

Pre-Retirement Pension Planning and Life Insurance Purchase among Retired Civil Servants in South-Western, Nigeria

Ajemunigbohun Sunday Stephen¹, Alli Noah Gbenga², Ganiyu Kamal³

ABSTRACT

This study examines the relationship between preretirement pension planning and life insurance purchase with its empirical findings from retired civil servants in Southwestern, Nigeria. The descriptive research design is employed. We used purposive sampling technique. A structured questionnaire was used to collect data. 387 respondents were drawn from three Local Government Council Areas from each state. The major statistical technique employed in this study was the Kolmogorov-Smirnov Test. Two hypothetical statements were tested. Results show that preretirement pension education has not encouraged the purchase of life annuity among retired civil servants in Nigeria and life annuity insurance has not been fully subscribed to among retired civil servants in Nigeria. Further, retired civil servants have not seen annuity as an investment vehicle. The study recommends that more stringent efforts should be made by insurance practitioners to collaborate with government and other private employers by creating awareness on annuity as the best financing vehicle for retirees to earn gradual income. The regulatory authorities should throw their weight at monitoring any fraudulent activities that may emerge in the retirement risk management process by creating a more reliable data management system that has the capacity to capture any fraudulent attempt or committed fraudulent activities in the Nigerian insurance industry. This research work contributes to knowledge in that it awakes Pension Fund Managers and Insurance Risk Managers to be alive to their responsibilities in ensuring that loopholes in the retirement annuity plans are tackled.

Keywords: Preretirement, Pension, Life Insurance Purchase, Retired Civil Servants, Nigeria

INTRODUCTION

Retirement is the end product of an active work life but not the end of one's active life. The risks attached to retirement arise from uncertainties revolving around the time of death, which could be influenced by physiological, psychological, economic, financial, and cultural hazards. Therefore, the increasing numbers of retired persons in many countries and the related effects have brought up growing concern and interest in planning methodology for retirement (Fapohunda, 2013; Fisher, Chaffee & Sonnega, 2016; Ibrahim, Isah & Ali, 2012; Onoyas, 2013; Wilson, & Aggrey, 2012). Meanwhile, the decision of when to retire is a significant personal decision and

these days when employees retire, they generally have many years of active life ahead of them.

Retirement is described differently by many researchers from various disciplinary backgrounds. According to Shultz and Wang (2011), retirement is seen as the exit of an individual person from employment, which is associated with reduced mental commitment and attitudinal withdrawal from the workplace. Inaja and Rose (2013) see it as a stoppage or withdrawal from working simply due to the fact that one has attained a specific age, possibly via chronology or by an exact number of years exerted in service. Preretirement is said to be undertaken in a formal process via seminars or informally through reading, talking with friends and discussions with partners.

It includes psychological, monetary and physical adjustments such as identity adjustment, leisure, social appearance and family relationship (Kim & Moen, 2002; Mutran & Donald, 1997; Noone, Stephens & Alpass, 2009). Studies over the years have demonstrated that singular means through which individuals' financial security is guaranteed via superannuation scheme provided by the employer as a means of financial retirement planning (Clare, 2004; Panis, 2003; Zhu-Sams, 2004). STRS (2015) averred that annuitizing is the best option for retirees so as to ensure lifetime income during retirement period as well as for beneficiary upon retirees' death. Pritchett, Schmit, Doerpinghans, and Athearn (1996) see annuities as investment vehicles during preretirement years; while during retirement years, it provides periodic payments that continue throughout a fixed period and/or for the duration of a life or lives. It is intended to provide protection against the risk of outliving one's income (Vaughan & Vaughan, 2014). However, a great deal of attention has been paid over the years at the challenges of the retirees in Nigeria. A few studies such as Ali (2014), Garba and Mamman (2014), Udofot (2012), and Undiayandeyo (2016) gave notable problems confronting the retirees to include: abrupt loss of life, financial inadequacy, loss of usual monthly salary, poor feeding, incapacity to attend to loss sustaining bills, deteriorated health condition, loss of good accommodation, sadness, and personality crisis among others. Inaja and Rose (2013) opined that some workers gave the wrong age declaration and falsified documents in a bid for retirement not to catch them unaware easily due to inappropriate planning.

¹Department of Insurance, Faculty of Management Sciences, Lagos State University, Lagos State, Nigeria. sunday.ajemunigbohun@lasu.edu.ng

²Department of Insurance, School of Business and Management Studies, Federal Polytechnic, Offa, Kwara State, Nigeria

³Department of Insurance, School of Business and Management Studies, Federal Polytechnic, Offa, Kwara State, Nigeria

This research then endeavors to seek answers with the following research questions: Has there been any pre-retirement pension planning education in the purchase of life annuity? Has life annuity insurance been fully subscribed to among retired civil servants in Nigeria? This paper has been structured in the following direction: introductory section; literature review; methodology sections; results and discussion of findings; research implications and suggestions for further research.

LITERATURE REVIEW

Quite a number of studies have given their contributions with respect to preretirement planning (Anderson & Weber, 1993; Gall & Evans, 2000; Muratore & Earl, 2014; Sharpley & Layton, 1998). Preretirement planning is an integral aspect of the retirement planning process (Asebedo & Seay, 2014). According to Muratore and Earl (2010), preretirement planning is said to be individual effort put together before retirement in a bid to secure healthy and doubtful wellbeing for the future. The term 'retirement', according to an earlier submission by Atchley (1996), is defined as the departure event in an individual's life course from a phase of the occupational life cycle.

As recorded by Latulippe (2004), retirement is an economic disengagement of a person due to the attainment of retirement age or reduction in his production output. It is thus seen as a means of exiting from one's job, career or occupation, which could be as a result of health, age, accident or having served the required number of years with the organization (Amune, Aidenojie & Obinyan, 2015). Glamser (1981) stipulated that preretirement planning has two different approaches namely individual and group. By individual approach, preretirement planning is said to contain one or more briefings with the individual who is about to retire during the period he/she is enjoined of beneficial gains from pensions, social protection, and overall retirement process with the help of human resource or personnel managers. Group approach is usually used by a large organization with a very large employee base in which there might be a need for group discourse, visual materials, and hard copy material so as to have wider coverage on retirement matters. Planning is the core activity of preretirement as it helps to eliminate sudden changes to wellbeing, enhance pertinent resources, and contribute satisfactorily to retirement (Adams & Rau, 2011; Taylor & Doverspike, 2003).

However, while Wang (2007) sees retirement as being stressful and associated with loss of regular pay, isolation from workmates, and increase in ample time. It is thus seen to be categorized into voluntary, involuntary, and mandatory retirement (Ali, 2014; Amoah-Mensah & Darkwa, 2016; Ghosheh, 2008). Vaughan and Vaughan (2014) opined that retirement planning involves three steps that are more or less parallel to those considered in planning life insurance which include: (i) estimating the future income need, which demands prediction into the income requirement which exist after retirement and also discovering sources that would be made opened to satisfy these requirements; (ii) determining how all

financial requirements meet up with the needs stated in the preceding step will be accumulated by designing and implementing a plan to accumulate assets sufficient to fund the difference between the resources that will be needed and the resources that will be available to provide the required retirement income; and (iii) planning the methodological process through which accumulated resources will be distributed and consumed. Pension, according to Toye (2006), is simply put as the amount set aside either by an employer or an employee or both to ensure that at retirement there is something for employees to fall back on as a guaranteed income for them or for their dependents. Odia and Okoye (2012) see a pension as an amount paid by the government of a country or by a company to its employees after serving within a given time or have been considered too old to work or too ill or have attained statutory retirement age. The normal retirement age, according to Pritchett et al. (1996), is the age at which full retirement benefits become available to retirees. Fapohunda (2013) observed that pension management in Nigeria is characterized by the following problems: insufficient funding accumulated arrears of pensioners, poor documentation in the pension office, corruption and embezzlement of funds, and inability to determine appropriate investment portfolio, among others.

According to Vaughan and Vaughan (2014), an annuity is an essential tool in managing the retirement risk and the possibility of outliving the retirement accumulation. These can be used to transfer the risk of outliving an accumulated sum to an insurer. More so, the provisions for one's retirement may combine the techniques of avoidance, reduction, and transfer but the primary technique for dealing with the retirement risk is retention. An earlier submission by Blakes (1999) defined life annuity as a financial contract between the annuitant and life insurance company, whereby it provides a stable income to the annuitant, for the remaining parts of his life after retirement, in exchange for a monetary payment called premium. A life annuity is seen as a series of payment at fixed intervals paid to the annuitants while the person is alive. It can be purchased with one lump-sum payment or in installments over a period of years (Trieschmann, Hoyt & Sommer, 2005).

Life insurance, according to Vaughan and Vaughan (2014), is concerned as a pooling technique and economic mechanism by which risk of early demise is ceded from an individual to groups. Consequently, the activity insured is an eventual sureness meaning that it is not happenings of death itself. Life insurance is seen as an insurance contract between an insured and an insurer, where the insurer promises to pay a designated individual (beneficiary) a sum of money (benefit) in exchange for an amount (premium). As explained by Kim (2001), the benefit of life insurance policy is that it guarantees a sum of money in case of death (life assured) to the person paying the premium or it pays alternatively to his/her estate if the life assured is also the beneficiary.

RESEARCH METHODS

This research work engages a descriptive survey technique. The rationale for its involvement in the provision to the researcher a profile of relevant aspects of the phenomena of interests and thus scrutiny of the happening circumstances revolving sample variables devoid of the attempt of control (Asika, 2008; Sekaran & Bougie, 2016). It thus has the capacity to demystify the behavior and information concerning sample situations (Easterby-Smith, Thorpe & Jackson, 2008; Saunders, Lewis & Thornhill, 2009). Data was collected through a field survey using a structured questionnaire. This is used because of its appropriateness to the design of research (Babbie, 2005). The questionnaire further helped us to elicit responses via its completion by adopting Likert-scaling measurement attached with a covering letter.

The target population comprises retired civil servants within the state of Lagos and Ogun, whose responsibilities in the past were a cut across transportation, education, agriculture, finance, economics, and law within the approved Local Government Council areas of the states. The choices of the sample areas were due to the fact that larger percentages of the phenomena of research interest were domiciled and accessible.

The sampling units (specifically three local government areas from each state) comprising Alimosho, Amuwo-Odofin, Ojo, Opokia, Obafemi-Owode, and Ado-Odo Ota were chosen for questionnaire survey out of which a sample of 387 respondents was taken for analysis. For genuine responses and attention to the research instrument, the research assistants were engaged, which allowed supported in the distribution and administration of the structured questionnaire. Basically, among 450 questionnaires distributed, 387 were found useful for analysis, giving an 86% response rate. The sampling technique adopted was purposive in nature. In testing various hypothetical postulations, Kolmogorov-Smirnov Test was adopted. Regarding the correctness of the instrument, congruent and logical types of validity were adopted. While the preceding validity was carried out via variable explained in the past literature, the later was employed via administration of the chosen instrument to selected retirees, staff in personnel departments, pension offices, and academia in insurance profession. Eventually, experts thoroughly examined the instrument and came up with laudable instructions and advice, which helped the researchers in designing the questionnaire within participants' grip. On reliability, Cronbach alpha of 0.713 was recorded with a high indication that it surpassed the required level of 0.70.

H₁: Preretirement pension education has not encouraged the purchase of a life annuity

H₂: Life annuity insurance has not been fully subscribed to among retired civil servants in Nigeria

RESULTS AND DISCUSSION

From the Table 1 below, the point of highest difference between cumulative congruent arrangement and cumulative arrangement under observation was calculated at -0.2584. The

Kolmogorov-Smirnov Test figure ($\alpha / \sqrt{N} = 1.36 / \sqrt{387}$) is determined as: $D = \alpha / \sqrt{N} = 1.36 / \sqrt{387} = 0.06913$

In this regard, the D value (- 0.2584) is far lesser than the table figure value of 0.06913, implying that the H₀ that preretirement pension education has not encouraged the purchase of life annuity is accepted at 0.05. This, then, signifies that preretirement pension education has encouraged the purchase of life annuity is unacceptable, with respect to the responses of selected participants.

Table 1. Hypothesis Test One

	Agree	Indifferent	Not agree
F= Preretirement pension education has not encouraged the purchase of a life annuity	265	93	29
F _i (X)= Construct cumulative arrangement of choice under null hypothesis	0.33	0.6666	1
S _o (X) = Cumulative arrangement of choice under observation	0.68	0.9250	1
F _i (X)-S _o (X)	-0.35	- 0.2584	0

Field survey, 2016

Life annuity insurance has not been fully subscribed to among retired civil servants in Nigeria. Table 2 signifies the point of highest difference cumulative congruent arrangement and cumulative arrangement under observation at - 0.1912. The Kolmogorov-Smirnov Test figure ($\alpha / \sqrt{N} = 1.36 / \sqrt{387}$) is given as: $D = \alpha / \sqrt{N} = 1.36 / \sqrt{387} = 0.06913$.

Table 2. Hypothesis Test Two

	Agree	Indifferent	Not agree
F = life annuity insurance has not been fully subscribed to among retired civil servants in Nige	231	101	55
F _i (X)=Construct cumulative arrangement of choice under the null hypothesis	0.33	0.666	1
S _o (X) = Cumulative arrangement of choice under observation	0.59	0.857	1
F _i (X)-S _o (X)	-0.26	- 0.191	0

Field survey, 2016

In this regard, the D value (- 0.1912) is far lesser than the table figure of 0.06913, implying that the H₀ that life annuity insurance has not been fully subscribed to among retired civil servants in Nigeria is accepted at 0.05. This implies that life annuity insurance has been fully subscribed to among retired civil servants in Nigeria is unacceptable, with respect to the responses of selected participants.

CONCLUSION

Retirement planning has been emphasized in a number of studies; then, paying a lip service could be devastating to the Nigerian workforce. Retirement planning involves setting goals or objectives and indicating how the goals or objectives will be realized. Therefore, the responsibility is on society to educate individuals who are working to prepare financially, physically, and socially in order not to be overtaken by events. Annuitizing has been suggested as the best option for retirees so as to ensure lifetime income during retirement. This research work attempts to examine the relationship between preretirement pension planning and life insurance purchase among selected retired civil servants in Nigeria.

From the result of the study, it is evident that preretirement pension education has not encouraged the purchase of life

annuity among retired civil servants in Nigeria. Also, empirical result from the Kolmogorov-Smirnov test provides evidence that life annuity insurance has not been fully subscribed to among retired civil servants in Nigeria. In addition, the results also show that retired civil servants have not seen annuity as an investment vehicle that could be boarded upon while in their active work life so that it can guarantee periodic payment throughout the duration of their lives, and further guaranteeing peace of mind, and reduce anxieties during the retirement period.

Recommendations and Future Direction

On recommendations, the government should introduce contents on life assurance and its benefits during preretirement education for prospective retirees. In furtherance of this, government at different cadres should make annuity purchase attractive to them and further propagate its benefits to other cadres at the workplace. As to the insurance practitioners, more stringent efforts should be put in place to collaborate with government and other private employers by creating awareness about annuity as the best financing vehicle for retirees to earn gradual income.

More so, insurance practitioners should collaborate with academia in the field of insurance, actuarial science, and human resources management in order to come up with more sustainable and reliable annuity and life insurance plans so as to promote stable, confidence-based, result-oriented, and trustworthy retirement schemes in the minds of the insuring populace. As to the regulatory authorities, efforts should be made to monitor any fraudulent activities that may emerge in the retirement risk management process by creating a more reliable data management system that has the capacity to capture any fraudulent attempt or committed fraudulent activities in the Nigerian insurance industry.

This research work contributes to knowledge in that it awakes the regulatory body on the need to continually engage academia, insurance practitioners, IT experts, and other stakeholders in designing and building a more sustainable anti-fraud strategy in improving insurance market penetration and density. It further stresses the need for managers to be alive to their responsibilities in ensuring that loopholes in the retirement annuity plans are tackled. It benefits the insuring public in terms of effective policy delivery and rises in confidence level.

On suggestions for further studies, researchers can pull their weight into studying some of the factors affecting the behavior of workforce towards annuity insurance plan. Efforts could also be made by other researchers in examining the confidence level of prospective retirees towards the purchase of life-annuity insurance policy. Lastly, other interested researchers can direct their research efforts towards various retirement risks confronting the prospective retirees in Nigeria and in other such countries.

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