EFFECT OF THE NEW PENSION SCHEME ON SUSTAINABLE WELFARE AND POST-SERVICE LIFE IMPROVEMENT OF RETIREES IN LAGOS

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Abstract

Efficient and effective public and private sector organizations are expected to see to the maximum well-being of their employees. That is, in and post service and especially for employees that have contributed meaningfully to the achievement of organizational goals. Part of such management responsibility is payment of post service compensation or pension which provides the employees the security and right that gives guaranteed income on retirement or to dependants on death. The study attempts a comparative analysis of the old and new pension scheme in Nigeria and the extent to which the new scheme has significantly influenced the welfare and life improvement of the retirees in Lagos the commercial hub of Nigeria. The study adopts the survey research design. Two hypotheses are tested using chi-square (X²) test at 0.05 level of significance. Major findings show that a lot of defects exist in the old scheme and that the administration and collection of pensions by pensioners have been very poor. There is a significant relationship between the operation of the new pension scheme and the welfare of pensioners (X² Cal = 33.27, X² Tab = 12.59), and their life improvement after service (X² Cal = 27.97, X² Tab = 12.59). In conclusion, it is recommended that much attention be given to public education and enlightenment of all stakeholders for them to be conversant with the administration of the new scheme and proper measures put in place to guarantee safety of the funds. These should include sustained capacity building of officials and investment strategies. The new scheme should be shielded from the effect of aspects of the highly corrupt and unethical public governance and economic management systems in Nigeria and enumberated in strong strategic planning, long-term economic development, sustainable welfare of retirees and inclusive strategies.

Key words: Pension scheme, sustainable welfare, life improvement, retirees.

Introduction

Public and private organization are expected to see to the maximum well being of their employees especially those who have contributed meaningfully towards the achievement of vision, mission and objectives of the organization. Part of this management responsibility is the establishment and payments of certain amount of money to the employees who have retired and are pensionable as a post-service compensation. In Nigeria post-service compensation has been in existence for a long time right from colonial civil service which introduced a post-service scheme. Pension is a plan to provide the employees of an organization with a means of securing for employees on retirement a standard of living not for below that which they enjoyed while in service. It has to do with setting aside of some funds contributory or non-contributory to meet the social obligation of care which employees owe their employers on retirement or in case of death. Armstrong (2006) noted that pension schemes are designed to prove employees with security by currently building on rights that will give a guaranteed income to the employee or his retirement or dependents death. Pension is the
from past earnings, which are saved to provide retirement benefits. Often, these action deductions are tax free against income and corporation tax when specifically approved by the Tax Authorities.

A well managed and well administered pension scheme will not only increase employees morale and job security, but will accentuate the workers zeal for greater achievement and more effective performance. Also with a guaranteed secured future, corruption graft and other released sharp practices one ministered. It could provide security and better after service life improvement for pensioners or dependents.

Statement of problem

The thought of post service years have been a thing of great concern to employees of Nigerian organization and the informal sector many pensioners as a result of delay or irregularities in the payment of their gratuities pensions, and post-service compensation have experienced life difficulties, have died prematurely out of frustration, while some are living in object poverty and malnutrition. In today's world, many potential retirees are faced with major challenges which include among others threat of rising costs, impact of increasing health care costs; uncertainty about future level of social benefits; and damages to long-term financial security for retirees, who no longer fund their living expenses out of wages. Inflation affects retirement planning by increasing the future cost of goods and services and potentially erodes the value of assets set aside to meet those costs, if these assets earn less than the rate of inflation. Against this background, this research examined the effect of the new pension scheme on the sustainable welfare and after service life improvement of retirees in Lagos and attempted a comparative analysis with the old pension scheme. The study identified the factors that negatively affected the old scheme and the way forward for the new scheme established under the pension act of 2004.

Objectives of the study

The purpose of this study: (i) To review the old pension scheme in Nigeria, (ii) To assess the new pension scheme in relation to the old one, (iii) To identify the effect of the new pension scheme on the welfare and the after service life improvement of retirees in Lagos, (iv) To suggest critical steps or recommendations needed to ensure an effective and efficiently managed pension scheme in Nigeria for sustainable welfare and post-service life improvement of retirees in Lagos.

Provisions of the old pension scheme.

Section 3 (1, 2) of pension Act No 102 of 1979 states that conditions which a retiree may pension earn and gratuity: (i) On voluntary retirement or withdrawal after qualifying service, (ii) On attaining maximum statutory age or length
of service, (iii) On the advice of a properly constituted medical board, (iv) On compulsory retirement for the purpose of facilitating improvement in the organization of officers department, (v) On total or permanent disablement while in service, and (vi) On a division of office under section 7 of the pension Act of 1979.

Gratuity
Gratuity is a lump sum of money paid once to a retired officer who has served for the minimum of five years in service. In case an officer dies in service, a death gratuity is to be paid to his legal representative or his survivor.

Eligibility
The pension Act of 1979 provides that only employees on permanent and pensionable appointment and who have served for 10 years are eligible to be paid pension. Persons under 15 years and over 50 years of age are not eligible for appointments on permanent terms in the public service. All affected officers should complete the revised pension from G. 62/81 the completed pension form, in triplicate, as well as an up-to-date record of service, letter of retirement, letter of first appointment or the publication and letter of gazette publications of last promotion should be forwarded to the establishment and management services within one week of the payment of gratuity. All outstanding indebtedness to government should be clearly indicated on the pension form.

Retirement
The whole essence of pensions and gratuities is for payment to officers who have left the services through retirement and death. Retirement is a disengagement from a line of work in which a worker has his career.

Ecological (1998) Such stoppage of work is usually accompanied by payment of a gratuity and a pension to the worker by his employers. Wunmi (1991) describes retirement as secession from an activity. In other words, it is the act of work stoppage due to old age, ill health, reaching maximum numbers of years allowed in services (35 years) to take up a more lucrative appointment with non-governmental agencies, government decisions or death. The quality of these would lead to problems associated with the old pension scheme in Nigeria.

Pension administration in Nigeria has over the years been faced with a multiplicity of problems. These problems are as follows:
(a) The structure of public service pension scheme in Nigeria: Legislation on Pension Fund Investment Pensioners' Decree No 102 of 1979, has no provisions for effective financing and investment strategies of pension funds.
(b) Non-Preservation of Benefit: The practice whereby benefits are not preserved until the normal retirement age makes pension financing expensive.
(c) Funding of the Scheme: The practice whereby the bulk of pension fund is channeled to short-term financial instruments does not provide a sustainable stream of income for retirees and this is not healthy for the nation's economy.
(d) Poor Saving Culture: There is a general apathy among individuals and retirees to imbibe saving culture and financial planning.
(e) Change of date of Birth: This makes the people who should have retired long for ages to still be in the service. Other problems include:

Ignorance: non-capacity building for schedule officers who handle pension matters who are also ignorant of the pension act provisions and nuances corruption and fraudulent. Out of station officers: officers retiring from their branch offices scattered all over have difficulty in getting their documents reach the headquarters in good time. Manner of paying pension to aged retirees: The pensioners are being subjected to long queues and heavy and costly strains traveling to collect pensions.

The new pension scheme
Pension as an old age security has become a serious concern to both individuals and governments. All over the world, programmes are being designed to alleviate the suffering of elderly people especially those who had contributed to the economic growth of the nation during their productive years. In the past, pension money was so small that many people did not care whether it was paid or not. However, due to high rate of inflation and agitation by active workers for improved pay package, the pension had to be considered as such, pay increase demands were...
1999 and 142% in 2000 raised the hope and expectations of retired pensioners so much that nearly all those who had ignored their benefits before, started pursuing payments with arrears of payment running into several years.

The pension rate increases were not paid immediately; this led to a serious pressure on Government to release funds and ensure that the management is capable of handling the enormous tasks. This situation because were difficult as it was only government who is responsible for the pension benefits of people who retired from public service.

The Government first initiated the pension Reforms Act 2004. Government set up the Ajibola Ogunnola Committee on the harmonization of the public and private sector retirement/pension schemes for greater efficiency. The committee was expected to consider ways of harmonizing public and private pension scheme.

The nature of the scheme

Unlike the non-funded, the contributing scheme IS fully funded and based on individual account that are privately managed by Pension Fund Administrations (PFA). The Pension assets held by Pension Assets Custodians (PAC). There is a strict regulation of the scheme by the National Pension Commission (NPC). It is expected that every organization of the Federal Republic of Nigeria must establish a contributory pension scheme to take care of retirees benefits that are affected by this Act. Under the scheme, the three categories of employers that emerged are:

a. Public service
b. Federal capital territory

Objectives of the act in establishing contributory pension scheme for employees in public and private sectors

Section 2 in Part 1 of the Act states clearly the following objectives:

(i) To ensure that every pensioner who works in either private sector or public service of the federation receives his/her retirement benefits as at when due.
(ii) To help improvident individuals to save in order to cater for their livelihood during old age.
(iii) To help establish uniform set of rules, regulations and standards of administration of pension is the country. (iv) To set up the National pension commission to regulate, supervise and administer the scheme. (v) To star the growth of outstanding pension liabilities.

National Pension Commission

This is principally established to the Act to regulate supervise and ensure the active administration of pension matter in Nigeria. It helps in carrying out the objectives of the Act in establishing contributory scheme for employees public and private sectors.

Pension Fund Administrators

Pension Fund Administrators are licensed by the National pension commission are responsible for the management of pension funds.

The Pension Administrators shall carry out the following functions:

(i) Open retirement savings account for all employees with Personal Identity Number (PIN) attached. (ii) Invest and manage pension funds and assets. (iii) Maintain books of account on all transactions (iv) Provide regular information on investment strategy. Market returns and other performance indicators to the commission and employees or beneficiaries of the retirement savings account. (v) Provide customers service support, to employees, including access to employees account balances and statement on demand. (vi) Process and calculate and retirement benefits. (vii) Carryout other function as National pension commission may assign from time to time.

Withdrawals from retirement savings account

Withdrawals can be made when a worker only retires from service at the qualifying age i.e. at 50 years, if retired under ill health, if he restores before 50 years in accordance with condition of service, if a pensioner who was restored in health subsequently gets well and the functional in a new employment, may them re-enter the scheme.

Retirement Benefits

Section 4 of the Act spelt out clearly the retirement benefits of employees both the public and private sector. Upon retirement, a holder of retirement savings account shall utilize the balance standing to his credit in which ever of the following ways; Programmed monthly or quarterly withdrawals calculated on the basis of an expected life span.

Monthly or quarterly withdrawals from the
proceeds of Annuity for life purchased from Life Insurance Company.

Withdraw lump sum from balance of his account on retirement but he must make sure that sufficient amount of not less than 50% of his annual remuneration as at the date of his retirement is left in the amount.

There is provision for a pensioner retiring on ill health to withdraw lump sum of 25% of credit balance of his account provided the money withdrawn will be made in six periods, and the retired employee does not secure another employment.

Retirement benefits bond redemption fund

The Retirement Benefit Bond Redemption Fund us to be established and maintained by the Central Bank of Nigeria. The Federal Government will pay sum amount equal to 5% of the total monthly wage bill payable to employees in the public service of the Federation and Federal capital Territory. The total amount in this fund shall be issued to redeem any retirement benefit bond sue and payment into this fund shall cease after all retirement benefit bonds have been redeemed.

Death benefit

In a case where the employee dies while in employment section 5 of the Act provides that his entitlements under the life assurance cover arranged by his employer shall be paid in favour of the beneficiaries under a will or the spouse and children of the deceased or in absence of such designation, payments shall be made to any person appointed by the probate registry of the administration of the estate of deceased.

Retirement benefits to be exempted from tax

Section 7 of the Act provides a retirement benefit under the Act shall not be taxable. However, section 7(2) made it mandatory that any voluntary contribution made by employee will be taxable at the point of withdrawal where such withdrawal is made by before end of 5 years from the date of voluntary contribution.

Rate of contribution to the scheme

Section 9 of the Act clearly spelt out the basis of contribution into the scheme. This could minimum of seven and half percent (7.5%) is contributed by the employer and a minimum of same percentage (7.5%) is contributed by the employee. In case of the military, a minimum of twelve and half percent (12.5%) is contributed by the employee.

In other cases, a minimum of seven and half percent (7.5%) is contributed by the employer and a minimum of the same rate (7.5%) is contributed by the employer and a minimum of the same rate (7.5%) is contributed by the employer. All these contributions are made in relation to the monthly emoluments, which the Act defines as the total sum of Basic salary, housing and transport allowance.

Group term assurance cover

Section 9 (3) of the Act, makes it mandatory that employers shall maintain life assurance policies for employees for a minimum of three (3) times the annual total emolument of the employee. The annual premium for such cover shall be the full responsibility of the employer. Exemption from the scheme. With Section of the Act, all employees with three (3) years or less to retire be exempted from the scheme. Also, officers covered by section 291 of the Constitution of the Federal Republic of Nigeria shall be exempted from the fine.

Retirement savings account

Section 2 of the Act provides that every employee is to maintain an account with any PFA of his/her choice. The employee is allowed not more than once to change account from one PFA to another on tangible reason. The employer must know the PFA of the employee and identity of the account. The employee should have no dealings with custodian or his account through the PFA.

Deductions

Employer is empowered to deduct at source and remit not later than 7 days the PFC specified by the PFA of the employee. Any failure to remit the contribution on stipulated time, a penalty of 2% should be paid. Government contribution of the public service and Federal capital Territory shall be charged consolidation revenue fund of the Federation.
from one employer or organization to another, the same retirement account shall continue to be
maintained by the employee.

Perspectives of pension

· Perspectives on pensions are centered on the answering of the question as any employers compensate their employees with pension. A large body of research has explored both demand- and supply-oriented theories of pension stage.

Theoretical framework Demand-side theory

A section in income taxes is a well-known reason for employees to prefer pension saving. Employer contributions, the interest and individuals savings of pension assets are not taxed until benefits are paid. Therefore, compensating workers by credibly promising future pension benefits rather than the equivalent value of cash wages, can yield important cash savings especially for high-income employees. Another demand side theory is that pensions are an insurance policy against a number of retirements age risks expected and their savings will be depleted before death. Pensions solve this problem by requiring workers, in effect, purchase retirement annuity when they accept a job and begin participating in the other demand-centered pension theories are that economies of scale in administering private pension while allow workers to earn higher rates of return, net expenses, by group retirement saving (Alo 2004).

Supply-Side Theory

Stresses that pension incentives raise workforce productivity and lower out costs. Internal labour market theories suggest several mechanisms through which pensions promote productivity. The non-profitability of defined-benefit pension wealth penalized, an incentive, which may promote investments in employee training. The threat of loss of pension benefit also discourage shirking and lower the cost of monitoring employee effort. Pensions whether defined benefit or defined-contribution, are valued more by workers who have low internal discount rates. Many have suggested that such forward-looking pensions are more productive long-term employees. (Robert 2006, Trowbridge 1976)

The Need theories of motivation

Need theories of motivation represent the starting point for most contemporary thoughts on motivation. Need theories assume that need deficiencies cause behavioral change. The need theorist have attempted to identify and categories the needs that are most important to people. Need theories are often referred to as content theories because they deal with the content, or substance, of what motivates behaviour. It is pertinent to stress that need theories of motivation are relevant to the concept of pension. Pension is one of the needs that must be satisfied for employees to fulfill secured on their job. (Mowchland and Griffin 2001, Norman 1986)

Abraham Maslow’s Hierarchy of Needs

Abraham Maslow a psychologist developed hierarchy of needs in 1940s. Maslow argued that human beings are “wanting” animals, they have innate desires to satisfy a given set of needs and that these needs are arranged in a hierarchy of importance, with the most basic needs at the foundation of the hierarchy. The hierarchy of needs consist of five basic categories of needs. The three sets of needs at the bottom of the hierarchy are called deficiency needs, because they must be satisfied for the individual to be fundamentally comfortable. The top two sets of needs are termed growth and development. (Says and Stauss, 1981)

It is essential to stress that the concept of pension is something that need a very close attention in any given organization, simply because of role it plays. Pension is so important in that it goes a long way to guarantee employees job security. With a well-planned pension scheme, employees are secured on the job and consequently there is an increased commitment, which brings about increase in productivity. For instance, Abraham Maslow’s hierarchy of needs pointed out pension plan as one of the security needs that must be satisfied through an adequate insurance and retirement system i.e. guarding against financial loss, illness and to ensure retirement income. (Aderola 2005, Elumunjolo 2004)

Pension plan falls under the existence needs in Clayton Alderfer’s ERG theory which correspond with Maslow physiological and security needs. Existence needs are those necessary for basic man survival. Failure to satisfy them brings about frustration-regression rather than satisfaction-progression. In Herzberg’s Dual-Structure theory, pension could be categorized under the hygiene factors, which are said to be
extrinsic to the work itself. To Herzberg, if these factors are seen inadequate, they could lead to feelings of dissatisfaction. (Moorhead and Griffin 2001, Norman 1986)

Methodology

The survey design was used for this study. The population of study comprise of both present and ex-staffs of the Nigeria French Language Village, Badagry. The Nigerian French Language Village is one of the Federal Government parasitars, which started with the new pension scheme in July 2004. A sample of one hundred (100) comprising serving and retired pensioned employees was drawn from the population. The sampled staff belong to various departments in the organization in order to cover different categories of staff without gender of other forms discrimination. The simple random sampling technique was used.

Method of data collection

Data collection for the study was from both primary and secondary sources. The primary source was through questionnaire administered to the extant and ex-employees in their various departments. The secondary source was through the use of reviewed records, document and literatures, on the operation of gratuities and postservice compensations or pension of the organization.

Method of data analysis

The collected from the respondents through questionnaire distributed were analyzed with the use of the following statistical methods: frequency distribution table; simple percentages and chi-square (X²). The chi-square was used to test the two hypothesis formulated. The method was preferred because it tests for the relationship between two variables. Chi-square formula:

\[ X^2 = \sum (O-E)^2 \]

\[ df = (r-1)(c-1) \]

where; \( X^2 \) = chi-square calculated value , \( O \) = Observed frequency, \( E \) = Expected frequency

Decision Rule: (Ho) Null hypothesis is rejected if the calculated value is chi-square computation is greater than the tabulated value while the Ho is accepted if the calculated chi-square computation is less than the tabulated value using a given level

Data Presentation, Analysis and Interpretation

<table>
<thead>
<tr>
<th>Gender Distribution</th>
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<tr>
<td>Sex</td>
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<tr>
<td>Male</td>
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<tr>
<td>Female</td>
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<tr>
<td>Total</td>
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Source: Field Survey, 2012

<table>
<thead>
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<th>Age Distribution</th>
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<tbody>
<tr>
<td>Age</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>41-59yrs</td>
</tr>
<tr>
<td>60-69yrs</td>
</tr>
<tr>
<td>70yrs and above</td>
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Source: Field Survey, 2012

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<td>Qualification</td>
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<tr>
<td>PRY</td>
</tr>
<tr>
<td>SSCE/IGCE</td>
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<td>OND/IGCE</td>
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<td>B.Sc/HND</td>
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<tr>
<td>M.Sc/MBA</td>
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<td>Others</td>
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Source: Field Survey, 2012
### Salary

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<th>Frequency</th>
<th>Percentage (%)</th>
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<td>04-06</td>
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<td>07-09</td>
<td>17</td>
<td>21.25</td>
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<tr>
<td>10-12</td>
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<td>25</td>
</tr>
<tr>
<td>13-15</td>
<td>19</td>
<td>23.75</td>
</tr>
<tr>
<td>16 and above</td>
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<td>Total</td>
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Source: Field Survey, 2012

### Work Experience

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<td>Below 10yrs</td>
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<td>17.5</td>
</tr>
<tr>
<td>11-20yrs</td>
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</tr>
<tr>
<td>21-30yrs</td>
<td>24</td>
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<td>31yrs and above</td>
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<tr>
<td>Total</td>
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<td>100</td>
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Source: Field Survey, 2012

### Table of observed frequency

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<th>Q11</th>
<th>Q14</th>
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<td>29</td>
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<tr>
<td>Agree</td>
<td>12</td>
<td>22</td>
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<td>Disagree</td>
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<td>53</td>
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<tr>
<td>Strongly Disagree</td>
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<td>17</td>
<td>13</td>
<td>55</td>
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<tr>
<td>Total</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>240</td>
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</table>

### Decision

The chi-square calculated value of 33.22 is greater than the chi-square table value of 12.59 at 6 degree of freedom and 0.05 level of significance. Therefore, the alternative hypothesis is hereby accepted while the null hypothesis is rejected. This implies that there is a significant relationship between the new pension scheme and welfare of retirees in Lagos State.

### Findings

This research examined the provision of the new pension scheme in comparism with that of pension reform Rev 2004, especially as the relate to the public service in terms of welfare and after service life improvement of retirees who live in Lagos. The major findings of the study were:

In respect of the assessment of the old pension scheme, majority of the respondents (73.75%) argued that it was not adequately funded (71.25%) claimed that manner of payment of the retirees is bad and (95%) maintained that there is poor saving culture and non preservation of benefit in the scheme. This is because that pensioners fall back of at the end of their working career is important in determining how they are going to spend the rest of their life. Further at old age, there are many challenges which confront the retiree that can be softened with a very effective pension scheme management.
As regards the relationship between the old and the new pension scheme, (95%) of the respondents argued that the defects of the old scheme is an improvement on the old scheme, (90%) agreed that both scheme clarify the retirement age and payment of benefit after service, (70%) claimed that both schemes guarantee a secured old age, and (85%) were of the opinion that new pension scheme is more favorable and contributed to after service life improvement than the old scheme.

Furthermore, I respect of the effectiveness of the new pension scheme, (72.5%) of the respondents agreed that the new pension scheme allows the transfer of employment without changing the retirement account (86.75%), a greed that the new pension scheme will increase the status and living standard of the pensions. Among the basic challenges or sustainable welfare and life scheme is expected to address effectively border on health care (medical bills), eating healthy, travels, care for family, school fees for children and other household bills.

Finally, as regards the old scheme the nature of retirement and collection of pension (81.75%) of respondent were pensions and they all agreed that there retirement was sudden that they encountered the problem of complex documentation while processing their retirement, that irregularity of pension payment and meager amount of pension made them to take up a contract appointment after retirement. They all argue that they have not been collecting their pension regularly.

Conclusion and recommendations

In conclusion, the study found that old pension scheme, which is non-contributing was highly inadequate engrossed in great mismanagement and high live of corruption of official and institutional structures functions and processes. There is significant relationship between the old and new pension scheme as the both clarify the retirement age and payment of benefits after service. However, the new pension scheme is an improvement on the old scheme from the findings of the research. The arrival of the new pension institution is a welcomed development as it addresses the problems of welfare and improvement the after-service statue life of retirees in Lairos state commercial hub of retirees have been very poor with the old pension scheme.

Much attention should be given to public education and enlightenment. Since the new pension scheme involves the participation of both the employee and employers, for effective monitoring of the contributions, all the stakeholders should be well enlightened so that will be more conversant with the administration of the scheme. Both the salary and personnel operations should as much as possible be computerized so that dedication of employees salary will be reflected for the purpose of reconciliation with the records of contributions with the pension fund administrators (PFAs).

Inclusively, the success of the scheme depends on the safety of the funds and availability to contributors on retirement. Since a contributor will require the fund at the end of his productive life, it is important to put in place proper measure to guarantee its safety. There are numerous options to enable easy life and sustainable welfare in retirement. These range from in vestment in stocks; bonds; property and insurance amongst other investment. Whatever choice is made by an individual or financial organization, the basic fact is that it should serve the expected benefits taking into cognizance inflationary trends and tax issues and other indicators of living standard sustainable human and institutional development.
References


