

# Tax Alert

## Updated NSSF rates effective February 2025

February 2025

### Get in touch

**Obed Nyambego**

Partner/Director  
obed.nyambego@pwc.com  
+254 (20) 285 5000

**Regina Ooko**

Associate Director  
regina.ooko@pwc.com  
+254 (20) 285 5000

**Vivian Otieno**

Manager  
vivian.otieno@pwc.com  
+254 (20) 285 5000

**Agnes Gati**

Manager  
agnes.gati@pwc.com  
+254 (20) 285 5000

### Introduction

The National Social Security Fund (NSSF) Act No. 45 of 2013 (The Act) came into effect in February 2023, introducing new rates for NSSF contributions. Originally set to commence in 2014, the implementation encountered legal obstacles, postponing its enforcement until 2023.

The cases challenging the constitutionality or otherwise of the Act have been prosecuted at the Employment and Labour Relations Court (ELRC), the Court of Appeal (CoA) and the Supreme Court. The matter is currently pending at the CoA for a substantive ruling. For a more detailed analysis, please see our previous **tax alert** on the court cases.

Under the Act, employers are required to contribute to the Fund as follows:

- **Employer's Contribution:** 6% of the employee's monthly pensionable earnings.
- **Employee's Contribution:** 6% of the employee's pensionable earnings, deducted from the employee's earnings.

### Progression of NSSF Rates – Contributions Schedule

Under the Act, the Lower Earnings Limit (LEL) and Upper Earnings Limit (UEL) will progress over the initial four years as follows;

Year	Lower Earnings limit (KES)	Upper Earnings Limit (KES)	Effective date
1	6,000	50% of the monthly National Average Earnings	February-2023
2	7,000	1 time the monthly National Average Earnings	February-2024
3	8,000	2 times the monthly National Average Earnings	February-2025
4	9,000	3 times the monthly National Average Earnings	
5	Amount gazetted by the Cabinet Secretary	4 times the monthly National Average Earnings	

This alert outlines the key changes effective 01 February 2025 in line with the updated contributions schedule (see table below) as the Act enters its third implementation phase. This follows similar changes that were introduced in February 2024 as indicated in the Public Notice released by the NSSF on 12 January 2024.

### Background

The Act mandated a phased increase in contributions, with increases scheduled annually each February, as outlined in the contributions schedule for the first four years (years 1 through 4).

After the fourth year, the contribution amounts will be set by Gazette notices issued by the Cabinet Secretary of the Ministry of Labour and Social Protection.

Year 1 changes were rolled out in February 2023, followed by year 2 changes in February 2024. For more information, please refer to our previous **alert**. As per the contributions schedule, the rates for year 3 are expected to be implemented in February 2025.



### New NSSF Rates Effective February 2025

Effective 01 February 2025 (year 3), the LEL will be KES 8,000 and the UEL will be KES 72,000, up from KES 7,000 and KES 36,000. As per the Act, contributions up to the monthly LEL will be credited to the NSSF Tier I account, while contributions for the balance of monthly pensionable earnings between the LEL and the UEL will be credited to the Tier II account as shown below:

Lower Limit (Tier 1) – KES 8,000	
Employee contribution (6%)	KES 480
Employer contribution (6%)	KES 480
<b>Tier 1 NSSF Contribution</b>	<b>KES 960</b>
Upper Limit (Tier 2) – KES 72,000 – 6% of (UEL - LEL)	
KES 72,000 – KES 8,000 = KES 64,000	
Employee contribution (6%)	KES 3,840
Employer contribution (6%)	KES 3,840
Tier 2 NSSF Contribution	KES 7,680
<b>Total Maximum mandatory NSSF contribution</b>	<b>KES 8,640</b>



For employees earning up to KES 36,000 per month, the total contribution is expected to remain the same with a variation in the Tier I and II contribution amounts.

The contributions for employees earning between KES 36,000 to KES 72,000 per month will vary depending on their income.

In the case of employees earning KES 72,000 and above per month, the total employer and employee contributions is expected to increase from the current KES 4,320 to KES 8,640 as shown in the above table.

### Impact of the new rates

#### Employees

With the new rates to be implemented in February 2025, we note that employees will be impacted in the

following ways:

1. Higher allowable tax deductions given the increased pension deduction limit from KES 20,000 to KES 30,000 as introduced by the Tax Laws Amendment Act, 2024.
2. Lower net take-home given the increase of the mandatory NSSF deductions, especially for those earning more than KES 36,000.
3. Increase in the retirement savings for employees whose monthly contributions are impacted.

#### Employers

1. Higher financial burden due to the requirement to match the increased employee contributions.
2. Requirement to update payroll systems to ensure accurate and timely contribution.

### Contracting out by Employers

Under the Act, employers have the option to contract out of the NSSF Tier II contributions by participating in a private pension scheme registered with the Retirement Benefits Authority (RBA).

This allows employers to redirect both the employer and employee Tier II contributions to the private scheme instead of the NSSF.

To contract out, employers must notify the RBA in writing at least 60 days before contracting out, for the RBA to ensure that the private scheme meets the required standards as per the Act.

**We expect the NSSF to publish a public notice on the new rates, which will be shared as soon as it is made available. For any questions or assistance, please reach out to the contacts herein.**