PLANNING FOR RETIREMENT IN THE PUBLIC AND PRIVATE SECTORS IN NIGERIA

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Abstract

This paper examines the various Pension Reform Acts in Nigeria from the pre-independence to the present day. The paper notes that an employee spends an average working years of 30 to culminate in retirement. It explains that for one to have a comfortable standard of living on retirement, both the employee and employer must agree for monthly deduction from the former's salary and complemented by an equivalent sum payable by the employer as from the point of service engagement. The paper finally recommends the engagement of reliable, trusted and honest pension fund administrators for proper management of the pension scheme in the public service and private sector in Nigeria.

Introduction

Planning is defined by Weihrich and Koontz (2003) as the examination of the future of a subject-matter, deciding what needs to be achieved and then developing a plan of action towards actualizing the objective. Retirement on the other hand, is seen by Robinson and Davidson (2006) as the act of someone stopping work permanently usually on reaching an age at which a pension can be received.

From the foregoing definitions and explanations, planning for retirement can be seen to mean the definite steps taken by an individual in preparing for a post-working phase of his life. Indeed, reports have shown that the average working years of an individual start from age 30 up to age 60. If one is to have a comfortable standard of living on retirement, planning should commence as soon as one engages in employment. A range of areas through which the worker can plan for a comfortable retirement shall now be discussed.

Pension Scheme in Nigeria

In Nigeria, the first pension scheme was the Pension Ordinance of 1st January, 1946 (Ahmed, 2006). This was replaced by the National Provident Fund through the National Provident Fund Act, 1961. In 1993, Nigeria Social Insurance Trust Fund (NSITF) created by NSITF Act of that year took over the functions of the National Provident Fund. According to Banjo (1995), the Acts that established these schemes made it compulsory for employees and employers in the private sector to contribute to the fund while public sector pensions were fully funded by government. While the private sector pension schemes could be said to be fairly efficiently operated, those of the public sector became nightmares for the pensioners. Many were reported to have collapsed and given

up the ghosts in the process of waiting on long queues to collect meagre pensions. These and other problems led to enactment of the Pension Reform Act, 2004 which established the New Contributory Pension Scheme.

The New Contributory Pension Scheme

The new scheme is fully contributory, privately managed and is based on individual accounts. It ensures that pension payments are made as and when due, just like salaries thereby making it more sustainable.

Contribution to the Scheme

The scheme which is compulsory requires that employees and employers in the public and private sectors contribute a minimum of 15% (7.5% each) of the worker's monthly emolument to the employee's Pension Fund Administrator for the credit of the employee's Retirement Savings Account. For employees in the Armed Forces, they contribute $2^{1/2}$%, while the Federal Government contributes $12^{1/2}$%.

Access to the Retirement Savings Account (RSA)

The Pension Reform Act, 2004 requires that an employee can only have access to his pension fund upon retirement. At retirement he can withdraw a lump sum from the balance standing to the credit of his RSA. Under the new scheme, no gratuities are paid, but a 50% limp sum withdrawal is allowed. The balance in the account is used to fund a monthly pension payment to the employee for the remaining part of his life.

Life Assurance

The Life Assurance Policies have retirement benefit attributes hence it is discussed as a form of retirement savings scheme for retirees.

Endowment Life Policy: Under the policy, the insurance company agrees to pay the sum-assured (sum agreed in the insurance contract) to the policy holder when he reaches a particular age or if he dies before the age (Kanu,2003). For example, if a person at age 30 takes an endowment policy of N10 million for 25 years, he would be paid the money when he reaches age 55. He can use the N10 million to make financial provision for himself at old age.

Retirement Annuity: An Annuity is a special form of Life Assurance Policy in which the retiree (annuitant) pays a lump-sum of money at retirement to a life assurance company. In return the Life Assurance Company undertakes to pay the retiree a monthly amount called annuity for a specified period or for the remainder of his life. A Retirement Annuity can be regarded as a life Assurance Policy in the reverse.

Revell (1975) in Akeni (2006) states that in Annuity a lump-sum is paid for the right to receive a stated income periodically till death. When a worker is retiring from employment and he is paid entitlements, it is advisable that he uses a good percentage to procure an Annuity.

Investment in Stocks and Shares

A lot of income and other benefits can be realized through investment in stocks and shares. Shares are paper commodities and ownership rights in a company. The Stock Exchange, an important member of the capital market, provides facilities for the purchase and sale of stocks and shares. Ross, Westerfield and Jordan (2002) define a Stock Exchange as an organized market with physical location and facilities for trading in stocks and shares through professional intermediaries known as stockbrokers.

Stated below are areas through which an individual can be empowered through stocks and shares.

Stag Investment: According to Butler (1997), a stag investor is one who buys new issues in the hope that the price would rise higher than the issue price. From experience stags know that the prices of many shares on public offer rise shortly after the offer has been concluded. They can sell when the prices have appreciated and make much capital gains.

Shares Prices Appreciation (Rise): Shares should not be bought and held onto, because fortunes are made through trading on them. The general maxim in the purchase and sale of stocks and shares is to 'buy low and sell high' (Akeni, 2007). This means that shares should be bought when the prices are low and sold when the prices are high, because share prices follow the normal business cycle of lows and highs. For example, if an investor buys a share at N50.00 and the price rises up to N100.00, he should sell so as to make capital gain. If he fails to sell, the next stage would be a fall in the price and he could lose income.

Dividend Payments: Majority of investors purchase shares in anticipation of dividend payments. According to Van Horne and Machowicz (2005), dividend per share is the actual income received by a shareholder for that year. It is stated by the formula:

$$\frac{\text{Dividend Amount Declared}}{\text{Number of Ordinary shares.}}$$

If the amount of dividend declared in a year by a company is N20,000,000 and there are 1,000,000 shares, the dividend per share would be:

$$\frac{\text{N20,000,000}}{\text{1,000,000}} = \text{N20.00}$$

The total dividend to be received by an investor who owns 10,000 shares would be N200,000.00 from that company alone.

Rights Issues: In this, the existing shareholders are given first the opportunity to buy the new shares being issued (Sao, 1998). The prices at which rights issues are offered are normally lower than the prevailing market prices. It is an opportunity for existing shareholders to acquire more shares at lower prices and as such they scarcely allow it to slip by.

Bonus Shares: Bonus shares are additional number of shares issued freely to existing shareholder (Pandey, 2007). The effect of bonus share is to increase the number of shares that an investor has.

Collateral Security: According to Ogboghro (2006), share certificates are acceptable collateral securities when borrowing from the bank. If an investor has shares whose market value is N1million, and he is asking for a loan of N1 million, all he needs to do is to approach has banks, fill the necessary forms, deposit the share certificates and the N1 million loan or overdraft would be given to him. The certificate would be returned to him as soon as he pays off the overdraft or loan.

Provision for Dependants: Individuals make provisions for their dependants before death. Share certificates are veritable bequeatals for one's dependants. The certificates are transferable (assignable). Therefore, the dependants would start to reap the benefits of shareholding which include dividends, rights issues, collateral securities, etc.

Unit Trust Investment

Units Trusts are capital market institutions that mobilize funds from individuals and companies and invest them on their behalf (Ross, Westerfeld and Jordan 2002). Unit Trusts are managed by skilled financial experts, knowledgeable market researchers and are also specialist in stock market forecasts. Through their research they are able to channel investments into viable and lucrative areas (Akeni, 2007).

When dividends are received from companies in which the funds are invested, the income less operating expenses is shared among the unit trust holders. For an average investor, investment in Unit Trust gives him a spread of his money over many industries and companies.

Real Estates

These relates to landed properties owned by an individual. Investment in real estate is of prime importance because they appreciate in value continuously. An employee should endeavour to own at least a retirement building between

ages 35 and 60 years. The retirement phase in one's life is not the time to continue in paying rents to landlords.

Precautionary Measures

When an employee retires from his work between ages 55 and 60, he is deemed to have entered a new phase of his life. It is a period of philosophical reflection and stocking-taking. Some tips shall be given in this paper to make this period worthwhile.

Rigorous Business Pursuits: The retirement phase is not the best time to register new companies and start to 'hussle' or pursue contracts, because at this stage, the stamina may not be there. If, however, the employee is interested in the business ventures, he should not be in a hurry to jump into it. He should watch the environment and economy between 3 and 6 months before taking an action.

Smart Alecs: A retiree should beware of smooth talking individuals who would offer him very attractive, but bogus business plans. Remember that all that glitter is not gold.

Financial Prudence: A retiree should be meticulous and prudent in his financial management because, any extravagancy would have adverse effect on his pension income.

Medical Check-Ups: Medical experts are of the opinion that at age 40 and above, individuals have to visit their doctors regularly. On retirement, therefore, the retiree should dutifully visit his doctors at least once a month.

Wills: In other to avoid disputes as to who benefits from a deceased man's property, it is proper for the owner to prepare a will. Butler (1997) states that a will is a document giving directions as to the disposal of a person's property after death. It has no effect until death. A retiree, if he has no will should therefore prepare one.

Recommendations

On the basis of the explanations contained in this paper, the researchers recommend:

That pension deduction scheme should commence as soon as employee engages in employment.

That employer of labour should appoint reliable, trusted and honest pension funds administrators knowledgeable in funds investment and management.

Workers in addition to the new contributory Pension Scheme should also hold Life Assurance Policies and embrace Retirement Annuities.
Investment in shares and real estates should not be over-looked.
Precautionary measures such as rigorous business pursuits, being victims swindlers, and financial extravagance should be watched at retirement.
The issues of regular medical check-ups and preparation of will should not be over-looked.

Conclusion

Planning and retirement are concomitant. Areas through which the worker can plan his retirement were highlighted and explained. Precautionary advice were also given to guide the retiree. The authors are of the opinion that if the issues discussed here are adhered to, that the retiring worker would have a pleasant, fulfilling and relaxed retirement life.

Retirement without planning is likely to result in total failure at the point of retirement. To overcome this problem, workers' and employers' contribution to the Pension Scheme should be properly managed so that employees who have retired from service should be paid their pension without suffering.

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