3rd QUARTER 2014
PALNEWS

EDITOR'S NOTE

PAL pensions

Dear Valued Customer,

Welcome to the 3rd quarter 2014 edition of the PAL News!

In the last quarter, a major event in the industry was the reform of the PRA 2004 culminating into the signing of PRA 2014. On 1 July 2014, President Goodluck Jonathan signed into law the new Pension Reform Act 2014 which repealed the Pension Reform Act No. 2 of 2004. Similar to the repealed Act, the new Pension Reform Act governs and regulates the administration of the contributory pension scheme for both the public and private sectors in Nigeria. The new Act would serve as the enabling legislation for the administration of the contributory pension scheme in Nigeria.

The Pension Reform Act 2014 has some major amendments which all stakeholders; employers of labour and employees alike would find interesting. Therefore, this edition of the newsletter is dedicated to highlighting those areas of the PRA 2004 that have been amended.

Have an insightful read!

THE PENSION REFORM ACT 2014

The value of pension assets in Nigeria as at 2013 was put at over 70 billion. As at the end of March 2014 the figure had risen to about N4.1 trillion. On the one hand, we can say that our achievement is commendable considering that we were in a deficit position of over N2 trillion before the PRA 2004. However, on the other hand, statistics show that only about 2.4 million of the working population are part of the scheme. This leaves a lot to be desired.

The PRA 2014 is a huge improvement on the PRA 2004. The key objectives remain to ensure contributors receive their benefits as and when due and to assist improvident individuals to save towards retirement. As expected, it governs and regulates the administration of the contributory pension scheme for both the public and private sectors in Nigeria.

Some of the changes made are indications that the recommendations made by the PFA's and other stakeholders were taken into consideration. The salient changes are summarized below:

1. **Exemption from tax** - The Act clearly states that any interests, profits, dividends, investments and other income accruable to pension funds or asset are not taxable. Also, the withdrawal of voluntary contribution is no longer subject to tax if withdrawn within 5 years, however, tax is limited only to the returns on such contributions if withdrawn within 5 years.

2. **Withdrawal from Retirement Savings Accounts** - Unlike the PRA 2004 which stipulates that a contributor cannot withdraw from his/her RSA if he/she resigns before the age of 50 years and has been unable to secure another job in the preceding 6 months, this new Act creates another condition; "An employee who resigns from employment or is disengaged before the age of 50 and is unable to secure employment within 4 months is allowed to make a maximum withdrawal of 25% of the RSA balance".

3. **Rates of contribution** - The rates of contributions to be made under the new Scheme are as follows: Employer 10%, Employee 8%. As in the PRA 2004, an employer can take full responsibility of the contribution. However, in that case, the contribution shall not be less than 20% of the employee's monthly emolument.

Also, a Group Life Insurance Policy must be maintained in favour of the employee for a minimum of thrice the employee's annual total emoluments similar to the old Act.

4. **Pension Protection Fund** – In the PRA 2014, a pension protection fund has been created under the new Act to include an annual subvention of 1% of the total monthly wage bill payable to employees in the public sector, an annual pension protection levy (the percentage of which is to be determined by PenCom) and income from investments of the Pension Protection Fund. The objective of the Fund is to guarantee a minimum benefit to contributors in the event of any shortfalls in the investment of pension funds and any other use PenCom may determine from time to time.

5. **Choice of Pension Fund Administrator** – In the PRA 2014, the right of an employee to choose any PFA of his/her choice has been extended to employees whose employers operate a 'closed PFA". Such employees now have the right to choose an external PFA. Where an employee fails to open a Retirement Savings Account (RSA) within six months of assumption of duty, his employer can now request a PFA to open a nominal RSA for such employee for the remittance of his pension contribution.

6. **Investment of pension funds** - The Act expands the scope of investments in which pension funds can be invested and this includes specialist investment funds and other financial instruments the National Pension Commission may approve.

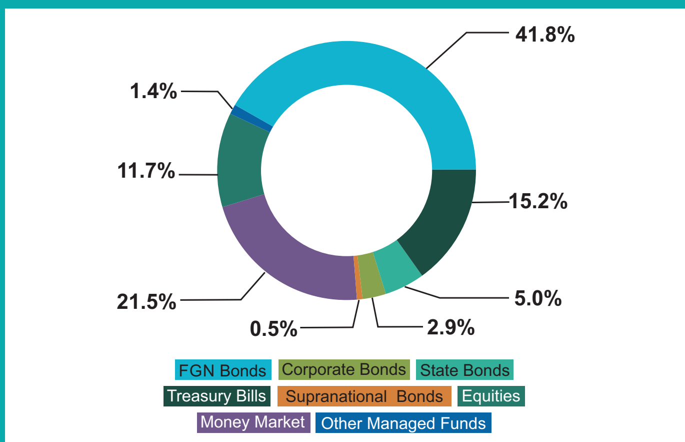
7. **Offences and Penalties** - The Act includes a few provisions with respect to offences and penalties. It criminalizes an attempt to commit an offence and imposes the same penalty as the offence itself. The penalties for fund misappropriation have been increased. In addition to a prison term of 10 years and a fine of three times the amount misappropriated, a convicted person would refund the amount misappropriated as well as forfeit to the Federal Government any property, asset or fund with accrued interest or the proceeds of any unlawful activity under the Act in his/her possession, custody or control. In addition to the above and with particular reference to Pension Fund Custodians (PFCs), the Act imposes a penalty of at least 10 million Naira upon conviction. Where the PFC fails to hold the funds to the exclusive preserve of the PFA and PenCom or where it applies the funds to meet its own financial obligations the penalties are stiffer.

Full details of the PRA 2014 can be downloaded from our website **www.palpensions.com.**

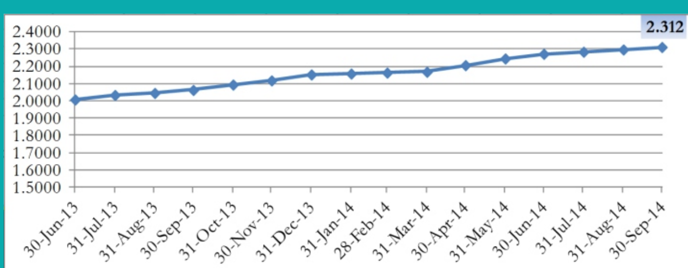
PAL VALUE FUND

The PAL Value Fund opened the year with a unit price of N2.1510 and closed the month of September 2014 with a unit price of N2.3120. This represents a year till date return of 7.48%. The PAL Value Fund Portfolio as at 30th September 2014 comprised of the following asset classes: Federal Government Securities (57%), Ordinary Shares (11.7%), Money Market instruments (21.5%), State Securities (5%), Corporate Debt Instruments (2.9%), Supranational Bonds (0.5%) and Other Managed Funds (1.4%).

PAVF ASSET ALLOCATION STRUCTURE AS AT 30th SEPTEMBER 2014



PAL VALUE FUND UNIT PRICE CHART AS @ SEPTEMBER 31ST, 2013



FINANCIAL TIPS

Save as much as you can as early as you can.
The power of compounding; gains each year build on the prior year's savings.

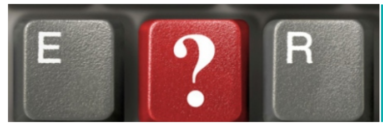
QUOTE:

"Do not let what you cannot do interfere with what you can do."

-JOHN WOODEN

"A good financial plan is a road map that shows us exactly how the choices we make today will affect our future."

-ALEXA VON TOBEL



FREQUENTLY ASKED QUESTIONS

Q1. What is the difference between a PFA and a PFC?

The Pension Fund Administrator (PFA) is charged with the responsibility of managing and investing the pension funds and assets while the Pension Fund Custodian (PFC) is charged with holding contributions and investment instruments on behalf of the Pension Fund Administrator. Within seven (7) days of the payment of salaries, the employer remits the contributions to the PFC, who receives it on behalf of the PFA and within 24 hours notifies the PFA of receipt of the contributions.

Q2. Is the RSA operated like a bank account?

The RSA is not similar to a bank account. It is a Retirement Savings Account which can only be accessed at the point of retirement, disengagement by the employer or resignation (at resignation it is a one off payment that is made after 4 months of not being able to secure another job).

Q3. What ensures the safety of my contributions?

The separation of investment administration and management from custody is global best practice. This minimizes the possibility of mismanagement and fraud by operators, as PFA & PFC cannot be related. Custodians are required to separate pension assets from their own assets to eliminate any conflict of interest with the funds. Furthermore, PenCom also effectively regulates and supervises all operators in the pension industry. The Act provides adequate safeguards against the misuse of the pension funds and assets by any operator.

Q4. Can I register with two or more PFA and get PINs from them?

Multiple registrations are not allowed. An employee is permitted to register once and obtain only one PIN throughout his work life. This is to ensure continuity of his contributions irrespective of employer he works with.

JOKE

An elderly husband and wife visit their doctor when they begin forgetting littlethings. Their doctor tells them that many people find it useful to write themselves little notes. When they get home, the wife says, "Dear, will you please go to the kitchen and get me a dish of ice cream? And maybe write that down so you won't forget?" "Nonsense," says the husband, "I can remember a dish of ice cream." "Well," says the wife, "I'd also like some strawberries and whipped cream on it." "My memory's not all that bad," says the husband. "No problem -- a dish of ice cream with strawberries and whipped cream. I don't need to write it down." He goes into the kitchen; his wife hears pots and pans banging around. The husband finally emerges from the kitchen and presents his wife with a plate of bacon and eggs. She looks at the plate and asks, "Hey, where's the toast I asked for?"

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