

Navigating Income Security amid Rising Living Costs: Challenges Facing Middle-Income Earners from the Perspective of Senior Management Students at the Kenya School of Management, Kabete Campus, Kenya

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ABSTRACT

Essential components of financial stability are income security and the cost of living especially to middle income earners. These factors include inflationary costs of living, erosion of nominal wages, and inadequate social protection. This study explores income security and the cost of living especially as it affects the middle-income earners. In this study, Maslow's Hierarchy of Needs was used to place economic insecurity outside the typical channels to classify the subject according to need hierarchy by demonstrating financial limitations compelling the individual to meet fundamental needs. A descriptive cross-sectional design was adopted. The study population consisted of 65 senior management students at Kenya School of Management, Kabete Campus. During data collection, only 60 completed the online questionnaires. Quantitative data collected were analysed using Microsoft Excel to generate charts. The data was analysed descriptively and presented in pie charts. The study findings show that income inabilities are highly prominent, in which 83.3% of the participants are unable to cover living expenses using paid work alone. Whereas 70% said they were able to save 10% of their income, the remaining 30% responded that they have no savings at all and thus emerged as economically insecure. Furthermore, 68.3% of beneficiaries depended on other sources of income to meet the demands, which also showed that formal income was inadequate. Therefore, the study concludes that middle-income earners today are experiencing higher tendencies of economic risk, with barely any capability to handle the changes. The study recommends targeted adjustments of the salaries to the inflation rate, encouragement of savings through appropriate taxation instruments, development of income diversification and micro-finance, and increase of subsidies on health care and social protection. They are intended to reduce the level of monetary stress, improve employment security, and increase the financial stability of Kenya's middle class.

Keywords: Cost of Living, Income Security, Middle-Income Earners, Social Protection

I. INTRODUCTION

Essentially, income security and cost of living are essential to analyse financial stability because of the dilemma many retirees and low-income families face. Social security is the main source of income for most retired workers although, the level of income received depends on the level of earnings attained, years of work, breaks in work and laws and regulations that govern the provision of social security. Women and minority employees confront numerous obstacles arising from salary or wage differences, longer life expectancy and little cost-of-living adjustments especially in expensive zones (Favreault et al., 2015). Likewise, low-income earner families experience rising living costs and challenging choices between needs and well-being, especially due to austerity measures that minimise welfare entitlements (Pemberton et al., 2017). Debt is central to the dynamics of adjustments that households make in response to earnings shocks; a household with high leverage has little fiscal space and middle-income groups are most stretched (Baker, 2018). This shows that baseline cash resources combined with savings or credit access may help households to manage losses underlining the need for availability and effective microinsurance and safety nets. To tackle these challenges connected in the sense that initiatives for cost-of-living adjustments changes should be accompanied by improvements in pension plans availability, welfare support and financial literacy, it is necessary to design the reforms.

Realisation of income security and cost of living remain hard to achieve especially in low-middle income countries because of health issues, ageing population and structural fixed constraints. Thorpe et al. (2022) also respond to the economic burden of ill health that reduces economic productivity and increases health costs, leading to informal strategies like borrowing or drawing down assets that increase poverty in households. Gildner et al. (2019) highlight the fact that perceived income adequacy is imperative for ageing populations and that restricted pensions and higher costs of living increase financial strain and decrease physical and mental quality of life. Also, Walsham et al. (2019) show that people with disability experience multiple layers of financial vulnerability, low workforce participation, and meagre social protection mechanisms. According to Badiane and Makombe (2015), Africa's economic growth can be seen as insufficient when it comes to ensuring income security due to the structural factors and high costs of living in urban areas. Altogether these studies underscore the need for policy-focused and structural measures that reduce the burden of cost of living and increase social protection for the most needful individuals.

Income security and cost of living issues influence Kenya's middle class economically pulling them backwards in terms of standard of living. Writing for *The Guardian*, Kroeker (2019) notes that basic living expenses in urban areas such as housing, health, and education costs dominate most household expenditures leaving little or no provision for the future. As much as the middle class is perceived to be stable to economic shocks middle-income earners lack proper formal social security nets and rather look to informal social protection mechanisms like saving and borrowing groups and family anchors which are inadequate for long periods of stress. Such a situation of experimentation means weekly or monthly struggles between meeting needs here and today or taking care of preventive health or education for the benefit of the future, as Onyango (2018) has suggested on the relationship between income security and health and well-being. In the same regard, Wekullo et al. (2018) laudably caution that the absence of income security affects human development through constraints in access to basic services due to increased living costs and the absence of social protection. Combined, these works call for an integration of reforms that relate to job creation through social protection, health insurance and vouchers to support other services in the context of economic stability with a focus on Kenya's development.

1.1 Statement of the Problem

The poor are most affected by income security and by the soaring costs of living especially for the retired population, those on low income and middle class. Social security which is an important source of income for retirees is, however, often inadequate because of differences in lifetime earnings, employment breaks, and small cost-of-living allowances (Favreault et al., 2015). There, due to increased living costs and a scarcity of welfare benefits, low-income households had to trade food to get well. This experience is witnessed in Kenya, middle class' expenditure with the high costs affiliated with urban life where Kenya lacks adequate formal social security nets (Kroeker, 2019). Women and people with disabilities, ageing and other vulnerable populations experience inadequate universal welfare provisions (Walsham et al., 2019; Gildner et al., 2019). These problems pointed to the need for simultaneous adjustments where there is integration of clearer social protection, selective cost of living adjustment and health and pension reforms for improvement of financial stability.

1.2 Research Objective

To determine Income Security in relation to the current cost of living among middle-income earners

II. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Maslow's Hierarchy Theory

Maslow's Hierarchy of Needs is valuable for evaluating the interaction between the concept of economic security and human psychological development in emerging economies like Kenya. The continued conflict of economic barriers to individual agency is complemented by this hierarchical model in articulating the complex nature of existence and success (Wahba & Bridwell, 1976). In this context, recent empirical work shows that economic insecurity regresses an individual back to the most basic psychological needs stages with survival requirements subverting other psychologically related developmental endeavours (Oishi & Diener 2014). In Kenya, this phenomenon is especially evident due to systematically rooted, large-scale economic difficulties that largely hinder both single human persons' and an entire nation's psychological health.

An examination of the Kenyan economy brings out the empirical uninteruptible manifestation of the hierarchical constraints proposed by Maslow: the physiological and safety needs are recurrently predominant to the exclusion of social and self-actualization needs. National economic indicators substantiate this theoretical perspective: Youth unemployment rates ranging from 35% and inflation 6-9% are conditions that challenge the economy and deprive people of their potential (Government of Kenya, 2022). Recent economic appraisals by the World Bank (2023)

underscore the fact that 36.1 % of the Kenyan population exists below the national poverty line. These structural problems render economic existence into a state of mind where individual initiative is constantly threatened by archetypal economic constraints.

Policy interventions need to intervene in ways that address both infrastructure developments which are rooted in the economy and psychological development wants. Modern studies have pointed out that among the development approaches that can be learned from and implemented with regard to the minimisation of the psychological consequences of economic instability are condensed educational opportunities, maintenance of sustainable employment, and all-encompassing social protection (Sen, 1999). The United Nations Development Programme's human development approach highlights lifting the blinders on how we approach economic development by focusing on capacities and opportunities that matter (UNDP, 2020). When it is realised that economic security is not simply the absence of destitution or fiscal success, but the enablement of human psychological potential, policies can be harnessed that correspondingly inspire whole human and societal development.

2.2 Empirical Review

The issue of income security of middle-income earners portrays the current social-economic worries in most Western societies. Recent extensive research conducted by Kochhar (2021) pointed out that the middle-income population of developed countries is facing huge challenges in terms of economic status and income, which has not increased significantly over the past despite the rising costs of living. Bluestone and Harrison (2020) show that despite monumental advancements in the productivity rate, and cost of living in the United States, real wages have stagnated since the 1970s. Furthermore, the Organization for Economic Cooperation and Development [OECD] (2022) used different classifications to conduct a multinational analysis and found middle-class people in developed countries like the United States, United Kingdom, and Canada; are seeing their purchasing power erode due to excessive increases in housing costs, health expenses and education costs; which are growing at about the rate of 15-22 percent in the last decade about their income. Indeed, the decrease of strictly material economic security is most keenly felt by the younger cohorts of the middle class, who find themselves burdened by student debt, forced into precarious work, and shut out from the socio-economic pathways through which the material base of the class was traditionally constituted.

The provision of income security for middle-income earners in the African countries of the study gives rise to a complex economy. Another report by the African Development Bank (2021) revealed that the levels of income insecurity have differed across African countries and have worsened in South Africa and Nigeria, inter alia. Shimeles and Nabena 2019 found that those earning middle wages in Nigeria, South Africa and Ghana are continually experiencing economic insecurity, with inflation rates as well as the costs of basic goods and services rising much faster than increases in wages. The study showed that middle-income earners in these regions spend about 60-70% of their income on goods and services while their global counterparts spend only 40- 50% of their, income on basic needs (Shimes & Nabena, 2019). Continued economic instability –most apparent in exchange charge volatility, weak social security provisions, and erratic economic regulations –wrinkle income security for middle earners across the continent.

Income security and cost of living dimensions are mostly influenced by economic uncertainties and factors compounded by health issues such as COVID-19 in Kenya. According to Abdullahi et al. (2020), community-based activities including local savings for shocks and food security in the form of a basket were fundamental in reducing the impacts of the pandemic on the economic status of the affected households. These informal safety nets played a role in reducing costs due to job loss and living costs which impacted middle-income earners the most. The study also made it a point that due to financial instability; individuals were not willing to follow COVID restrictions due to the need to fend for themselves. Furthermore, the Kenyan middle class in low to middle-income households with 42% of the households in Nairobi and Mombasa struggling to make ends meet (Government of Kenya, 2022). In five years, the cost of living has increased by 28%, and income stagnated, increasing the overall levels of financial risks (Odhiambo & Mwangi, 2021).

III. METHODOLOGY

This study was conducted in the Kenya School of Management, Kabete campus. This study therefore used a cross-sectional descriptive research design which help in minimising bias and improving reliability by sampling at one particular time point. The study population was made up of the senior management students pursuing their Senior Management Course 405/2023. Lune and Berg (2017) explain that descriptive cross-sectional design enables flexibility and agility in terms of obtaining data from respondents. This helps in shortening the time of data collection hence increasing the reliability of the data. This approach was of particular help in collecting heterogeneous data from the senior management participants and also eliminated the bias that usually occurs in longitudinal studies.

The study targeted 65 senior management officers who included; government, private institutions, county governments and parastatals. The census method was used and all 65 senior management officers present were selected

to participate in the study. This study employed an online self-administered questionnaire which was accessible through Google Forms; the questionnaires were shared through the WhatsApp group and email. These forms were intended to make it possible to have one response per participant and comprised information concerning consent as well as completing the questionnaire. This method ensured data collection was easy, effective and could be easily administered. Reliability and validity were determined by conducting content validity through pilot testing and supervisor crosscheck.

The study used quantitative methods for data analysis. Quantitative data was coded, entered into an Excel sheet and analysed for numerical results. Findings were presented in charts. To maintain reliability, the study correlated the odd and even scores of the data collected. With regard to ethical considerations, participants' consent was secured and confidentiality upheld; minimal psychological risk to participants.

IV. FINDINGS & DISCUSSION

4.1 Response Rate

The study population comprised 65 students enrolled on a senior management course at Kabete Campus. Out of the 65 students, only 60 responded to the online questionnaire. Thus, the response rate can be computed as follows:

$$\text{Response rate} = \left(\frac{\text{Number of questionnaire filled and returned}}{\text{Total number of questionnaires distributed}} \right) \times 100\%$$

$$\text{Response rate} = \left(\frac{60}{65} \right) \times 100\% = 92.3\%$$

This response rate is within the acceptable limit and meets the data collection requirement.

4.2 Income Security

This section presents data on the income status of various respondents. The type of income examines whether the income meets the needs of the respondents through the saving culture and any additional sources of income. Figure 1 presents data on formal income.

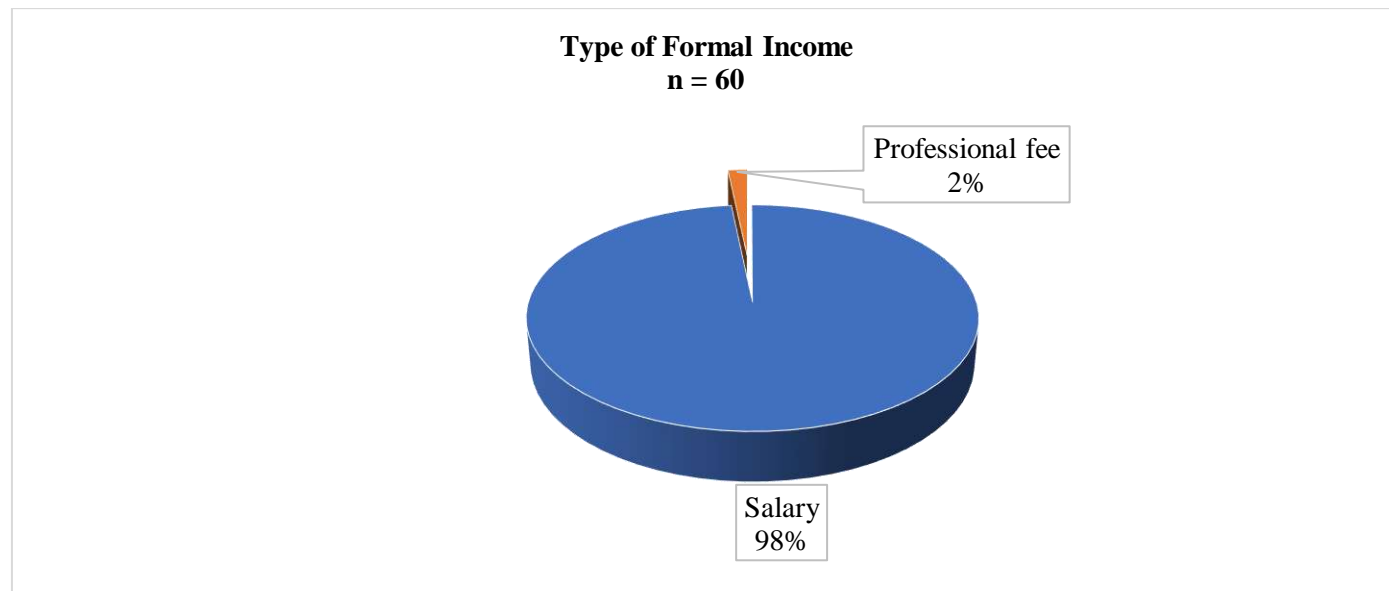


Figure 1
Type of Formal Income

In terms of earned income, the findings in Figure 1 show that respondents in this study depend on a formal income stream mainly sourced from salaries (98%) with just a handful relying on their professional incomes. A formal income is used as the main source with stability for 98% of respondent while 2% reported other incomes as being their main sources of income. This brings to bear the need for structured income especially for the middle-income earners to adopt formal employment as the central income financial management and planning.

These observations are in harmony with Kroecker's (2019) argument that middle-income earners residing in urban areas of Kenya rely greatly on salaries to cater for high costs of living thus implying little chance of saving or reinvestment in the future. However, the fact that 2 % of respondents work exclusively or have an additional source of income implies diversification, which might have been occasioned by the rising costs and stagnated wages. Similar to Abdullahi et al. (2020) who argue communities, such as savings, were part of many households' strategy to cope with financial risks during the COVID-19 pandemic. In addition, Maslow's Needs hierarchy gives an understanding of how

financial pressure in the form of official income limits people to basic physiological concerns, denying themselves other psychological pursuits.

This is evident from the results showing that respondents relied more on the formal income source. Still working under basic needs problems owing to inflationary effects and salary stagnation as revealed by Shimeles and Nabena (2019) among middle-income earners in African countries. This reliance also echoes observations made by Walsham et al. (2019) and Gildner et al. (2019) that in terms of employment options or social protection, households with weak income streams feel the pinch. Altogether these results underline the necessity to modify salary increases, social scenarios and accessible staking income sources to respond to the challenges of rising income insecurity.

4.3 Formal Income and Current needs in Relation to Current Cost of Living

Figure 2 shows the answers on whether the respondents had the ability to use their formal income to meet their current needs in relation to the current cost of living.

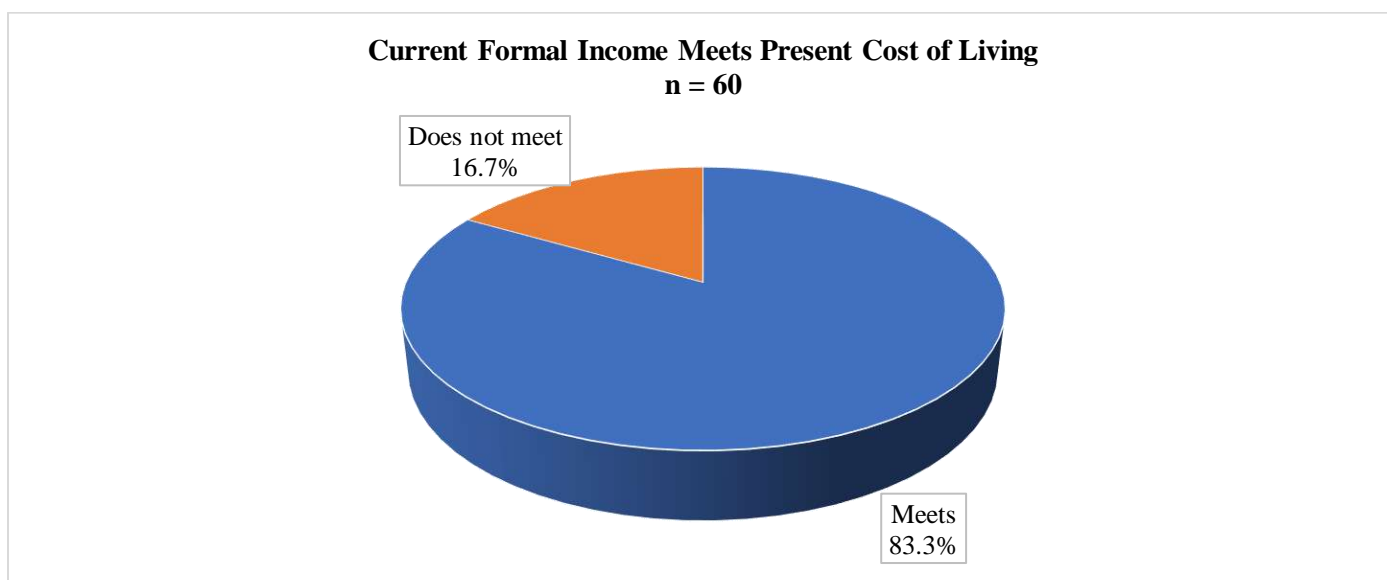


Figure 2
Current Formal Income Meets the Present Cost of Living

Findings in Figure 2 show that the overall majority of the respondents (83.3%) were unable to support themselves financially merely through formal income earnings, whereas only a minority (16.7%) of the respondents were capable of doing so. This sends a signal that while formal income remains a key income source for most people, it is inadequate to meet the increasing cost of living for many middle-income earners. It emphasises the increasing burden of the cost experienced by individuals, especially in the urban region where the costs of housing, education, insurance and healthcare take the largest share out of the income.

The above-mentioned findings corroborate Kroeker's (2019) study on urban Kenya where most middle-income earners are vulnerable because their incomes stagnate while urban expenses rise. The above findings are also supported by Shimeles and Nabena (2019) who observed that the middle-income earners in African countries spend large proportions of their incomes on necessities and hence are unable to save or even meet with an unexpected bill in the month. The lack of money to meet financial needs also reenacts the failure of formal sources of income to provide for the rate of inflation and the costs of living.

The findings provide a clear pattern that only income from formal employment is still inadequate to support the basic needs of the population, more largely implying that the respondents are economically vulnerable to inflation. This also corresponds to the study of Walsham et al. (2019) and Gildner et al. (2019) which inform about the economic vulnerability of the affected populations due to low earnings and the lack of social welfare provisions. The findings are also consistent with a similar study by Abdullahi et al., (2020) where it was also said that in the face of economic shocks, households use informal social insurance and other sources to address their problems. This phenomenon calls for more policies such as salary increases, a cost-of-living adjustment, and increases in middle-class social protection to stabilise Kenya's middle-income earners.

4.4 Make Savings from the Formal Income

The study sought to establish whether the respondents were making savings from their formal income. Figure 3 illustrates the findings.

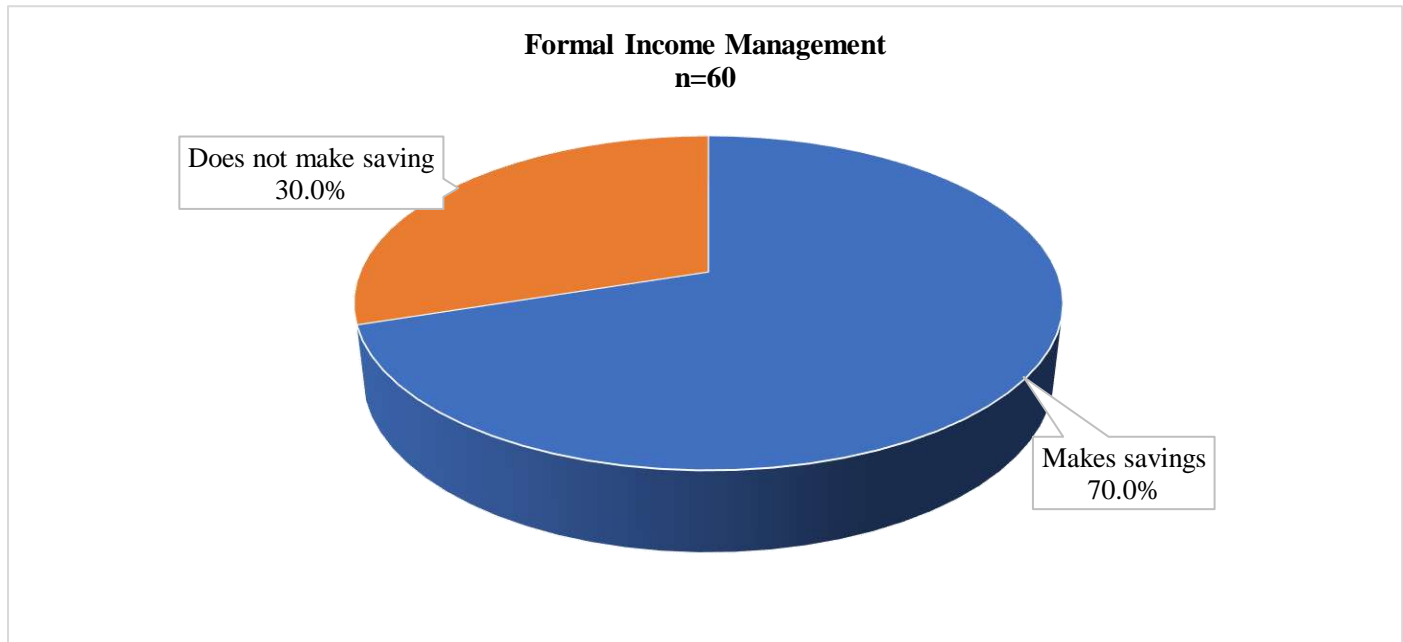


Figure 3
Management of Formal Income

The findings in Figure 3 represent a positive view of the attitudes towards saving because according to the results, 70% of the respondents saved part of their formal income while 30% of them did not save at all. This is a testimony that most working-class earners appreciate the need to save even with pressing financial constraints. Nevertheless, the option of having no savings at all is the reality of 30% of the population, which reveals a poor economic situation and the biggest challenge of having limited income capacity to meet rising costs.

These results are consistent with previous studies that showed a dilemma that middle-income earners encounter when choosing between current consumption and future saving. Shimeles & Nabena (2019) have argued that the high number of middle-income earners in Africa direct a significant amount of income towards basic needs and thus cannot save much. Likewise, according to Kroecker (2019), Kenya's urban middle class faces major difficulty in saving for the future because necessities are dearer, and wages have stagnated. The remaining 30% may consist of people who do not save at all, and who may not have the flexible budget to allow for saving as well as investments on the side.

There is a recognisable trend; amassing funds is essential to 70% of the participants, regardless of economic constraints. However, as noted 30% have no savings which highlights latent weaknesses in the middle-income earners given that they are either living from paycheck to paycheck or are likely to be devastated by certain financial risks. This agrees with Abdullahi et al. (2020), who argued that economic fluctuations make people stay without saving for rainy days or using etiquette savings. Further, Walsham et al. (2019) and Gildner et al. (2019) noted that centrality, coupled with insufficient pathways to save income increases the stress level making the household helpless in constructing a buffer. These results highlight the need for policies that raise income adequacy and facilitate appropriate saving instruments that enable middle-income earners to secure both present and future income streams.

4.5 Have an Additional Income to Complement Formal Income

Figure 4 illustrates respondents with alternative income that complement their formal income.

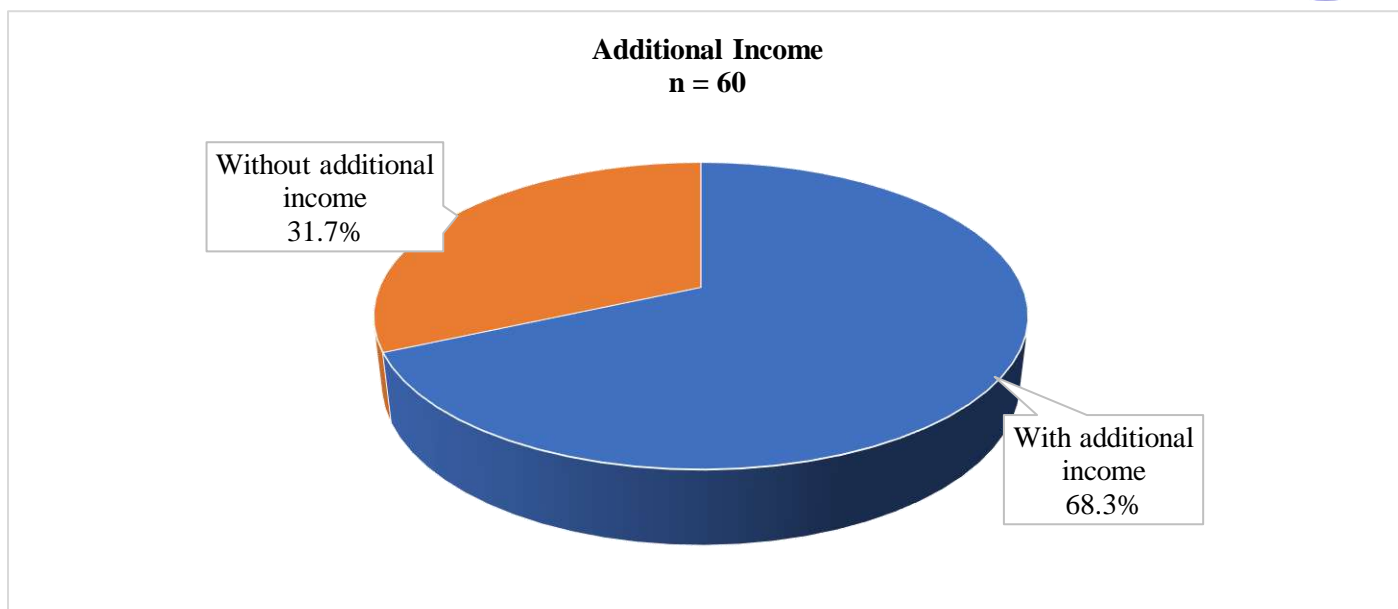


Figure 4
Additional Income to Complement Formal Income

Figure 4 shows that while a percentage of 68.3% depended on other sources of income for current needs, 31.7% had no other source of income. All these point to the fact that right through middle-income earners, there is relatively higher demand in terms of the ability to meet various financial demands that arise. This informs the fact that many of these earners must consider other sources of income. On the other hand, the minority who loses additional income undermines only relying on formal income which most of the time is insufficient to manage increasing costs of living.

These results are similar to Abdullahi et al. (2020), who noted that following financial shocks and increasing expenditures, households inevitably resort to non-formal forms of savings and/or additional employment. This also supports Shimeles and Nabena's (2019) finding on expenditure trends on basic needs by middle-income earners in African countries which revealed that they spend most of their current income on basic needs and hence require more than one source of income for any stability. To the 31.7% that had no more sources of income, this could mean that they lacked the time the skill, or the opportunity to look for sources of income that would enable them to cushion themselves against the ravaging economic situations.

The pattern reveals a significant focus on the variations in income sources by middle-income earners about integrated income sources, and commission on economic fluctuations as significant contributors to the financial achievements. This concurs with Kroecker (2019) who notes that most middle-income earners who are formal employees in Kenya are resorting to informal sources of income due to the inability to earn better incomes in the form of formal employment. In the same regard, other authors like Walsham et al. (2019) and Gildner et al. (2019) observed that most people are unable to access adequate social protection or limited income security, and have to rely on other survival strategies. The discoveries advocate for structures that may foster income-increasing opportunities, sufficiently remunerate middle-income earners and advance cheap instruments of safety net, guaranteeing middle-income earners to manage the economic pressure.

V. CONCLUSIONS & RECOMMENDATIONS

5.1 Conclusions

The respondents rely on formal income earnings while the amounts earned are inadequate to meet their needs. The majority save from their formal income, but some do not save money emphasizing economic risks. About two-thirds depended on extra earnings, signifying the need for income diversification. These patterns show substantial levels of economic pressure among middle-income employees, stressing the importance of promoting equities aimed at advancing wage rates, ensuring better income stability and promoting saving earnings and income diversification policies for relieving middle-income earners' economic stress.

5.2 Recommendations

The study indicates that an input for proactively improving income security for middle-income earners. This Study recommends that policymakers focus on salary adjustments so that salaries can meet the current inflation levels and cost of living. At the same time, convenient forms of saving, promoting the public and profit-shares, tax-efficient

undertakings and employer-matching contributions can facilitate the culture of savings. Diversification of income, therefore, by skills development and supporting small businesses and microfinance and low interest rates will reduce formal income dependence. That is why enhancing social spending, like health care and education subsidies, has to be continued to lessen the burden of cost.

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