EFFECT OF INFLATION OR DEVALUATION ON THE VALUE OF RETIREES' BENEFITS IN NIGERIA

BY

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Abstract
This research has investigated the effect of inflation or devaluation on the value of retirees' benefits in Nigeria because we believe there was need to explore welfare of retirees' and ensure that benefit are not devalue due to inflation. We administered a structured questionnaire to participant to obtain our primary data. The data collected was analyzed using and regression analysis. The results based on our findings suggest that the new PRA 2014 should be fully implement section 4(1) by the federal and state governments pay attention on investment opportunities as prescribe be the ACT in section 85 to avoid the effect of inflation.

Keywords: Pension Reform, Retirement Benefits, Gratuity, Retirement Savings Account

INTRODUCTION
In general, a pension is an arrangement to provide people with an income when they are no longer earning a regular income from employment. It is a tax deferred savings vehicle that allows for the tax-free accumulation of a fund for later use as a retirement income. Pensions should not be confused with severance packages; the former is paid in regular installments, while the latter is paid in one lump sum. Pension, according to Williams (1997) is the totality of planned procedures and legal process of security and setting aside of funds to meet the social obligation of care which employers owe their employees at retirement or incase of death. A pension created by an employer for the benefit of an employee is commonly referred to as an occupational or employer pension. According to Okotoni and Akeredolu (2005), the purpose of occupational pension scheme is to provide employees regular and stable income after their retirement from service. They said 'it is an arrangement an employer or a group of employers' use(s) 'to provide pension benefits for their employees when they leave or retire. They went further to say that 'these schemes are usually funded by contributions from just the employer, or from both the employer and the employees.' Labour unions, the government, or other organizations may also fund pensions. Occupational pensions are a form of deferred compensation, usually advantageous to employee and employer for tax reasons. Many pensions also contain an additional insurance aspect, since they often will pay benefits to survivors or disabled beneficiaries. Other vehicles (certain lottery payouts, for example, or an annuity) may provide a similar stream of payments.

Funds are paid at regular intervals to the employee to enable them cope with life after retirement. This equally grants an employee the choice of maximizing his pension. Pension maximization refers to a strategy for choosing a payout option at the time of an individual's retirement. Employees near retirement age may be faced with a rather difficult decision when presented with the retirement plan payout options. Most pension plans will offer the participant at least two common payout options: single-life payout or joint-life payout. Under the single-life payout, your pension check will be higher - but it stops at the time of your death. Under the joint-life payout option, the pension check will be smaller - but it continues to pay even after your death, to your spouse. So, if your spouse outlives you, he/she will continue to receive your pension check until their death. These payout options are very common in developed countries like the United States.

The terms retirement plan or superannuation as it is commonly called in the U.S.A refers to a pension granted upon retirement. Retirement plans may be set up by employers, insurance companies, the government or other institutions such as employer associations or trade unions. They are more commonly called pension schemes in the UK, Nigeria and Ireland and superannuation plans in Australia and New Zealand. Retirement pensions are typically in the form of a guaranteed life annuity, thus insuring against the risk of longevity (Wikipedia, 2010).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

LITERATURE REVIEW

Dostal and Cassey (2007) argued that the Nigerian Authority saw the Chilean reforms (Chilean model) to be emulated and copied. But she failed to learn the lessons of Chile. In fact, at the time Nigeria was coping, Chile was preparing for an alternative social pension scheme. Again while the Nigerian government was beginning to give serious attention to pension reform (using the Chilean model) in early 2005 the Chilean model was being criticized by supporters of the scheme and the World Bank had come to conclude that the Chilean reform model has not delivered the benefits that it was set out for from the beginning because of the too many assumptions made. Therefore, it was advocated that to realize the claims, other reforms were also required to complement or precede pension reforms (Gill, Packard and Yermo, 2005, Holz and Hinz, 2005, World Bank 2005).

Similarly, the Chilean government announced wide-ranging changes to the pension provision since 2006, placing greater emphasis on solidarity and tax financing and higher controls on the operations of the individual accounts to which employees are subscribed (Gobierno de Chile, 2000). Again the World Bank has claimed that it advised against the establishment of a "multi-pillar system" in Nigeria on the grounds that the financial sector was insufficiently developed (World Bank, 2005). Notwithstanding the reforms undertaken in Nigeria was radical, involving the setting of a new basis for determining pensions and the establishment of new delivery structures.

DIVISIONS OF THE PENSION SCHEME AND OPERATION OF THE NEW CONTRIBUTORY PENSION SCHEME

Pension scheme is broadly divided into the defined contribution plan and the defined benefits plan. In defined contribution plan, a contribution rate is fixed. For instance, in Nigeria an employee contributes 8% of his monthly emolument while the employer also contributes 10% or more depending on the category of employee. The retirement benefit is variable depending on the performance of the investment selected. In defined benefit plan, the retirement benefits is stipulated usually as a percentage of average salary, but the contribution will vary according to the percentage of the average compensation a participant receives during his or her three earning years under the plan (Owojori, 2008). Basically, the two pension plans create very different investment problems for the plan sponsors. While the defined benefit plan creates a liability pattern that must be anticipated and funded, the defined contribution plan creates a liability only as long as there is investment at any point in time. Investment is often left to the people who benefits from the decision or suffers from the consequences (Anthony and Bubble, 1997).

This new pension scheme is contributory, fully funded, privately third party custody of the funds and assets and based on individual accounts. It ensures that everyone who has worked receives his/her retirement benefits as at when due. The new pension scheme covers all employees in the public service of the Federation, the Federal Capital Territory and the private sector of the economy. The only exceptions are the existing pensioners, employees who have 3 years or less to retire and the categories of persons covered by the provisions of section 291 of the Constitution of Federal Republic of Nigeria 1999 are exempted from the new pension scheme. Any employee with more than 3 years to retire comes under the new pension scheme PRA 2004 repeal by PRA 2014.

After ten years of the contributory pension scheme, the scheme is mandatory for all categories of employers and employees covered under the Pension Reform Act 2014. An employee shall make monthly contributions of a minimum of 8% of the total of his/her monthly emoluments (i.e., monthly basic salary, transport allowance and housing allowance) into his RSA. The employer shall also contribute a minimum of 10% of the employee's monthly emoluments towards the retirement benefits of the employee. An employer can as well make all the contributions on behalf of the employee without making any deduction from the employee's salary except that such contribution by the employer shall not be less than 18% of the monthly emoluments of the employee.

Every employee or contributor under the new pension scheme is expected to open Retirement Savings Account in his/her name with a Pension Fund Administrator of his/her choice into which all his/her contributions and returns on investment are paid. The RSA is similar to a bank account except that no contributor can withdraw money from the RSA before his/her retirement. The PFA is required to invest the money and issue statements of account at least once every quarter to the contributor. Pension contributions are paid directly to the Pension Fund Custodian to be held on the behalf of the PFA. Movement from one employment to another does not affect pension under the new scheme. The reform has removed the bottleneck associated with transfer of service from one organization or sector to another, especially with regard to qualification for pension and the sharing formula for payment of pension as between employers. There is no merger of private sector pension with that of the public sector pension since the sources of funding are not the same. However, both are now being regulated under the same rules and regulations.

Most of the old pension schemes were not fully funded. Therefore, upon retirement, there were no ready funds to pay the pensioners. The new pension scheme is fully funded. Money is contributed into individual employee's Retirement Savings Account (RSA) and when he/she retires, there will be money in his/her RSA to pay his pension. A fully funded pension scheme exists where pension funds and assets match pension liabilities at any given time. Private sector pension schemes will also be allowed to continue provided if there is evidence to show that the pension scheme is fully funded at all times, any shortfall made up within 90 days, pension funds assets are segregated from the assets of the employer/company, the pension funds assets are held by a licensed Custodian and the scheme is specifically approved by the National Pension Commission.

TRANSITIONAL ARRANGEMENTS FROM THE OLD PENSION SCHEME (DBS) INTO THE NEW PENSION SCHEME (CPS)

The retirement benefits of an employee who is already under a pension scheme existing before the commencement of the new pension scheme has right to accrued retirement benefits for the previous years he/she has been in employment is guaranteed by the Pension Reform Act 2014. In the case of the public service of the Federation and the Federal Capital Territory, where pension scheme was unfunded, the right would be acknowledged through the issuance of a "Federal Government Retirement Bond" to such employee. The bond will be redeemable upon retirement of the employee. The Federal Government has established a Retirement Benefits Bond Redemption Fund Account in the Central Bank of Nigeria. The Federal Government is already making a monthly payment into the Fund of an amount equal to 5% of the total monthly wage bill payable to all employees of the Federal Government and the Federal Capital Territory. In the case of funded pension schemes in the public service of the Federation and the private sector, employers shall undertake actuarial valuation of the employee's accrued benefits and credit the Retirement Savings Accounts (RSAs) of its employees with such funds and in the event of any deficiency, the shortfall shall become a debt and shall be treated with same priority as salaries owed. In case of change of job, the RSA remains with the PFA of your choice for as long as you want. You simply notify your new employer of the details of the PFA that manages your account and thereafter your contributions will be sent to the custodian of the PFA. The employer shall also issue a written acknowledgement of the debt and take steps to meet the shortfall. Pension Boards in the private sector existing before the coming into force of the Pension Reform Act 2004 will continue to administer the pensions of the existing pensioners and the National Pension Commission will supervise such boards. In the public service, Pension Departments have been created to carry out the functions of the relevant pension boards or offices in the public service of the Federation and Federal Capital Territory with a view to making regular and prompt payment of pension to existing pensioners. Where an employee that has more than 3 years to retire decides to retire now. An actuarial valuation of his/her accrued retirement benefits will be made and the amount plus his contributions to date will consist of his/her retirement benefits in his/her RSA which can only be accessed at the age of 50 years. Withdraws from the RSA will depend on the professional advice of the PFA having regard to the provisions of the Pension Reform Act 2014 which provides for lump sum withdrawal, programmed withdrawals or purpose of annuity. Any company operating a defined benefit scheme that is desirous of continuing the scheme must, in addition to satisfying other conditions specified in the Act, open

RSAs so that the pension funds can be held by a custodian. Computation of the accrued pension rights to be credited to the RSAs shall be done by actuarial valuation.

Hypothesis Development

The problems that have bedeviled the Defined Benefit Scheme that existed in Nigeria have made it increasingly unsustainable, as it is with the rest of the world. It is for these reasons of increasing public expenditure/huge deficit, arbitrary increases in salaries and pensions as well as poor administrative structures, that the need for pension reform became inevitable. The problems were further aggravated with the constant political manipulation, besides non-payment of pensions for several years, which greatly lowered the welfare of retirees. Even the promised benefits were often inadequate due to rampant inflation against which pensioners had no protection, coupled with inaccurate record keeping that gave opportunities for corruption. One key problem was the lack of adequate funding.

Objectives Of The Study

The study generally sought to find out whether the contributory pension scheme has had any significant effect on the welfare of retirees from the selected Federal establishments in Nigeria. Specifically, the study is designed to:

1. Identify the challenges facing Contributory Pension Scheme.
2. Examine the effect of Contributory Pension Scheme on the welfare of Nigeria retirees.
3. Examine the effect of inflation or devaluation on the value of retiree's benefits.

Research Questions

In view of the research problem identified above, the following questions were addressed in the course of the research.

1. What are the challenges facing the Contributory Pension Scheme?
2. What are the effects of contributory pension scheme on the welfare of Nigerian retirees?
3. Does the Contributory Pension Scheme been able to ensure that value of retirees' benefits is not eroded by inflation or devaluation?

Statement of Hypothesis

In pursuance to the research, the following hypotheses were tested:

Hypothesis I

H0: There are no challenges facing the Contributory Pension Scheme.

H1: There are challenges facing the Contributory Pension Scheme.

Hypothesis II

H0: Contributory Pension Scheme has not improve the welfare of Nigeria retirees

H1: Contributory Pension Scheme has significantly improved the welfare of Nigeria retirees.

Hypothesis III

H0: Inflation or devaluation do not have any effect on the value of retiree's benefits.

H1: Inflation or devaluation have significant effect on the value of retiree's benefits.

a. Data and Methodology

b. POPULATION, SAMPLE SIZE AND SAMPLING TECHNIQUE

Population here refers to the aggregation of survey elements which is specific and delineative from which survey sample is actually selected, (Mojekwu, 1996). Population is sometimes referred to as the universe, and it is defined as the entire group whose characteristics are to be estimated. This is the total number of retirees from the establishments chosen for the study. The figure was arrived at from the available records of the establishments, i.e. Ministry of Agriculture and Natural Resources with 500, Ministry of Trade, Industry and Investment, 528, Ministry of Education, 400, Ministry of Youth Development, 1066 while the Ministry of Works and Infrastructure has a total of 971 retirees obtained from their pension units.

This study does not intend to use the entire population but, a sample will be utilized for the purpose of generalization. A sample therefore is a smaller group of elements drawn through a definite procedure from a specified population, and the elements making this sample are those that are actually studied.

a. **Model Specification**

The regression equation model is expected to follow the form:

$Y = Ax_1 + Bx_2 + Cx_3 + Dx_4 + E$

Where Y = the dependent variable (contributory pension scheme)

$x_1 \ldots x_4$ are the independent variables (longevity, improved welfare, improved public-private partnership and savings)

A, B, C, D are coefficients and E is the Constant term within the model.

b. **Method Of Data Analysis**

Data extracted were presented using Bar charts. The interceptions and verbal arguments were based on the general characteristics of data contained in the tables. All hypotheses were tested using the regression analysis to best explain the relationship between the impact of pension reform ACT (2014) and the welfare of the retirees in Nigeria.

Empirical Results and Discussions

Regression results present a model summary and estimate of the co-efficient of the predictors and their corresponding levels of significance.

Regression

Table 1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.660[a]	.435	.416	.6638	.435	21.794	4	113	.000

Source: Field Survey, 2014

a. Predictors: (Constant), longevity, improved welfare, improved public-private partnership and savings.

Going by the table above, it is seen that R- Coefficient of regression is 0.660, (R –ranges between -1 to +1). This is positive and high and shows that these predictors (longevity, improved welfare, improved public-private partnership and savings) are high correlated to contributory pension scheme. More so, this was found to be significant at 0.05 levels of significance with returned p-value of $0.000 < 0.05$. This also implies that increases in value in these factors will lead to corresponding increases in retirement benefits. The R-Squared of 0.435 in model shows that the model of these factors explains 43.5% of changes in retirement benefits. This is fairly predictive and means that a 56.5% of variations in retirement benefit is outside the scope of the model.

TABLE 2 PRESENTATION OF MODEL COEFFICIENTS

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.042	.399	-	.106	.916
Longevity	.266	.099	.254	2.690	.008
Improved welfare	.287	.142	.224	2.022	.046
Improved public-private partnership	-.206	.121	-.177	-1.699	.092
Savings	.574	.145	.433	3.960	.000

Source: Field Survey, 2014

Table 3 SUMMARY STATISTICS

	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Total Scale Mean 3.93

	Freq (%)	Freq (%)	Freq(%)	Freq(%)	Freq (%)	Total	Mean	Standard Deviation
he new contributory pension scheme encourage employees to think outside the box (outside traditional way of doing things)	2(1.7%)	7(6.1%)	7(6.1%)	68(59.1%)	31(27.0%)	115	4.03	0.86
he level financial security put in place by employer of labour encourage employees to give their best while in service.	0(0.0%)	6(5.1%)	15(12.7%)	50(42.4%)	47(39.8%)	118	4.17	0.84
ew pension reform encourages employeesto focus on what the problem is rather than whom to blame.	5(4.2%)	2(1.7%)	19(16.1%)	53(44.9%)	39(33.1%)	118	4.01	0.97
he new pension scheme assists improvident individuals to save towards old age (saving grows economy & deepens financial markets).	1(0.8%)	15(12.7%)	14(11.9%)	54(45.8%)	34(28.8%)	118	3.89	0.99
ew pension reform minimize employer use of power for personal gain	3(2.5%)	18 (15.3%)	23(19.5%)	48(40.7%)	26(22.0%)	118	3.64	1.07
nployer provide special attention to each employees needs for achievement	6(5.1%)	4 (3.4%)	16 (13.7%)	53(45.3%)	38(32.5%)	117	3.97	1.03
ew pension scheme as appeal to employees sense of pride, self-esteem and other intense motivation	5(4.3%)	2 (1.7%)	29(24.8%)	59 (50.4%)	22(18.8%)	117	3.78	0.92

Source: Field Survey, 2014

a. Dependent Variable: Measure of Retirement Benefits

Table 4.13 above presents the returned-Coefficients of the independent variables (longevity, improved welfare, improved public-private partnership and savings) with their significant levels.

The derived model is thus:

Y (Employee Performance) = $0.266X_1 + 0.287X_2 - 0.206X_3 + 0.574X_4 + 0.042$

CONCLUSION

The objective of this study has been on the establishing the extent to which the objectives of the contributory pension scheme have been achieved vis – a – vis its anticipated impact on retirees' welfare. Timeliness in payment may not be unconnected with determining welfare of retirees as pensioners would prefer their pay cheques handed to them at the point of exit from service.

The fact that the scheme professes its goal in ensuring that improvident individuals who have worked in the Public Service and private sector save to cater for their livelihood when they are no longer in the service elicited a huge reaction from respondents who do not see possibilities of that happening from a wage not big enough to meet their needs. Even though the study revealed that retirees agree that their savings habit had improved while in service, it was either as a result of the fear of the uncertainty of the scheme's future in the face of possible market failure. Or due to the fact that certain government organizations go as far as exceeding the expected ratio of contributions in favour of their staff. Furthermore, some organizations dictate to their staff which PFA to patronize as others allow theirs the freedom to choose from a range of other PFAs. As much as uniformity can be achieved in different ways it is important to note that fair treatment of retirees by ex-employers and PFAs cannot be compromised.

Sustaining the scheme from the market point of view is largely dependent on a virile financial system. This has been largely supported by facts from our literature. However, the sustenance of the scheme is not dependent on the strength of the financial system alone, but also on other factors like confidence in the government to keep promises (not diverting such funds meant for the scheme). It is however not surprising that with the current growth of over N11 trillion in the pension fund, the government is looking towards borrowing from the fund. If the government will service the loan and pay back as and when due, that would mean a lot to the scheme and consequently on the retirees' welfare.

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