JHER Vol. 17, December, 2012, pp. 15-23

Coping with the Challenges of Retirement through Appropriate Preparation Strategies

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Abstract

This paper examines the concept of retirement in Nigeria. It focuses on the need for preparation for retirement, obstacles to the preparations retirement and ways of overcoming these obstacles. The paper concludes that prospective retirees should start planning for retirement from enrolment and it should be geared towards providing for old age. It therefore recommends that prospective retirees should be given appropriate counselling.

Keywords: Retirement, Planning, Challenges for retirement, Financial/social security, Pension

Introduction

In Nigeria today, life after retirement has become a big challenge and traumatic due to lack of social security and prevailing economic depression. The employee who is a prospective retiree must decide for him/herself the type of life to live in order to satisfy his/herself and dependants. All prospective retirees must start early to plan the kind of life they choose to live in retirement. This is because an employee may have to retire from service with or without benefits due to retrenchment, proven case of ill health, accident that may have maimed the person, negligence of duty, etc. This implies that an employee is likely to be retired either when he is ready or before he is ready for retirement. Moreover, dependence on children after retirement makes life more difficult for children and reliance on children as a form of social security is gradually fading away due to children's economic incapability (Billing, 2004). The average life expectancy in Nigeria has been increasing and a large number of people now live up to their 80s and 90s. With many people living up to these ages and the growing sophistication among the young adults, provision has to be made in social system for caring for the aged. Where such systems are not in place, workers have to plan ahead for their old age. Before the new pension scheme in Nigeria (Pension Reform Act 2004), retirees were frustrated as a result of undue delay and some time denial of gratuity and pension allowances. This has brought pains to retirees and with the failure experienced in the public sector pension scheme, there is a major paradigm shift among workers as how to manage their lives in retirement (Oparanma, 2011). In view of this, an employee must plan and prepare adequately for these eventualities.

Concept of Retirement in Nigeria

Retirement means the detachment from primary activity in business, industry or active service as full time employee. It can also be conceptualized as a process that separates an individual from a job role or as termination of a pattern of life and a transition (Asuquo, 2002 in Okechukwu & Ugwu, 2011). Similarly, Asonibare & Abdulrazaq (2008) viewed it as the terminal cessation, relaxation or changeover of financial remunerative employment which is a life stage because it is a period of economic inactivity. Okechukwu &Ugwu (2011) noted that retirement is the point where people stop working completely due to age and that a person may be semi-retired by reducing work hours. Further, Asonibare & Oniye (2008) noted that retirement as a concept had old and new definition. The old definition was when a worker couldn't do something any more, he / she is laid off. The new definition is when a worker does not have to do something anymore. The role of retiree and the stage of retirement we identify with today is a socially constructed concept that was created as a result of the passage of social security Act in 1935 in America (Asonibare and Abdulrazaq, 2008). According to Prize (2000), with the creation of social security, a financial incentive or pension was made available to older workers to encourage them to retire from the workforce and to enable younger workers to take their place thus, stimulating economic growth. A lot of people prefer to retire when they are due for pension benefits although some people are forced to retire on health grounds. Retirement has been variously categorized depending on the perception of the classifier. According to Nwajagu, 2007 in Ugwu, (2011) three ways civil or public servants may retire are: (i) voluntary retirement (ii)Statutory/mandatory retirement and (iii) Compulsory/ forced retirement.

Voluntary retirement is when the employee decides to retire from service before the attainment of the stipulated retirement age or years of service. This may be due to lack of job satisfaction or on health grounds. This type of retirement depends more on the employee. Voluntary retirement below ten years of service does not accrue pension in civil service except fifteen years of service and above.

Mandatory/ Compulsory retirement is when the employee has to retire because he has attained the stipulated retirement age or years of service as specified in the condition of service of the establishment.

Forced retirement is when the employee is not consulted before he is made to withdraw from service with or without benefits due to retrenchment, negligence of duty, proven case of ill health etc.

Nigeria had a pension scheme established by the colonial British administration in 1951 by the instrument called 'pension ordinance'. In modern times, both advanced and developing countries have systems to provide pension in old age. In Nigeria, for example the National Provident Fund (NPF) scheme established in 1961 was the first legislation to address pension matters. It was mainly a saving scheme where both employee and employer contributed the sum of four naira each on monthly basis. The scheme provided for only one – off lump sum benefit (Ahmed, 2006). In 1993 the National Social Insurance Trust Fund (NSITF) was set up by Decree No 73 of 1993 to replace the defunct NPF scheme with effect from 1st July 1994 (Balogun, 2006). Under the Pension Reform Act (PRA) of 2004, the Retirement Savings Account (RSA) was set up to replace the defunct NSITF. The new pension (RSA) reform objective is to ensure every person who has worked receive retirement benefit, assist individuals to save towards old age and to establish a uniform set of rules, regulations and standard for administration and payment of pension. This will be achieved through mandatory minimum contribution of 7.5% employee and 7.5% employer of employees salary, housing and transport allowances in the individual Retirement Savings Account. Contribution is remitted monthly to designated pension asset custodian.

The plans of organization are regulated by the "pension decree of 1979 as amended generally". In Nigeria, the public service rules 2008: 28- 29 states

- The compulsory retirement age for all grades in the service shall be 60yrs or 35yrs of pensionable service whichever is earlier.
- No officer shall be allowed to remain in service after attaining

the retirement age of 60yrs or 35yrs of service whichever is earlier.

- The provision of 1 and 2 is without prejudice to prevailing requirements for judicial officers and academic staff of universities who retire at 70yrs and 65yrs respectively.
- Provided the officer would not attained the retirement age of 60yrs or spent 35yrs of pensionable services whichever is earlier. A director shall compulsory retire upon serving eight years of post.
- A permanent secretary shall hold office for a period of 4yrs and renewable for a further term of 4yrs subject to satisfactory performance and no more.

Other grounds for compulsory retirement identified by Ezeani (2011) in Okechukwe and Ugwe (2011) include retirement on the advice of properly constituted medical board who certify that the officer is no longer mentally or physically capable of carrying out the function of his office.

- On total or permanent disenablement while in service.
- An abolition of his office as a result of re-organization in the department.
- If the retirement is in the interest of the establishment. (Williams, 2007)

However, the new universities miscellaneous provision (Amendment Act 2012) limits tenure of principal officers of the universities to a single term of 5yrs. The law also increased the compulsory retirement age of staff in the professorial cadre and non-academic staff in Nigerian Universities to 70yrs and 65yrs respectively. The law exempts them from the public service rule which requires a person to retire from public service after serving for 35yrs (Adetayo, 2012).

From the above rules, it is clear that old age is an advantage in academics and legal profession whereas; it may be a hindrance in some other profession where physical skills are needed. After retirement, lecturer's services are still sought for as many lecturers are retained as contract staff. On the whole, according to Williams (2007), a time will come when the services of an individual may no longer be needed. This could be due to the rules of the job or poor health. Therefore, the concept of retirement on the whole is based on the general fact that both productivity and the pleasure of work diminish with age. This emphasize the need for adequate planning before retirement comes knocking.

Challenges of Retirement and need for Preparation

Employees in Nigeria mostly civil servants dread retirement due to a lot of problems arising from unpreparedness. When retirement comes knocking on the door of an employee, it enters with challenges. Some of these challenges include:

***Lack/Inadequate plan for Retirement*:** There is an adage that says "He who fails to plan, plan to fail" Most employees fail to plan early in life and this could result to a miserable, confused and helpless life. 90% of retired persons look miserable, confused and helpless as a result of lack of pre-retirement planning or improper pre-retirement planning while 10% of those who retired and are living well probably in high spirit and are able to maintain their status quo are those who planned ahead (Ndaman, 2004). Unplanned retirement creates a lot of problems.

***Insufficient Financial Resources*:** Money is one resource that is hardly adequate and it is one of the determinants of what an individual does in retirement (Asonebare and Abdulrazaq, 2008). In Nigeria today, most families derive their income primarily from salaries and wages which are hardly ever adequate to care for their basic needs. Financial obligations don't just go away with retirement. After retirement, money is needed for buying of food and payment of bills such as electricity, telephone, security, housemaids, drivers, medical etc. Sometimes, bills of dependent children and wards have to be paid. All these require finance.

***Lack of Personal Savings*:** Savings result from careful management of income and expenditure, so that there is something left to save for the future. Insufficient finance to meet basic need has become a hindrance to personal savings as most families do not develop saving habit with the little income they earn. They believe they can always save in future when their condition improves and forgot that without savings they cannot invest Lebouef (2002) in Njoku (2009) maintained "If you have no savings, you have no prayers, and if you are waiting for conditions to be favourable before you start saving, you will wait forever."Inadequate savings can also lead to inadequate feeding which could result to poor health and even death.

***Health Constraint*:** Health according to World Health Organization is a state of complete physical, mental and social wellbeing. It is not merely the absence of infirmity. Good health is the greatest asset anybody can boast of. Retirees face serious challenges in managing their health especially due to inadequate exercise. Also, delay in payment of pension and gratuity has made some retirees sorrowful. This has led to hypertension and deterioration in health as such, their finances suffer.

***Securing residential accommodation*:** Housing is second to food in ones hierarchy of needs. It has an impact on health, social attitude and productivity (Ogbonna, 2010). Nigeria does not have a functional mortgage system (Oparanma, 2011). Acquisition of real estate is on a cash and carry basis therefore prospective retiree must own a house of his/her own before retirement in order to secure a place of comfort after retirement. Studies indicate that personal residence account for 75% to 90% of household wealth.

***Family Challenges*:** Children in traditional times serve as social security for aged parents. The reverse is the case today as some parents still cater for unemployed children after retirement. Worst still, if retirees have children they have not finished training, the children might not be able to complete training, afford good medical care and nourishing foods. The retiree and his dependants will continue to struggle to survive because there is no social security system in the country that makes adequate provision for them (Oparanma, 2011).

***Inflation*:** Persistent high level of inflation will erode the value of pension in retirement as value of savings might not grow with the pace of the inflated market. It is advisable for individuals to review their contribution rates as they get closer to retirement to explore what "top up" contributions they need to make in order to secure adequate retirement income (Okpaise, 2009). Workers can also learn about how to make investments in stocks, real estate or other investment vehicles that can beat inflation and increase the value of their wealth.

***Delay in Benefits*:** Pension issue has not been a pleasant one in Nigeria over the years. Some retirees have lost their lives in the process of begging for what is a constitutional right Oparanma (2011). Some retirees are exhausted and sorrowful due to delay in payment. Retirees should not rely on pension but invest in diverse area.

Due to the above challenges, there is need for prospective retirees to start planning for retirement from first employment and it should be geared towards ensuring the needs of one's life. Plans should be drawn considering duration for retirement, period of retirement, financial needs during retirement, expected income during retirement and estimating source of income.

Preparation for Retirement

The society is changing and getting more complex everyday therefore, prospective retiree must make plans for retirement by defining their goals, identifying their wants and needs, developing a plan to achieve them, act on plans and evaluate plans periodically. This will help them prepare by:

Developing proper saving habits: Prospective retiree should develop saving habit because they cannot invest without savings. Prospective retiree should increase their savings using all the saving devices available. Prospective retiree can save from the little they have if they can discipline themselves and stop procrastinating as everyday they wait and delay is like burning future money (Allen, 2005).

Having investment: Prospective retiree should invest in small and medium scale businesses. Business areas such as interior decoration, fashion designing, laundry, hotel, restaurant, hospitals, schools, day care centres, stock buying, bonds, real estate etc .Njoku (2009) noted that wise investment decision can be taken based on ones peculiar circumstances (age, income, expenditure, responsibilities etc.

Acquiring assets: Prospective retirees should acquire assets first before luxuries (Liabilities) as wealth creation starts with accumulation of assets. Inflation erodes the value of money therefore prospective retirees can keep up with inflation by investing in portfolio of assets that will give above inflation rate return (Njoku, 2009). Prospective retire can invest in landed asset such as real estate ventures since landed property appreciates on a daily basis. Prospective retirees should build or buy their own house, acquire land and real estate as properties.

Diversification of income: Prospective retiree should not depend on a sole source of income. They should diversify their income to allow for flow of income that will enable them to adjust to new financial situations and reality if one stream dries up. Allen, (2005) called this multiple streams of income. Prospective retirees can diversify by assets classification, sectorial considerations, financial returns, size of company stock and aim at positive real returns, well above the rate of inflation (Njoku, 2009). Income can also be diversified into purchase of shares in stock market to tie down reasonable fund for retirement income.

Life Insurance Policy: Prospective retiree should invest on life insurance policy and other insurance industry that provides care for accident and other occupational and social vices as this will encourage investment and capital accumulation and support health care and real estate development Schulz (1980) in Oparanma (2011).

Obstacles to the Preparation for Retirement

Large Family Size: A prospective retiree is disempowered by large family size. This is because family members who are yet to be economically self sustaining and productive are dependent on him/her. The available resources to give large family maintenance, equal and qualitative education could be kept aside for future investment and use. Prospective retiree should begat only the number of children they can cater for. In Nigeria the extended family system is seen as part of the family. Additional responsibility of the extended family may also hinder adequate savings. Lack of operable social system that takes care of the aged, the young, the unemployed and the disabled. All these category of people constitute an additional responsibility on the prospective retiree resources (Oparanma, 2011).

***Shaky Pension / Retirement Account*:** Pension issue has not been a pleasant one over the years in Nigeria. Retirees do not receive their benefits as at when due because of the way pension issues are handled. Retirees are subject to multiple screening and it takes years to process pension papers and to make the money available to retirees, some of whom would have died while waiting for the maturing of their pension claim (Nyong & Duze, 2011).With the passage of the pension reform Act and the establishment of a privately managed contributory pension scheme. It is hoped that pension payment will take a new and promising diversion.

***Inflation*:** Retirees are intimidated by the thought that the value of savings might not grow with the pace of the inflated market. In order to beat inflation, retirees can diversify their investment in real estate and other investment plan. They should also study on how to invest effectively in the different financial products in order to meet their financial targets.

***Lack of confidence in stock market*:** In recent times, a lot of losses have been recorded in stock market as a result of crash in capital market. This has discouraged prospective retiree to invest or buy shares in stock market to tie down reasonable fund for retirement income.

Ways of Overcoming the Obstacles

- Pre- retirement counselling in financial management, stress management social and emotional adjustment.
- Accelerate all debt payments to ensure you owe nothing by the time you retire.
- Ensure that all children are economically dependent.
- Maintain a healthy savings habit.
- Expense should be lowered.
- Anticipate or expect the unexpected.
- Set and live by personal financial rule.
- Gather information, seek advice and start planning as soon as possible.

Conclusion and Recommendations

This paper reviewed the challenges of retirees and coping strategies. To enjoy retirement at its best, prospective retiree should start planning from the first day of employment. This plan should be geared towards providing for old age and addressing the challenges that affect post retirement life. Workers are therefore urged to appropriately prepare for retirement by applying the aforementioned principles. Also, they should endeavour to attend workshops on financial planning and retirement in order to appropriately prepare for retirement.

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