...With Leadway, Life goes on.

We welcome you to another edition of The Lens Mini, Leadway Assurance's online newsletter for communicating to you relevant information on the insurance industry as it affects you.

Our editorial focus is on:

THE NEW PENSION REFORM ACT, 2014: EFFECT ON GROUP LIFE ASSURANCE AND ANNUITIES

Highlights

PRA 2014 – 10 Years after…Shining on!

10 years after the brilliance of the Pension Reform Act 2004, the new Pension Reform Act, signed into law on the 1st of July, 2014, comes to herald changes that aim to streamline the savings of funds towards retirement and the provision of funds after retirement, including the availability of funds for the surviving beneficiaries of deceased employees whilst in service and retirees under pension within the guaranteed period.

Application of the Act – new minimum of 15 Staff, separate guidelines for small enterprise

The new Act applies to all employees in the public sector and private organizations where there are 15 or more employees, this is a big departure from the reference to 5 employees stipulated under the 2004 Act. The Act still

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allows employers with less number of workers (prescriptive 3 employees) and self- employed persons to participate within the contributory Scheme under separate guidelines issued by the Pension Commission. This effectively recognizes the challenge in enforcement for small-scale enterprise employers and low/subsistence income earners.

Contributions – More Expected from Employers; Funded Gratuity Permitted

The minimum level of contribution for employees has moved from 7.5% to 8%, whilst that of the employer has moved sharply from equal 7.5% under the old Act to an unequal 10% under the new Act. In effect, the overall rate of contribution increased from 15% to 18%. The new Act equally recognizes retirement gratuities in addition to individual retirement savings of their employees and appears to allow these to be funded as part of contributions under each employee’s retirement savings account up to 20% of the monthly emoluments of the employee (ref. S.4 PRA 2014). As, such there is now a fresh window of opportunity for employers to purchase funded insurance products (under the Leadway’s Deposit Administration Scheme (DAS) for example) in addition to the Pension Scheme contribution for their staff.

Group Life Insurance – Hurray! Life Insurance finally recognized as a Specific Bequest! Creating Need for Directors and Officers Liability Insurance

The 2014 Act retained the requirement under the old Act, of a Group Life Policy for employees, for a minimum of three times the annual total emoluments of the employee. The new Act requires that premium must be paid not later than the date of commencement of cover, which is in consonance with the requirements of Insurance Act 2003 on payment of ‘Cash before Cover’.

Of significance, within the new Act, is the formal recognition of Life Insurance as a specific bequest. Thus, instead of the payment that was erstwhile routed into a deceased employees retirement savings account, which then made it difficult for beneficiaries to access, the new Act now allows payment to be made direct to named beneficiaries of the deceased employee. Consequently, employers are required to ensure that their employees avail the insurer with

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the list of their beneficiaries to receive the proceeds of their company's Group Life Policy under which insurance has been taken out for their lives whilst in service.

There are consequences where an employer does not effect and maintain Group Life insurance for its employees. Given that the new Act mandates an insurer to pay claims arising from the death of an employee to a beneficiary or beneficiaries named by that person, an employer may be sued by the legal estate of a deceased employee seeking the benefit that would have been paid out under a group life insurance cover in the event that the employer does not insure in accordance with the Act. As such, it may be prudent for employers under the scheme to take out Directors and Officers Liability Insurance to cover any possible unintentional operational lapse or gap.

Annuities – Life Insurance Companies now under Joint Regulation of PENCOM and NAICOM

The Act retained its earlier provision that allows an employee to utilize the amount credited to the employee's Retirement Savings Account for either a programmed withdrawal or to purchase an annuity from an insurance company. For better consumer protection between competing products (PFA "Programmed Withdrawal" and Life Assurance Company "Annuity"), the new Act prescribes that purchase of annuity must be jointly regulated by the Pensions Commission (PENCOM) and the National Insurance Commission (NAICOM), thus bringing insurance companies squarely within the regulatory ambit of the National Pension Commission, which was not the case till now (ref. S. 7(1)(c) PRA 2014)

Taxation – Better Clarification on Tax Deductible and Tax Exemption!

The new Act clarifies the position of taxes as applied to Pensions. Whereas the 2004 Act merely states that any amount payable as retirement benefit shall not be taxable, the 2014 Act, in addition to the

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old provision clearly states that contributions shall be tax deductible for employers and any accrued interests, dividends, profits, investment or other income earned on the pension fund and assets are not taxable (ref. S. 10(1) &(2) PRA 2014). This should improve earning positions on pension assets and retirement savings funds.

Regulation – NAICOM now Part of PENCOM!

Unlike the 2004 Act, which appeared to have left an insurance regulation gap despite the significant involvement of insurers within the pensions industry, the 2014 Act has effectively closed this gap by providing a seat for the National Insurance Commission on the Board of the National Pension Commission (ref. S. 19(2)(d)(x) PRA 2014). This can only ensure a more robust industry for the benefit of the Nigerian worker prior to and post retirement!

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Conclusion – A triumph for Nigerian Workers!

The PRA 2014 remains a shining piece of legislation with gleaming provisions for the security of Nigerian workers!

Whilst we have captured the salient points of the Pension Reform Act 2014 as it affects annuities and group life insurance, including the insurance industry regulatory environment, we invite you to visit www.leadway.com/resources for a full look into the provisions of the Act itself.

We hope that you have enjoyed our review of the PRA 2014. We welcome your enquiries into our life, annuity, deposit administration and directors &officers' liability products and services via our Call Centre on **01-2800700**. You may also e-mail us at **Lcs@leadway.com** or insure@leadway.com. We look forward to being at your service.

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