PALNEWS

Editor's Note

Dear Esteemed Customer,

We thank God for bringing us to the end of the first half of the year.

The whole idea of having an RSA is in preparation for our retirement. At that time when the RSA will matter most to us, we will be faced with payout options. As part of our policy on superior customer service delivery, one of our prerequisite actions is to hold payment discussions with retirees. These discussions have shown that more retirees are making post retirement choices armed with little or no knowledge of the retirement options available to them and the implications of such options. In this edition, we will discuss the two Post Retirement Pay out options available to a retiree at the point of retirement and believe that this information will assist the retirees take a more informed decision to suit and ultimately attain their dreams of what they envisaged life would be post retirement. Have a good read!

Post Retirement Payout Options

Which best suits your retirement plans?

Post Retirement Pay out options in this context alludes to the various payment modes available to individuals whom while under gainful paid employment had signed up as contributors to this Pension scheme – the Pension Reform Act 2004 (PRA 2004) to enable them gain Full Access to the cumulative balance (total contributions plus investment income) in their Retirement Savings Account (RSA) upon retirement. Retirees under the PRA 2004 have the option through Programmed Withdrawal (PW) or Annuity.

Programmed Withdrawal is operated by Pension Fund Administrators, while Insurance companies offer you the option to purchase Annuity. These two retirement payout options may share the same common goal but have various features that highlight differences in the mode of execution.

Programmed Withdrawal can be said to be a mode of paying pensions whereby upon agreement with a pension manager, the pension payment is drawn from the balance the retiree holds in his/her account (RSA) as such withdrawals usually expressed in units of constant value can be made monthly, quarterly or annually. This mode of pension payment (programmed withdrawal) is adopted by retirees who wish their retirement benefits to continue to earn investment returns.

Annuity on the other hand can be defined as a contractual agreement, whereby in exchange for a lump sum payable up-front, a series of regular payments are made by an insurance company for the remaining life time of an individual.There are various types of annuity, but only 2 are practiced in Nigeria; The Deferred Annuity and the Level Annuity.

Deferred Annuity is a transfer of the outstanding balance in an RSA to an Insurance company as a lump sum after operating on programmed withdrawal for a period of time. As such, it can also be perceived as a combination of Programmed Withdrawal and Annuity.

Level Annuity which may or may not be combined with programmed withdrawal is a type of annuity where the stream of income of the annuitant remains the same for life. This form of annuity is what is most obtainable in Nigeria.

The Annuity pay out option which operates throughout the life span of a retiree is not flexible as such once the annuity value has been determined it is the same for the life span of the retiree.

The major differentiator between the Programmed Withdrawal and Annuity is that at the death of retirees operating the Programmed Withdrawal the beneficiary(as stated in the Will or Letter of Administration) is entitled to the total balance in the RSA which is paid as a singular bulk amount. With the Annuity pay out option however, the beneficiary of a deceased annuitant is entitled to the cumulative sum earnable for the remainder of the guaranteed period only if the annuitant dies within the guaranteed period of 10 years. In the instance where death occurs after the guaranteed period of 10years elapses, the beneficiary receives nothing.

More differentiating features of these two pay out options are compared using some salient factors as shown below:

Operating Period: While Annuity runs for the course of the life time of the annuitant, the PW payment option runs until the balance in the RSA is fully utilized.

Flexibility: PW allows for the retiree to decide on the amount to receive as minimum and maximum values as stipulated in the regulations guiding benefit payment. On the other hand once the annuity value has been decided, that is the value earnable by the retiree for life.

Longevity Risk: Retirees operating PW run a risk of outliving their savings. This risk is minimized in annuity.

Fund Security: Retirees under the PW pay out option have their funds secure as they are placed with a custodian thus ensuring that the PFA is unable to access the funds, while the custodians are unable to level any action on the funds without an instruction from the PFA with the approval of The National Pension Commission (PENCOM). This arrangement ensures for proper checks and balances on the system and management of pension funds. This form of security does not exist in the annuity arrangement whereby funds are placed with and administered by the Insurance Company.

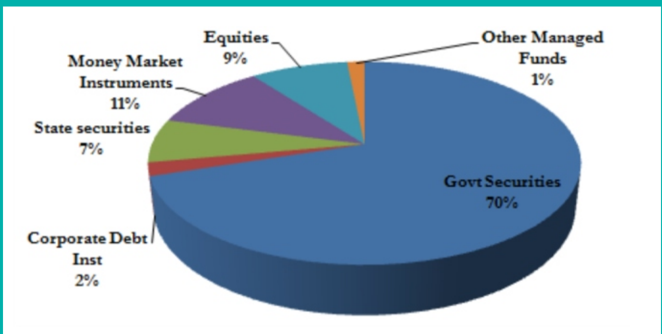
Time Value of Money: The Balance in a Retiree's account is invested. This yields interest which is ploughed back to the retirees accounts. This inevitably increasesthe RSA balance unlike the Annuity pay out option which is a flat amount credited to the annuitant's account for the span of his life.

Fund Management Complexity: Annuity is considerably simple to manage unlike the PW pay out option that requires sound Financial/investment knowledge.

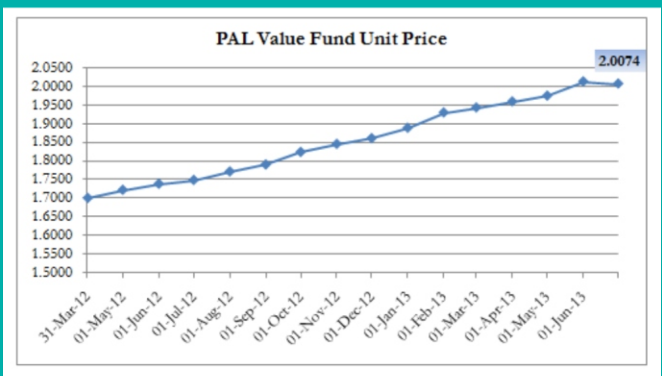
PAL VALUE FUND

The PAL Value Fund opened the year with a unit price of N1.8887and closed the month of June 2013 with a unit price of N2.0074. This represents a year to date growth of 6.31%. The PAL Value Fund Portfolio as at 30th June, 2013 comprised of the following asset classes: Government Securities (70%), Equities (9%), Money market instruments (11%), State Securities (7%), Corporate Debt Instrument (2%) and Other Managed Funds (1%).

PAVF ASSET ALLOCATION STRUCTURE AS AT 30TH JUNE, 2013



PAL VALUE FUND UNIT PRICE CHART AS AT 30TH JUNE, 2013



Financial Tips

Spend less than you make:
The decision to live within your means and not your wants is the first step to achieving this.

Frequently Asked Questions

Q: Can an RSA holder give a standing instruction on how he wants his pension contributions invested?

A: No. The pension contributions are invested based on the guidelines from the National Pension Commission.All interest accrued on the funds are however ploughed back into the individual RSA's.

Q: Is it feasible for a retiree that has purchased annuity to switch to programmed withdrawal and vice versa?

A: A retiree who purchased annuity will be unable to switch to programmed withdrawal, but a retiree can make the switch to annuity from a programmed withdrawal payment.

Joke

Two old men in a retirement village were sitting in the reading room and one said to the other, "How do you really feel? I mean, you're 75 years old, how do you honestly feel?" "Honestly, I feel like a new born baby. I've got no hair, no teeth, and I just peed on myself."

Quote

The difference between a successful person and others is not lack of strength nor a lack of knowledge but rather a lack of will.

– Vince Lombardi

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