EFFECT OF ECONOMIC RECESSION ON RETIREES: A CONCEPTUAL REVIEWOF PENSION PROVISIONS PRA, 2014

BY

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Abstract:

About two decades away from the implementation of the New Pension Act 2004 and the repealed Act 2014 as amended subjected the living conditions of older persons (retirees) in Nigeria to a more deterioratedanderodingstatus due to economic hardship and purchasing power largely attributed to the value of the Naira, particularly on the care forthe old-age.The study specifically looked at sections 3 (Establishment of contributory pension scheme 2014 as Amended), 4 (Rate of contribution to the scheme) and 7(Retirement benefits). Relevant provisions under the PRAct, 2014 with particular reference to the sections 3,4 and 7 were reviewed having also considered relevant literatures with respect to period under economic recession and the effects of it on retirees. Content Analysis was adopted to enable proffer suggestions and recommendations on the study. The studyconcluded that it has been established that economic recession once hit, effects retiree benefits through the instrumentality of the PFA's. The study suggests that sections 4(2) and 7 of PRA Act, 2014 be reviewed legislatively as a result of frequent entry of Nigeria into recession which posit economic hardship akin to inflation and the value of the naira.

Keywords: *Economic Recession, PRA Act 2014, Pension Fund Adminstrators and Retirees*

Introduction

It has been adjudged by the study on a Perception Difference between Serving and Retired Federal Employeesin Sokoto state on the Defined Contributory Pension Scheme that the new contributory pension scheme 2004 and 2014 as amended is better in comparison with the old pension scheme also called the defined benefit system or Pay-As-You-Go system, all of which centered on the administration of pension scheme. This paper with particular reference to the present trend of the country's economic recession period intends to evaluate the effect of this on the retirees looking at the relevant provisions of the New Pension Act 2014 (As Amended).

The recent economic recession has negatively impacted Nigeria retirees on many fronts as their income landscape is changing dramatically. Attainment of significant improvement in the welfare and standard of living of the people has been identified by experts as a core objective of development.

This study therefore begins by exploring the conceptual meaning of pension and gratuity followed by review of related literature dealing with the administration of pension in Nigeria and economic recession viz-a-viz the provision of the act as its affect retirees, the methodology adopted as well as the conclusion and lastly proffered suggestions\recommendations.

CONCEPTUAL REVIEW

THE CONCEPT OF RETIREMENT

Retirement signifies the detachment from primary activity in business, industry or active service as full time employee (Akerlof& Katz, 1989). It can also be conceptualized as a process that separates an individual from a job role (Atchley, 1980) or termination of a life patternand a transition (Omoresemi, 1987; Bethel, 2005). The cause of the detachment or separation may be due to age, poor health, social pressure or apathy. Retirement is the withdrawal or giving up office or work. According to Nwajagu (2007), a person who is retiredis one who has given up office. The oxford dictionary defined retirement as the act of stopping ones regular work especially because one has reached a particular age, the eve of retiring or state of having work. It is the withdrawal from active function of one's job or work. There are three ways civil or public servants may retire or give up his offices.

These forms of retirement are the voluntary, compulsory and mandatory (Omoresemi, 1987; Nwajagu, 2007).

In Nigeria, public service rules (PSR 2009:41) states clearly that:

i. The compulsory retirement age for all grades in the service shall be 60 years or 36 years of pensionable service whichever is earlier.
ii. No officer shall be allowed to remain in service after attaining the retirement age of 60 years of punishable service whichever is earlier.
iii. The provision of (i) and (ii) of the rule is without prejudice to prevailing requirements for judicial officer and academic staff of universities who retire at 70 and years respectively.
iv. Provided the officer would not have attained the retirement age of 60 years or spent 35 years of pensionable service, or whichever comes

earlier.

v. A director shall compulsorily retire upon serving eight years of post and

vi. A permanent secretary shall hold office for a period of four years and renewable for a future term of four years, subject to satisfactory performance and no more.

Other ground for compulsory retirement of an employee as identified by Ezeani (2011) are;

a) On the advice of properly constituted medical board, certifying that the officer is no longer mentally or physically capable of carrying out the functions of his office.
b) On total or permanent dis-enablement while in service.
c) An abolition of his office as a result of re-organization in the department

There are three main characteristic of retirement as identified by (Okolie&Omenma, 2011). In the first place, it is a period of evolution or change in a variety of ways; change in values, habits, daily routine, self-concept, role, the use of time, lifestyle, living arrangement, financial adjustment and adjustment in terms of age. Secondly, it involves reevaluation of life in that retirement entails careful reorganizing of personal identity and life patterns especially as it affects new tasks, physical, mental and financial capabilities, prospects, social engagement and home maintenance (feeding, furniture, fees and vehicle). Retirement
is just another phase of life. Felix, Peter & Willem (2007) describes that society built on a work ethic, the move from a recognizable productive work role on one day to a role-less role on the next, has stimulated the belief that retirement heads to mental and physical illness and sometimes premature death, to many, work is life and idleness is a living death. Thus, the British lifelong learning minister, Mr. Malcolm wicks was also quoted in Eme& Sam (2011) saying that “You don't stop thinking when you stop working. I think of retirement as the new learning zone”. Retirement means different things to different people. To some it can be exciting, delightful, thrilling, reading, something to look forward to, while to some it means the end of the road, psychological, or living death. Etc.

Retirement does not mean the end of one's world rather the beginning of a new world or phase in life, a time one should be thankful to God for the journey so far, for many look forward to retirement but not all get to it. According to Fashoyin (1990;3) “public servants retiring on grounds of age should be treated as war veterans and not dead woods to be burnt”.

To any Nigerian worker retirement is a dreadful experience and has acquired a negative color as retirees in Nigeria are passing through hardship. To Eme& Sam (2011) many workers are regretting the day they joined the public service. Olayiwola (2000; 2) posits that “in fact, the process of disengagement from active work-life is not an easy one. Many have been faced with a lot of psychosomatic problems arising from unpreparedness and the various forms of psycho phobic reactions often exhibited by several workers in Nigeria”.

Also Eme& Sam (2011) explains that not many would know or understand what pensioners go through in the nation, the punishment is such that to retire to a quiet life and honest life has almost been made impossible in Nigeria, so brutal, heartless, and imposed on waiting pensioners that some prefer to die instantly rather than go through the headache of receiving their pension.

The Concept of Pension and Gratuity

Robelo (2002) asserted that pension is the method whereby a person pays into pension scheme a proportion of his/her earnings during his working life. The contributions provide as income (or pension) on retirement that is treated as earned income. This is taxed at the investors' marginal rate of income tax; while on the other hand, gratuity is a lump sum of money payable to a retiring officer who has served for a minimum period of time. A greater important has been given to pension and gratuity by employers because of the relief that if employees' future needs are guaranteed, their fears ameliorated and properly taken care of, they will be more motivated to contribute positively to organization's output. Similarly, various governments' organization as well as labour unions has emphasized the need for sound, good and workable pension scheme.

According to Balogun (2006) pension is the amount paid by the government or company to an employee after working for some specific period of time, considered too old to work or have reached the statutory age of retirement. It is equally seen as the monthly sum paid to a retired officer until death because the officer has worked with the organization paying the sum.
To Ozor (2006), pension consists of lump sum payment paid to an employee upon his/her disengagement from active service. According to him, payment is usually in monthly installments. He further stated that pension plans may be contributory or noncontributory; fixed or variable benefits; group or individual; trustee; private or public, and single or multi-employer. Adebayo (2006) and Ugwu (2006) stated that there are four main classifications of pensions in Nigeria. These are:

I. Retiring pension: this type of pension is unusually granted to a worker service usually 30 and 35 years or on attaining the age of 60 to 65 year for the public service in Nigeria and 75 years or age for professors and judges.

ii. Compensatory pension: this type of pension is granted to a worker whose permanent post is abolished and government is unable to provide him with suitable alternative employment.

iii. Superannuating pension: this type of pension plan is given to a worker who retires at the prescribed age limit as stated in the condition of service.

iv. Compassionate allowance: this happens when as pension is not admissible or allowed on account of a public servants removal from service for misconduct, insolvency or incompetence or the inefficiency.

Historical Overview of Pension in Nigeria

The history of pensions world-wide can be traced to Germany (Njuguna, 2010). The former German chancellor Otto Von Bismarck was credited for enacting a compulsory savings programme for workers in large firms exposed to the socialism ideologies in 1889 (Guinean 2003, Curler & Johnson 2004, Newman 2005 & Langley, 2006). In Nigeria, the development of pension scheme can be traced to the beginning of organized workforces in the private and public sectors in the colonial era of the 20th century (Barrow, 2008).

The first pension law in Nigeria was known as pension ordinance of 1951, and provided for the full pension rights of the colonial administrators and partial rights granted at the discretion of the Colonial Governor General for Nigerian workers in the civil service at that time. This ordinance transformed into the Pension Act of 1958 (Barrow, 2008). The National Provident Fund (NPF) scheme established in 1961 was the first legislation enacted to address pension matters of private organization (Sule, 2011). It was followed 18 years later by the pension Act No. 102 of 1979 (Udoji Commission) as well as the Armed Forces Pension Act No. 103 of the same year (Barrow, 2008). The police and other government agencies' pension scheme were enacted under Pension Act no. 75 of 1987, followed by the Local Government Pension Edict which culminated into the establishment of the Local Government staff Pension Board of 1987. While in 1993, the National Social Insurance Trust Fund (NSITF) scheme was established to replace the defunct NPF scheme with effect from 1st July 1994 to cater for employees in the private sector of the economy against loss of employment income in old age invalidity or death (Sule, 2011).

These decrees remained the operative laws on public service and military pension in Nigeria until July, 2004. However, there were several government circulars and regulations issued to alter their provisions and implementations. For example, mandatory retirement at the age of 60 years or 35 years of service, whichever comes earlier in 1988, and in 1992, the qualifying period for gratuity and pension were reduced from 10 years to 5 years and from 15 years to 10 years respectively (Barrow, 2008) in 1997, parastatals were allowed to have individual pension arrangements for their staff and appoint Boards of Trustees (BOT) to administer their pension plans as specified in a standard trust deed and rules prepared by the office of the insured scheme or self-administered arrangement.

There were three regulators in the pension industry prior to the enactment of the pension reform act 2004, namely Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM) and the Joint Tax Board (JTB). (SEC) license pension fund managers while NAICOM is still the agency responsible for licensing and regulating insurance companies in the country. The JTB approved and monitored all private pension schemes with enabling powers from schedule 3 of the personal income tax decree 104 of 1993 (Bassey, 2010). According to Balogun (2006), most public organization operated a Defined Benefit (Pay-As-You-Go) scheme before the enactment of pension reform act 2004. Final entitlements were based on length of service and terminal emoluments. The defined benefit (DB) scheme was funded by federal government through budgetary allocation and administration by pension department of the office of head of service of the federation.

The pension reform act 2004 and 2014 (As amended) is the most recent legislation of the federal government aimed at addressing the associated problems of the old pension sectors respectively, similarly, for the first time in the history of the country, a single authority has been established (National Pension Commission) to regulate all pension matters in the country (Sogunle, 2011).

Economic Recession

A recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. A recession is also preceded by several quarters of slowing down an economy, which grows over a period of time that tends to slow down the growth as a part of the normal economic cycle. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years. A recession normally takes place when consumers lose confidence in the growth of the economy and spend

less (Buhari, 2016). Thisleads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment, investors spend less; as they fear stocks values will fall and thus stock markets fall on negative sentiment. Risk aversion, deleveraging and frozen money markets and reduced inventors interest adversely affect the capital and financial flows, import-export and overall GDP of an economy.

Although it is commonly thought that a recession is defined as two consecutive quarters of negative GDP growth, the truth is more complicated (key bridge research, 2008). They further reported that recessions are officially declared by a committee of economic professors. The committee's decisions are typically based on four monthly economic indicators, and it is often hesitant to declare a recession until the evidence is overwhelming. Political considerations may have also considerations may have also contributed to the committee's reluctance to declare a recession before the November elections.

Although professionals and experts around the world believe that a true recession can only be confirmed if GDP (gross domestic product) growth is negative for a period of two or more consecutive quarter. Recession is defined as a significant decline in economic activity lasting more than a few months (Priyanka, 2010).

It is often said that a recession is defined as “two consecutive quarters of negative GDP growth”. The truth, however, is much more complicated. In fact, U.S. recession are officially declared and dated by a committee of seven economics professors on the Business Cycle Dating committee of the national bureau of economic research (NBER) – a non-profit association of academic economists unaffiliated with the U.S. government.

Generally speaking, a recession is a significant decline in economic activity spread across the economy, lasting more than a few months. Recessions are typically visible in real GDP postings (reported quarterly), and in four other monthly data series: real income, employment, industrial production, and wholesales-retail sales. Importantly, recessions are dated by month, not quarter. This committee of experts focuses on the four monthly economic data series to determine if a recession has occurred. It is not uncommon for the committee to declare a recession if there is a clear downward movement in these monthly indicators, even if quarterly GDP remains positive.

Effects of Recession

A slowdown in economic activities affects all aspects of national life. The

Central Bank of Nigeria (CBN, 2016) reports that a lot of elections are won and lost as a result of bad economic conditions referred to as recession. For example, like the past American president (Obama) rode to electoral victory, because of the promised change to bring America, out of the global economic crisis (GFC) prevailing at that time. Bank of America, Lehman brothers and other major companies in the U.S. and other parts of the world went down as a result of the GFC. There were also a lot of mergers and acquisitions (M&A's) during the period. More so, in Nigeria, recession as reported by the National Bureau of Statistics (NBS) has serious consequences not just on pensioners but across country's economy. The economic effect of this on pensioners is that ernings due to pensioners is not in any way improved as the market patronized remain the same to all and sundry. This therefore means pensioners are hit by this devastating economic effect. Consequently on other economies premise, jobs are lost, families forcefully adjustbudgets as social activities also got affected. This part as well expresses the impact of recession on business, equities andsome provisions in the contributory pensions as amended thus;

I. Business

When household incomes are cut as a result of economic slowdown, they reduce their demand for goods and services. This fact does not exclude pensioners who are also engaged in businesses small or large scale. However, as a result of low demand from households, firms reduce their production of such goods and services in order to cut cost and profit will decline. As a consequence of production fall, employeesare laid off or forced to leave their jobs, there will be no buying of new equipment, no funding for research and development, no new product rollouts and general business activities also collapse. Infact, the experience of the recent Nigeria economic recession showed that many businesses such as banks are hit by this coupled with the introduction of treasury single account (TSA). Specifically, recession result in one or more of the following consequences on business;For example All Share Index of NSE lost 65.4% of its value from 54,841.92% in July, 2008 to 19, 814.92 in April, 15 2009 and another fall from October, 2016 with 30,233.29 to 27,940.47 presumed to be out of recession as reported by the National Bureu of Statistics (NBS) with a dwindling dividend credit defaults and funding stock, bankruptcy and product quality compromise were all effects of recession on an economy (CBN, 2016).

ii. Financial Markets

The CBN (2016) further reveals that other the heats during recession is the financial markets. Recession will lead to general fall in interest rate, crash of

the stock prices and rise in prices of commodities. Regulators usually lower interest rate in order to stimulate borrowing for investment that would lead to economic activities and growth. Most of the advance economies of the world brought their interest rate to near zero during the GFC in order to stimulate economic activities through borrowing. This was not witnessed in Nigeria as many companies liquidated due to uneasy access to funds even for borrowings. The CBN (2016) describes that one noticeable event during the GFC was the crash of global equities markets. Equities prices mirror the performance of listed companies on the exchange. Any time investors noticed a dwindling fortune with such listed companies, they usually offload their shares. There was a massive share sell-off in 2008, resulting in the crash of stock markets across the globe. This major financial set backs when recession appears has multiplier effects on pensioners as there is no sudden change in markets floated or visited by pensioners.

Review of Relevant Sections of the PRA 2014 As Amended and its Attendant Effect on Retirees

Section 3 (1)of the Act posits that (1) There is established for any employment in the federal republic of Nigeria, a contributory pension scheme (in this act referred to as “the scheme”) for payment of retirement benefit of employees to whom the scheme applies under this act. Section (2) of (3) further states that 'The scheme established under subsection (1) of this section shall apply to all employees in the public service of the federation, the federal capital territory, state, local government and the private sector subject to the provision of section 5 of this act.

In section 4(1) the contribution for any employee to which this act applies shall be made in the following rates relating to his monthly emoluments:

(a) A minimum of ten percent by the employer; and
(b) A minimum of eight percent by the employee

Section 4 (2) categorically mentioned that 'The rate of contribution mentioned in subsection (1) of this section may, upon agreement between any employer and employee, be revised upwards, from time to time, and the commission shall be notified of such revision. What is the justification of this act as regards employee whose retirement comes under economic recession? Having considered the plight of the retiree under recession and noting the effects attached,dothe governmentsrealize that such employee will have little or nothing to enjoy at retirement?

Since no provision was made for an immediate upward review of his retirement benefit and at whatever percentage of increment on his/ her

benefit(s) at recession period then what will be his state considering his take home gratuity even though he/she gets paid through the PFA? .

Section 7 (1) states that a holder of a retirement savings accounts shall, upon retirement or attaining the age of 50 years after which the amount is credited to his retirement savings accounts for the following benefits:

(a) Withdrawal of a lump sum from the total amount credited to his retirement savings account provided that the amount left after the lump sum withdrawals or annuity for life in accordance with extant guidelines issued by the commission, from time to time;

(b) Programmed monthly or quarterly withdrawals calculated on the basis of an expected life span;

© Annuity for life purchased from a life insurance company licensed by the national insurance commission with monthly or quarterly payments in line with guideline jointly issued by the commission and national insurance commission;

(d) Professors covered by the universities act; or

(e) Other categories of employees entitled, by virtue of their terms and conditions of employment, to retire with full retirement benefit shall still apply.

Section 7 (1) a,b c faces similar application problems at the point of recession therefore stands meaningless and needed to be reviewed.

Methodology

The study elicited information from sourced documents or materials there by leveraging primarily on existing literatures source refered to as secondary. Similarly, the study envisage that content analysis will be sufficient as posited by Selltize (1977) being a technique for the objective, systematic, and qualitative description of the manifest content of communication. This study therefore relied on this source to derive its results and make output of the research findings by bringing out cogent issues discussed on the literatures. Because of the nature of the study, there is no population of the study neither is sample frame a feature under this situation. This makes apt a finding purely judgemental.

Conclusion

From the foregoing, it is clearly established that economic recession once hit effects the retiree at the point of receiving/ collecting his/ her retirement benefits through the instrumentality of the PFA's.

Recommendations/ Suggestions

Sections 3 (1-2) and 4(1) that states the parties involved in the PRA as well as the percentages of contribution of the Act shall be maintained at the moment considering the dwindling nature of the economy and the general wellbeing of the country, but section 4(2) needed to be reviewed considering the issues raised there in resulting on an employee take home gratuity at recession period that is faced by a devastating economic problems arising from inflationand the value of the naira (economic recession)and therefore recommend an immediate review setting aside funds specifically to augment all retirees at point of exit from service. This can be achieved through legislative provision from funds set aside for social investment by the government.Similarly, section 7(1) a, b and c that faces similar problems at recession period shall also be considered to avoid unnecessary law suits after all legislations are carried out on provision of the section.

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