the Retirement Benefits Authority embarked on the process of developing guidelines to enable Trustees and sponsors of retirement schemes to establish medical funds. This process culminated with the gazettement of the guidelines in October 2018.

PRMFs are registered and regulated by the Retirement Benefits Authority (RBA). Current legislation allows for the set up of:

- Standalone PRMFs - A standalone PRMF exists as a separate legal entity from the employers and employees. Such is controlled and administered by a board of trustees with the option to self-insure.

- PRMFs entrenched within existing pension schemes - where contributions are made as additional voluntary contributions (AVCs). These are administered by the same board of trustees as those administering the existing pension schemes.

- PRMFs set up under an insurance policy - For those under an insurance policy, an insurer undertakes to receive the contributions and subsequently guarantees to provide the future retirement medical cover benefits. No specific legislative framework has been established for post-retirement medical products within the insurance sector. However, within current legislation, it is possible to develop the product subject to approval from the Insurance Regulatory Authority (IRA). The product would take the form of a savings product before retirement underwritten by long-term insurers whereas general insurers would provide the medical benefits after retirement.

In conclusion, people worldwide are living longer, the World Health Organization (WHO) reports that global life expectancy has increased by more than 6 years from 66.8 in 2000 to 73.4 years in 2019. Even though we are living longer research shows the additional year are spent in poor health. That makes the need for means to cater for our health expenses in old age vital. Trustees and individuals alike should consider setting up and/or joining a Post Retirement Medical Fund to cater for retirees' medical expenses and reduce old age poverty in the process.

Fortunately, there are signs of positive uptake on Post Retirement Medical Funds. According to Kenya Economic Survey 2022, Post-Retirement Medical Fund contributions increased from Ksh 7.0 million to Ksh 101.4 million in 2021. This is indicative of some progress in uptake with some of the industry key players setting up the funds for their employees.

Join us on 23rd August 2022 for a webinar on Post Retirement Medical Funds. More details will be provided on our social platforms.

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