International Journal of Development and Sustainability
ISSN: 2186-8662 – www.isdsnet.com/ijds
Volume 4 Number 1 (2015): Pages 117-125
ISDS Article ID: IJDS14042401

Pension fund accounting and pensioners' well-being in Nigeria

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Abstract

The study was on pension fund accounting and pensioners' wellbeing together with their sustainability and life expectancy. The study was carried out on a sample of 400 pensioners drawn from Oyo, Rivers and Kano States; while, a judgmental sampling technique was used. The Ordinary Least Square (OLS) was however adopted for the hypotheses tests and it was discovered that pension fund accounting significant affect pensioners' wellbeing and that pensioners' sustainability is dependent on collective bargaining between the pensioners and their administrators. It was recommended that organizations should always recognize pension costs along with the plan's assets and obligations in their financial statements; and organizations and/or governments should bear the contribution of low-income earners.

Keywords: Pension fund accounting; Pensioners' wellbeing; collective bargaining; Income sufficiency; pensioners' life expectancy

Cite this article as: Author (2015), "Pension fund accounting and pensioners' well-being in Nigeria", *International Journal of Development and Sustainability*, Vol. 4 No. 1, pp. 117-125.

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1. Introduction

Pension funds have been acknowledged to becrucial for economic advancement through the investment of current retirement savings, that will enhance retirees' post occupational earnings. American Academy of Actuaries (AAA) (2004) affirms that a pension structure is expected to furnish recipients with sufficient income stream through out their post-employment period. However, for this to be effectively achieved, organizations are expected to engage in periodicevaluation of their pension expense and disclosure of plan's assets and liabilities in the financial statement (Queisser, 1998). This approach of pension fund accounting creates a high sense of accountability, measurement and disclosure of pension assets to all parties.

The problem of accounting for employees' pension contribution and mismanagement resulting in non-remittance, under-remittance, multiple or excess remittances of pension funds and delay in the release of benefits and gratuities after retirements, had caused undue hardship and has a negative effect on pensioners' sustainability. This delinquency no doubt, has attracted considerable outcry and attention from pensioners, policy makers, practitioners, government officials and the academia (Robalino, 2005).

For many companies, pension fund is a very large liability and for the most part, it is not captured on the balance sheet. This was in contention with the IAS 19 that requires an employer to recognize a liability when an employee has provided service in exchange for benefits to be paid in the future (e.g., pension plans). Pensions are still being treated as off balance sheet item. To them it is because Pension fund accounting is complicated and they prefer to treat pension issues as footnotes items, which hitherto makes the footnotes presentation often torturous.

It is evidence that employer's obligatory contribute to the plan and liability were not recorded even when the contribution has not been made in full, while the management process of the individual pension's funds are mostly done with little public accountability, limited access to information, and obscure management processes.

Some pensioners are also disheartened on the discretional determination of their monthly pension by the pension fund administrators (PFAs) without due consultation on how they really want their pension to be paid; while others are objecting for the old Pension Scheme on the ground that it is more sustainable. These encumbrances instigated the following research questions:

- To what extent does pension fund accounting affect pensioners' wellbeing?
- Is pensioners' sustainability dependent on the collective bargaining of the pensioners and the administrators?
- To what extent will the new pension reform meet pensioners' life expectancy?

1.1. Literature review

Prior to the adoption of the '2004' Pension Reform Act (PRA), Nigeria was practicing the Pay-As-You-Go system of defined benefit. It is envisaged that this reform experienced setbacks to include none or late payment of gratuity and pensions.The new PRAwas to remedy the situation by adequately tackling the difficulties of the old scheme. It must also prevent old-age poverty and smoothen life-time consumption for the vast majority of the population. This new scheme is adequately funded, through employee's personal accounts that are confidentially overseen by pension fund administrators with financial assets kept by pension fund custodians (Balogun, 2006).Although the New Pension Reform is not devoid of encumbrances, this is because the expected benefits of the pension scheme are still regarded as being too far from reality, together with the prevalence of mismanagement, and protuberating of pension costs or bills. The motive of the pension scheme is to supply retirees with sufficient cash flows after retirement which must be followed up with sufficient contribution into the pension fund that would produce a plausible post-employment income (Srichander, 2012).

The underpinnings of this article drew its significance from the Modigliani-Miller Theorem for Pensions that is concerned with workers caring much about their earnings that are deposited into the pension fund, i.e.amount saved in the pension fund would reduce present day spending (Alan, 1982). Anyanwu and Oaikhenan (1995) specified that consumption depends on a person's income stream, while, Modigliani and Ardo were able to intuitively and rationally viewed, that an economic unit should base its consumption decision on expected life time instead of current income. The Modigliani-Miller Theorem for Pensions borrowed from its life cycle hypothesis which considers the possibility of consumers units saving "in the fat years" to smooth out consumption in the lean years. The theorem further posits that individual wish to spread life time income such that they would enjoy a pattern of consumption that is optimal over their lifetime.

Howbeit, the mechanismfor the scheme according to the PRA 2004 is that a compulsory contribution of 30% of Basic Salary, Housing and other emolument is expeced to be shared equitably between the employer and employee except for the military where 12.5% is contributed by the employer and 2.5% by employee. More so, two retirement options abound, namely:Programmed withdrawal, where pensions are paid on a monthly in a specified number of years; and Annuity, where guarantee life-time income payments are made as long as the pensioner is alive which is basically done by insurance companies.

2. Pension fund accounting

Pension fund accounting draws its significance from IAS 19 - accounting for retirement benefit in the financial statements of employers and IAS 26 - Accounting and Reporting for Retirement Benefit Plan.The accumulated pension expense over one year period and release of information on pension plan's assets and liability of a company is known as pension accounting. The assumption necessitates the identification of pension cost and to feature the worth of a pension asset together with pension plan's other relevant requirements.

Pension plan are instigated to ensure that pensioner's benefit depict the value of the service offered by them. According to Halsey (1999) the retirement benefit plans are usually administered by trustee appointed from the employees and the employer as separate entity from the employers' administration. The trustee receives contributions to the plan or scheme, invest them and collect interest or dividend from the investment.

Accounting for pension fund encourages report and disclosure that contains a statement of net asset available for benefits and a description of the funding policy. This report will further contain calculations of risk and life expectancies (actuarial) of pensioners. Actuarial assumption under this subject matter is usually appraised and recommended by the company's independent auditors.

The Actuaries set assumptions because pension benefits are paid far out into the future, but how and when they will be paid is uncertain. This takes into cognizance of interest rate, salaries increases, inflation, investment and other related effect on the cost of a pension plan. It also covers issues on termination assumption relating to the length to which the participant will work for his employee, mortality assumption and retirement assumption relating to when the employee will retire and starts receiving accruable benefits

Howbeit, under the relevant assumption in the accounting for pension fund, report of a retirement benefit plan whether defined benefit or defined contributory should contain the following information:

1. A report on the modification/changes in net assets accesible to beneficiaries
2. Disclosure of the accounting policies
3. A narrative of the pension plan and the significant of any modification in the plan during the period

The value of post-employment benefit plan must be carried in the market value. Where a fair or market value is not used, information on its non-usage must be made known. As a corollary, Harper (2009) is his study on pension fund accounting and the states of pensioners in China, discovered that when pension fund are effectively accounted for, using appropriate assumption, and taking into cognizance inflation rate and other economic assumption on the pension assets, the anticipated retirement benefit could be readily available to meet pensioners' need after retirement. Exley et al. (1997) added that, where details accounting procedures are followed, the pension fund would be effectively measured and managed to the benefit of pensioners in ensuring that income from the pension fund are sufficient to meet pensioners' life expectancy.

2.1. Disclosure of governance structures and responsibilities

Disclosure enables the firm to maintain the primary orientation of its financial statements and provide information of interest to other parties as well (Hawksnaw, 1991). When pensioners require a disclosure, this is tantamount to saying that the information is potentially significant enough to affect decisions and, therefore, ought to be revealed (Emmanuel and Garrod, 1994).

Issues on organizational performance are also expected to be disclosed. After all, the accounting information is the major vehicle for getting people interested in what the pension administrator is doing (Gamble et al., 1995).

2.2. Pensioners' sustainability and the new pension scheme

Following the unprecedented issues surrounding the defined benefit scheme which was underfunded, as well as lacking mutual accountability that saw a sporadic increase in the federal government expenditure and liabilities on pension; the new pension scheme has been appraised to be sustainable as a sufficient source for post employment income (Ohai and Awoyinfa, 2013). It is also important to say that most intending pensioners are afraid of the fate that might befall them, having seen what pensioners passed through. However, where pensioners are certain of the outcome of their retirement entitlements, they will be in a state of rest.

A prevailing exposure in recent times shows that after the lump sum of gratuity is paid, the remaining monthly pension payment are often determined by the pension administrators without the consent of the pensioner on the ground that the anticipated years, pensioners are expected to live is not known to them. This however did not go well with most pensioners who asked why an administrator should determine how their pension should be paid without their consent. To counteract this exposure, pensioners require collective bargaining with administrators before the monthly pension is determined.

There is also strife in the area of pensioner sustainability in that individuals that earn slightly higher than the minimum wage of #18500 will be earning barely #3500 as monthly pension after they are paid the lump sum on retirement as against the 80 percent of normal salary at retirement in the old pension scheme. It is expected that government should bear the contribution of low income earners, and they should be exempted from the scheme.

3. Research methodology

The study employed the survey research design. This was undertaken by through the administration of questionnaires to pensioners to evaluate their perceptions on the effect of pension fund accounting on pensioners' wellbeing in Nigeria. This was carried out among selected retirees in the state civil service in Oyo, Anambraand Kano States. The sample size of 400 comprising 135,132, 133for Oyo, Anambra and Kano states respectively andthe judgmental sampling technique were adopted for the selection of respondents from each state. This technique was most suitable because it gives the researcher the possibility of purposefully choosing only respondents with ideas on pension funds accounting among the groups of pensioners. The study adopted OLS for the hypotheses tests. All the administered questionnaires were successfully retrieved and used accordingly.

4. Result and test of hypotheses

Hypothesis 1

H_o1: There is no significant relationship between pension fund accounting and pensioners' wellbeing

Table 1. Modeling Pension fund Accounting and Pensioners' wellbeing

Model	Coefficients	Std. Error	t-value	Sig.	R	R Square	F
1 (Constant)	10.777	.861	12.516	.000			
Pension fund Acc.	.286	.033	8.757	.000	.402[a]	.162	76.681

a: Dependent Variable: Pensioner 's Wellbeing

In response to the first hypothesis, we undertook the study to observe whether or not there exist any statistical a significant relationship between pension fund accounting and pensioners' wellbeing. The results show a t-statistic of [t_{cal} =8.757> $t_{0.05}$ = 1.697] with a p-value of 0.00. This confirms that there is a positive significant relationship between pension fund accounting and pensioners' wellbeing. This was further confirmed by the findings of Harper (2009), who in his study discovered that when pension fund are effectively accounted for, using appropriate assumption, and taking into cognizance inflation rate and other economic assumption on the pension assets, the anticipated retirement benefit could be readily available to meet pensioners' need after retirement.

Hypothesis 2

H_o2: Pensioner's sustainability is independent of collective bargaining between the pensioners and the pension fund administrators

Table 2. Modeling collective bargaining between the pensioners and their administrators on pensioner's sustainability

Model		Coefficients	Std. Error	t-value	Sig.	R	R Square	F
1	(constant)	15.564	.561	27.748	.000			
	Collect_Bargain	.143	.029	4.962	.000	.241[a]	.058	24.617

a: Dependent Variable: Pensioner's Sustainability

In this hypothesis, we undertook to determine whether pensioners' sustainability is dependent on the collective bargaining on pensioners and the administrators. With this result [t_{cal} =4.962 > $t_{0.05}$ = 1.697], it follows therefore that pensioners' sustainability is dependent on collective bargaining between the pensioners and the administrators at 5 percent level of significance.

Hypothesis 3

H_03: There is no significant relationship between the new pension reform and pensioners' life expectancy.

Table 3. Modeling the new pension reform and pensioner's life expectancy

Model		Coefficients	Std. Error	t-value	Sig.	R	R Square	F
1	Constant term	16.196	1.035	15.649	.000			
	New Pen. Reform	.273	.044	6.219	.000	.298[a]	.089	38.672

a: Dependent Variable: Pensioner's life expectancy

The result above shows that there is a positive significant relationship between the dependent and the independent variables. The estimated t–value of the equation [t_{cal} =6.219 > $t_{0.05}$ = 1.697] with a p-value less 0.05. The F-statistic is 38.672 and is significant at 5 percent level. This result confirms that there is a significant relationship between the new pension reform and pensioners' life expectancy. H_0 is therefore rejected and H_1 accepted.

5. Summary of findings

This research was on accounting for pension fund and pensioners' sustainability in Nigeria. It was conducted among 400 pensioners drawn Oyo State, Anambra State and Kano State. The findings were as follow:

Regression reports on hypothesis one revealed that pension fund accounting is positively related to pensioners' wellbeing. The result shows that pensioners deem it necessary for pension costs to be recognized in a specific pattern to attribute the value of the benefits over a work life, and information on pension plan's assets and liability is to be disclosed in the company's financial statement. Discovered also was that pensioner's sustainability was dependent on collective bargaining between the pensioners and the administrators. This will ensure that, pensioners do not outlive their asset/ retirement benefit and would encourage workers to look out for retirement with joy and contentment because of the certainty surrounding the retirement benefits. Other findings show that new pension reform meets pensioners' life expectancy. The new pension scheme and amount paid to all pensioners ensure pensioners' satisfaction, timely payment and it sufficiently caters for their needs. However, some respondents were not in support of the assertion because 7½% of contribution from the present minimum wage of N 18,500 may send them to their early graves.

6. Conclusion

Findings of empirical studies on accounting for pension fund and pensioners' sustainability is varied and conflicting. However vast number of the pensioners were in congruence with the positive effect pension fund accounting has on pensioners' sustainability as it prevents non-remittance, under-remittance, multiple remittance and excess remittances of the pension fund and ensuring a sustainable system that is financially sound, funded and maintained over a foreseeable horizon under a broad set of reasonable assumptions. Pension fund Accounting alsoassists in maintainance and achievement of the ultimate goal of providing a stable, predictable and adequate source of retirement income for workers in the country. PFAs were also expected to maintain books of accounts on all transactions relating to the pension funds and they must regularly give accounting information on investment strategy to the employees or beneficiaries and pay retirement benefits to employees in accordance with the provisions of the Act.

Other findings were that, collective bargaining between the pensioners and the pension fund administrators would further enhance the pensioners' sustainability. This is because, pensioners want to have a say on what they will like to earn as their monthly pension and other possible alternative of earnings. The new pension reform meets pensioners' income sufficiency to a large extent, but was acclaimed that individuals with limited income within the minimum wage level in Nigeria will not experience income sufficiency, because what they would have saved at the end of their service year, will be insufficient, compared to the lump sum paid to this group as gratuity and the 80% of their basic salary paid as pension under the Old Pension Scheme.

The new pension reform meets pensioners' life expectancy as the amount paid in the new pension scheme to all pensioners after retirement are sufficient to cater their needs. However, this was inconsistent with certain pensioners who said they would prefer cash today rather than the promise of a pension tomorrow on the group that the new pension scheme is not sufficient to cater for their needs, that the possibility of a pensioner outliving is scheme is very high, and the amount payable under the pension fund administration is usually low compared to the old Pension Scheme. It is therefore recommended that accumulated pension expense should be reported by organizations accompanied with the disclosure ofthe pension asset and liability. There should be open and full disclosure of the governance structure of the scheme and the managing agency. However, pensioners' opinions on gratuity payment should be sort before by the PFAs; and that government must ensure that those currently prosecuted are severely punished to serve as a deterrent to others; while organizations and government should bear the contribution of low-income earners.

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