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Effect of Pension Scheme Reforms on Pensioners' Standard of Livings in Local Government Councils in Oke Ogun Axis

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Abstract: *Pension funds had immensely contributed to the capital formations in Nigeria. These funds were used for investments (viable or unviable), the beneficiaries of the schemes were wallowing in the penury and their standards of livings become more deteriorated. In spite of various reforms introduced to the pension scheme the stories of pensioners remained the same. This study therefore examined the effect of pension reforms on pensioners' standards of livings in Local government councils within Oke Ogun axis, Oyo state, Nigeria. Survey designed was adopted using the primary data gathered through administration of questionnaires to one hundred and fifty pensioners selected from five local government councils within Oke Ogun using stratified sampling technique. Data were analyzed using multiple regression analysis. It was found that pension scheme reforms have significant and positive effect on pensioners' standards of living. Conclusively, pensioners were not adequately educated on the effect of the pension scheme reforms on their standards of living. It is therefore recommended that pensioners should be properly educated on various reforms relating pension scheme.*

Keywords: Pensioners, Pension, Reforms, Standards of Living

Introduction

Employees are entitled to various benefits. Among these benefits is pension. Pension is one of the motivating factors to enhance the high productivity, loyalty and discipline of the employees. In order to enforce this compulsory saving toward life after active service government designed various policies and schemes to improve the standard of living of pensioners after active service.

Experience and even literatures have shown that lives after active services have always proven unpleasant for pensioners even in spite of various schemes and frequent changes in pension reforms. These could be traced to various set back encountered by Pension schemes in Nigeria right from it in cession in 1951 till 2014. These problems range from inadequate fund, proliferation of ineligible pensioners on the payroll, poor management of pension fund etc. In order to address this, pension reform Act, 2004 was introduced (Umar and Tsado, 2012). Anazodo, Ezenwile, Chidolue and Chidinma (2014) opine that advent of Pension Reform Act, 2004 received massive support among employees and pensioners who witnessed limitations of the last reform Act. These lapses ranging from weak administration, lack of records keeping, corruption among others (Ohai and Awoyinfa, 2013). Pension Reform Act, (2014) followed suits of its predecessor scheme. There was loss of confidence in Pension Fund Administrators and Custodians, as many pensioners experienced delayed in payment of pension and the lives became more unbearable for pensioners. Omoni, (2013) traced the lapses of Pension Reform Act, 2004 to little or no awareness and uncertainty of the retirement years. In 2014 New Pension Reformed Act was introduced to alleviate the problem encountered the previous schemes, in spite of all these changes the standard of living of pensioners is not better off than while in active service.
This study intends to examine the effect of these constant changes in Pension Reform Act on the Standard of Living of Pensioners in Nigeria using the Oke Ogun Metropolis in Oyo State as a study.

Concept of Pension Schemes

Pension is a certain amount of money paid to an employee after active. Adam, (2005) describes pension as the sum of money paid by corporate organization and government to a worker after active service for certain period of time or when the work is ill or of age or assume retirement age. Pension is a contribution against future liabilities after retirement. Nwafor (2014) attributes pension to be in agreement with the Igbo wise saying "the firewood that one gathers in the raining season, one uses to keep oneself warmth during the dry season" It is aimed at providing workers with security by building up plans that are capable of providing guaranteed income to them when they retire or to dependants when death occurs (Fapohunda, 2013).

Pension Reform Act, 2014

Pension Reform Act, 2014 was introduced to repeal the Pension Reform Act,2004 to make provision for the uniform contributory pension scheme for both public and private sectors in Nigeria. This is applicable to all employees in the public service (Federal, States and Local Government) and private employment (PFA,2014). Employees under this Act are expected to contribute 8% of their gross emolument and their employers are expected to contribute 10%. This rate actually placed employers as major contributors to the scheme (Oyedele, 2014). The Pension Reform Act, (2014) was enacted in order to ensure prompt payment of benefits to pension beneficiaries and encourage employees to save in order to provide for their future livelihood during the old age.

Prospects of Pension Reform Act, 2014

Under Pension Reform Act, 2014, employees are now given privilege to select the Pension Fund Administrators of their choices. This gives opportunity to prospective pensioners to monitor their pension contributions even while in active service. Withdrawal can also be made from the pension contribution by the employee in as much he or she has reached the age of fifty years before retirement (PFA, 2014). Oyedele,(2014) opines that profit, dividends, interests on investments and other income accruable to pension funds are tax allowable expenses likewise the withdrawal made from the contribution is also exempted from tax if such withdrawal is made within five years. The returns on contributions within are the periods of five years are not exempted from tax except where the returns relate to interest on government securities. Pension fund is adequately protected with right given to pensioners to seek for redress from Pension Commission if aggrieved with employers or pension administrator before proceeding to National Industrial Court or arbitration.

Drawbacks of Pension Reform Act, 2014

Application of the Act to organizations either private or public with fifteen or more employees reduces the number employers and employees to be beneficiaries of the scheme. The personnel cost incurs by the employers will be at increase side and this may force the employers to downsize or rationalize the labour forces. The Act is also silent about the interpretation contributions of monthly emoluments. The definition is ambiguous. Monthly emolument could include all total or gross emoluments as described by the employment contract which is not other than employees' basic salaries and allowances. Another constraint on the application of the Act is the non specification of commencement date of the Act. This throws confusion on the timing of the Act. The burden of the contribution falls on the employers who may not have adequate time to plan and strategize (Oyedele, 2014). Nwafor (2013) views pension reform in Nigeria as parametric reform, this involves adjustments to the parameters of the pension systems, such as increase in retirement age, reduction in annual accrual factor, change in benefit indexation and increase in contribution rate. This shows that pension reform Act may experience the same problem of its predecessor.

Pensions Reforms and Standards of Livings of Pensioners

Commitment of workers to entity's goals is one of the critical success factors of the organization. This involves attitudes towards organization objectives (Nwosu and Agba, 2011). Dhameji and Dhameji (2009) opine that commitment that spurs employees to achieve set objectives organization is linked to motivation. Pension is one of motivating factors. Pension and other retirement benefits have effect on the commitment of employees. Nwafor (2014) opines that a good pension scheme influences how a worker will perform his job. Good pension scheme should guarantee better lives after active service and should help the employees to adjust properly into the society after retirement (Sule and Ezugwu, 2009). Olanrewju (2011) opines that pension schemes should contribute to total well beings of the retirees. In his investigation, he established that Pension Reform Act, 2004 had failed to contribute to social security of retirees at old age. Since retirement is a common destiny of employees, there should safe haven for employees after retirement (Omoni, 2013). Presentation of New Pension Reform Act, 2014 revives the hope of retirees and would be retirees. In the space of time the retirees and would be retirees voices would be echoed if the new scheme is jettisoning along the path of the old scheme. Employees' futures should be more secured when the scheme is seldom reviewed. Majorly, pension scheme should ensure a better old age of the pensioners and would be retirees. Retirement should be a glorious exit from active service if the future is secured. It should be a celebrated exit if the scheme actually achieves the set objectives.

Theoretical Framework

This theory is hinged on Productivity theory of Pension. This was propounded by propounded by Dorsey, Cornwell and Macpherson, (1998). Productivity theory of pension is of two sides: The demand and supply sides. Both sides of the theory however, agreed that pension schemes are established as incentives and motivation to encourage workers to increase their productivity or performance (Nwafor,2013).

The demand side of the theory posits that employers make payments to employees' pension funds because workers are keen or prefer pension savings to cash payments to their emoluments. This is because of the benefits attached. These include reduction in income tax of the employee, the retirement benefits, such as social security from the employer's contributions, interest earnings and dividend earnings on pension fund investment or assets that are not taxed. Others include the prospect of future enhanced and acceptable pension benefits, from awards or (increases as may be offered by the government from time to time. Yet another benefit is an insurance cover of sorts against risks that pension provides.

Nwafor (2013) posits that the demand side also states that employees, especially the high income earners, prefer pension to cash payments because of a possible annuity for as long as the pensioner lives. There is the shifting of risk of poor asset or investment performance to the employer in Defined Benefit Pension Scheme (DBPS), which is not exactly so in the CPS where there is a PFA. In the CPS, it is the asset earnings that are distributed to contributors or pensioners. Thus, risk shifting is easier to operate in a DBPS where there is a promised or defined benefit than in CPS where the value of the benefit is a function of the value of the asset or pension fund performance. Finally, on the demand side, there is the potential of improved performance or output of the employee merely by the institution of a pension fund or scheme. The implication of this is that the pension scheme must be well articulated; involve the workers in the decision processes, well funded and sustainable, such that it can motivate the workers or employees.

The supply side of this theory posits that employees' gain from pension tends to raise
the level of workforce productivity and reduce labour costs. This is because the employers' investments in the training of the workforce, improved condition of service, provision of adequate resources etc, are greatly offset by the workforce's improved output or productivity. There is also the perspective that the supply side to the theory serves as an incentive for personnel to remain in the organization for a long time. This means that there is a reduced personnel turnover as DBPS penalizes organization quits. In all this, the organization tends to gain, however, because of large workforce's high productivity and attachment to the organization (Nwafor, 2013).

Empirical Review

Nwanne (2015) examines the impact of contributory pension scheme on economic growth in Nigeria for the period of 2004 and 2012 using ex-post facto research design. Panel data extracted from Pension bulletins were analyzed using OLS regression. The study found that contributory pension scheme has achieved the objective of using pension funds to provide long term capital that will promote economic growth.

Anazodo, Ezenwile, Chidolue & Chidinma (2014) study the effect of new pension scheme on retirees in Nigeria. The paper used qualitative and exploratory method. The study found that most retirees are not aware of the operations of the pension managers in Nigeria.

Akpan and Ukpong, (2014) focus on the administration of pension scheme and its contribution to capital formation. Secondary data was obtained from the PENCON bulletin and RSA Fund account. The study established that effective pension administration and capital formation are capable of industrializing the Nigeria economy.

Fapounda (2013) investigates the features, prospects and challenges of pension management in Nigeria. Secondary data was obtained from official publications of the Pension Commission (PENCOM). The study concluded that there is no enough evidence to show that the pension scheme is leading Nigeria in the desired direction.

Olanrewaju (2011) examines the Pension Reform Act 2004 and well-being of Nigerian retirees and the sociological evaluation of its provisions. The study used the Marxist theory to analyze critically the 2004 pension policy of the government on the wellbeing of Nigerian retirees. The study finds that the PRA 2004 has failed to contribute to basic social security in old age for the majority of Nigerians employed in the informal sector while the minority of covered workers is likely to experience problems.

Gap in Literatures

From the prior studies appraised, it was revealed that a number of studies (Fapohunda, 2013; Akpan & Ukpong (2014) and Nwanne, (2015) have actually examined the effect of the pension contributory schemes on economic growth and capital formation. Except Anozodo et al, (2014) who digressed and studied the impact of new pension scheme on retirees. Literatures have not really covered the effect of pension reforms on standard of living of pensioners within Oke Ogun axis, considering the high number of retirees from the region. Therefore, this study tends to fill the gap.

Methodology

Survey research design was adopted using data gathered from the primary source. All pensioners with the ten local government councils in Oke Ogun Axis in Oyo state were chosen as population while One hundred and fifty pensioners were sampled from five local government councils using stratified sampling techniques. Opened ended questionnaires were designed with Likert style and distributed to the target respondents within the five selected local government council in Oke Ogun Metropolis.

Model Specification and Justification

SOL is$f$(PRA)

$$SOL = \beta_0 + \beta_1(PRA) + \varepsilon$$

Where SOL is standard of living of pensioners measured as per capita income of the pensioners. PRA stands for Pension Reform Act.

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Data Analysis

Data were analyzed using regression analysis. The standards of living of the pensioners were regressed against the predictor, Pension Reform Act.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.306[a]	.094	.089	.98392

a. Predictors: (Constant), PRA

The model summary table above showed the coefficient of determination. The coefficient of determination is 0.089, therefore, it can be deduced that about 8.9% of the variation in the Standard of living of pensioners is explained by the Pension Reform Act. 91.1% represents other facors that are not considered in this study that can influence standards of living of pensioners.The model summary showed that the coefficient of determination is 0.444; therefore, about 44.4% of the variation in the investment decision making is explained by elements of financial statement. 55.6% represents other variables that are not captured in the course of this study that can influence investment decision making of investors. The model specification does not satisfy the test of goodness fit. The model is not therefore suitable to predict the standard of living of pensioners.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.905	1	18.905	19.528	.000[b]
	Residual	182.970	189	.968		
	Total	201.874	190			

a. Dependent Variable: Standard of Living
b. Predictors: PRA

The table above showed the analysis of variance of Standard of living of pensioners and Pension Reform Act. The F test showed the 19.528 ($p< 0.05$). This showed that Pension Reform Act significant have effect on the standard of living of the pensioners.

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.840	.202		9.115	.000
	PRA	.322	.073	.306	4.419	.000

a. Dependent Variable: Standard of Living

The above table showed the coefficient of beta factor. The Pension Reform Act has positive and significant effect on Standard of living of the pensioners at 0.322 ($p<0.05$). The H0 is rejected and H1 is accepted. It is therefore concluded that Pension Reform Act has significant effect on Standard of Living of pensioners this was in line with the studies of Anozodo e tal (2014) and contrary to the studies of Fapounda, (2013) and Olanrewaju, (2011).

Discussion of Findings

In Nigeria, Pension Scheme has witnessed various transitions, all to ease the standards of living of pensioners in Nigeria. Pension Reform Act, 2014 ushered in the hope of better future and post employment benefits for the existing and prospective pensioners. The implementation of the Act is what actually created a lot of fear in the hearts of pensioners. The Reform Act is expected to improve the welfare of the pensioners at various levels. The Pension Acts are adequately reformed to correct bottlenecks involved in the payment of pensions to beneficiaries. Many pensioners are not aware of the various reforms on the scheme, this also contribute to poor implementation of the Pension Act in Nigeria. Pension reforms positive impacts should be greatly felt by the pensioners.

Conclusion and Recommendation

The study has examined the effect of Pension Reform Act on Pensioners' Standard of Living. The study focused on the major difference between Pension Reform Act 2014 and Pension Reform Act, 2004. Various literatures were also reviewed. The finding of the study established that Pension Reform Act has significant effect on the standards of living of pensioners. It was affirmed that majority of the Pensioners were not adequately informed about the impact of reforms on the Act on their welfares as the major beneficiaries of the scheme.

The study therefore recommends the following:

1. The pensioners should be carried along in any Pension Reforms
2. Pensioners should be adequately informed about the positive impact of reforms on their welfare.
3. Government, through National Pension Commission should investigate the activities of pension custodians
4. Pension funds should be invested on viable investment opportunities as the risk of investment lies on the pensioners at the long run.
5. There should be data base for all pensioners, this will reduce unnecessary hardship impose on pensioners during annually pension audit.
6. The centre point of all Pension Reforms should to improve the standards of livings of pensioners not necessary to score political points.

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