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# RETIREMENT PLANNING: Conceptualisation, Challenges and Policy Options[1]

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## ABSTRACT

*The central objective of this paper is to explain the concept and relevance of retirement planning within a vibrant Christian organisation such as the Assemblies of God's Church. In particular, an attempt is made to expose participants to the theoretical relevance and application of the benefits of retirement planning to the church as an employer, and the pastors as employees of the church. Accordingly, issues related to the role of the church and beneficiary pastors and other full-time workers such as church administrators are conceptually analysed. The paper recommends that the Assemblies of God's church should play a pivotal role in establishing and contributing to an attractive pension scheme in the form of an Occupational Pension Plan for its pastors and other full-time employees. This undertaking can only be successful if the church can restructure and streamline some of its activities by formalising and unifying its payment system as well as breaking new grounds, repackaging and redirecting some of its services for economic gains and income generation.*



**Keywords**: Retirement Planning, Estate Plans, Church, Pastors, Church Administrators

## 1.0 INTRODUCTION

The issue of retirement and quality lifestyle after retirement is receiving much attention in research, economic policy formulation, social commentary and media debate today than ever before. The reasons for this increasing interest in retirement planning in recent years by demographers, economists and other social scientists can be attributed to the following:

- With the passage of time, the world is moving toward lower fertility rates, longer life expectancy, and a growing population of post-retirement age persons. The world's population of persons 60+ years has been increasing steadily in recent years probably due to improvements in healthcare delivery and civilisation. For example, in 1990, persons aged 65 and more years totalled 180 million in the world. This figure increased to 245 million in the year 2000, and projected to be 564 million in the year 2025.
- There has been a consistent strong trend in early retirement in many countries in recent years. For instance, in Eastern and Central Europe, effective retirement age is 57 years for men and 53 years for women. In Turkey, many people retire below age 50 or even below age 40. Public sector employees in many countries today can retire at age 55 or even earlier. In France, as at 2007, the retirement age for a teacher was 38 years after employment, whereas for trained engineers, it is 50 years of age.

The foregoing clearly demonstrates that the average man is more likely to spend much more time in retirement today than in the past. Thus, old age dependency rate is likely to increase in many countries. It is, therefore, imperative to critically examine the support systems that are generally available to the retired elderly and formulate effective policies for improving life after retirement.

From the above, it is quite clear that policymakers and governments are confronted with the challenge of managing the aging population of the world because whilst birth rates are falling, life expectancy is increasing as an ever-expanding segment of the population is becoming elderly overtime. This leaves fewer workers per a retired person, and hence the continuous need for governments and other development partners as well as social institutions to formulate effective economic policies closely tied to improving future living standards of retirees.

In a bid to explain the tenets of retirement planning to the clergy and senior officials of the Assemblies of God Church in Ghana, this paper throws light on the concept of retirement planning, the rudiments and essence of retirement planning, the role of the church as an employer, the role of the clergy as employees, and the challenges and policy options of the church.

## 2.0 LITERATURE SURVEY AND CONCEPTUALISATION

In general, a pension is a special arrangement to cater for retired workers with a consistent income when these ex-workers are no longer in regular income-earning jobs usually as a result of old age, ill-health or disability. It is important to note that pensions are not the same as severance packages. Whereas pensions are paid in regular installments over a specified period, the severance packages are paid in one lump sum.

A retirement plan as it is often called in the United States of America, also referred to as superannuation plan in Australia, but pension scheme in the United Kingdom, is a pension granted upon the retirement of an employee. Often, retirement plans are set up by employers, insurance companies, the government or other accredited institutions such as registered employer associations and/or labour unions. Retirement pensions are typically in the form of a guaranteed *annuity*. In many cases, retirement plans require both the employer and the employee to contribute money to a special fund whilst the employment contract is still valid between them, so that the latter can receive some defined benefits upon retirement. Funding can also be supported by other institutions such as trade unions, the government, or self-funded schemes. Pension plans are, therefore, schemes put in place to serve as a form of deferred compensation for an employee.

When an employer creates a pension for its workers, it is often referred to as occupational or employer pension. Occupational pensions are a form of deferred compensation usually advantageous to both the employer and the employee with respect to taxation. In many cases, the government, labour unions and other established institutions may also set up pension schemes or fund pension schemes.

A state or social pension is a special fund created by governments for the working population of a country to provide income when they retire or become disabled to participate in income-earning activities. State pensions typically require payments throughout an individual's working life in order to qualify for some monetary benefits in the future. Common examples are the national insurance scheme in the United Kingdom and social security fund in the United States of America.

Disability pensions are special pension schemes to support workers who might be injured resulting in a "permanent" disability in the course of performing their official duties. This may take the form of an early entry into retirement by a disabled person below the normal retirement age.

## 2.1 The Rudiments and Essence of Retirement Planning

It is not unimportant for a worker to begin to think of retirement the very day he/she assumes work. In other words, it is unwise to wait until the attainment of the mandatory age of retirement before one begins to think and plan for retirement. The truth is that, to a very large extent, the anxiety associated with retirement can be drastically reduced to manageable proportions if the problem of retirement has been taken into consideration and planned for well ahead of time.

Retirement planning horizon attempts to provide a time frame by which a worker can assess his/her efforts to ensure a smooth and tolerable retirement during his/her working life. Thus, during the active working life of an individual, he/she is expected to accumulate some savings, sufficient enough and mature timely, such that, this worker can look confidently into the future (which is life after retirement) with courage and hope. Therefore, the quality of life one enjoys after retirement is, to a very large extent, directly determined by the sacrifices he/she makes today (i.e. the savings made while working) and the type of pension scheme chosen[3]. For an effective personal retirement planning, there is the need to take into account, the phases of retirement planning. In general, four phases of retirement planning can be identified. These are the Pre-Pension Planning Phase, the Pension Planning Phase, the Pension Plan Execution Phase and the Pension Consolidation Phase.

The Pre-Pension Planning Phase (up to 29 years of age): This is the time during which young employees are often not particularly worried about issues related to pensions and retirement. This is because during the early years of working, many people just prefer to focus their attention on the acquisition of movable personal assets such as modern television sets, sound systems, private cars, and home decorative items, which are meant to make present life more interesting, refreshing, and enjoyable. Besides, around this age, many young workers save their incomes towards marriage and spend the rest on leisure after a presumed difficult time at school or with parents since infancy. During this early stage of working life, because majority of the time is spent at school under strict parental care and control the individual immediately concentrates on the life pleasures of independence and modernity. Hence, the thoughts of issues related to retirement and pension are quite remote psychologically from many young workers/individuals below age 30.

The Pension Planning Phase (30-34 years of age): Given that the average retirement age is 60, it is natural to expect rational active workers and indeed, even other persons who might not be working actively, to begin to think of retirement during the second half of their statutory working life. This is the period during which workers begin to look into the uncertain future and reckon with the fact that decent

[3] Even though generally this is the truth, there are some people who are enjoying quality life in retirement today not as a result joining and contributing to a good pension fund, but because they have invested in their children or other persons. Others are enjoying from the sources sacrifices of others through inheritance of wealth/investments.

life after retirement, or at old age, requires some investment today. Accordingly, during this period, the rational individual begins to put his/her plans together towards a comfortable retirement at a future date. Hence, during the actual planning phase, the rational worker is no longer too much interested in immediate wants for frivolous living, but rather setting aside a reasonable part of his/her present earnings and investing these 'savings' into funds or projects that yield sufficient returns to finance a decent life after retirement. For many people, the very first time they would ever think of an estate plan is during this phase.

The Pension Plan Execution Phase (35-50 years of age): This is the period during which the individual actually implements the retirement plan outlined in the Pension Planning Phase. In many developing countries where housing is an acute problem, one common undertaking, which has become part and parcel of the preparation towards retirement is committing one's resources to owning a personal residential apartment. Workers who are in this age bracket, thus, commit a lot of their present earnings and other resources to acquisition of a personal residential facility for their immediate family so that their retirement benefits can be used entirely for the upkeep of the family. Apart from aiming at securing a personal residential apartment, the rational individual tries to purchase insurance policies and other long-term financial assets and income-generating projects at this phase.

The Pension Consolidation Phase (51-60 years of age): This is the last ten years prior to compulsory retirement in Ghana, and indeed, in many other countries across the globe. At this phase, most rational workers try to increase their investment in retirement funds so that their pension pay may be higher than normal at retirement. The individual worker tries to save strategically such that he/she is not found wanting immediately after retirement when pensions are yet to be paid. At this phase, the worker is more concerned because he/she is aware that to have a smooth economic life and peace of mind after retirement, there is the need for him/her to have a positive net worth of his/her assets. Wills are regularly revised during this period to suit the current and expected future conditions.

Retirement planning, actually involves taking crucial decisions as to whether a person prefers a *defined benefit* or *defined contribution* pension scheme. A *defined benefit pension scheme* guarantees a certain payout at retirement, according to a fixed formula which usually depends on an employee's salary, age at retirement, and years of employment for which contributions were made to the scheme. This means that a defined benefit pension scheme does not depend on the return on investment. A *defined contribution retirement scheme* provides a payout at retirement that is dependent upon the amount of money contributed and the performance of the investment vehicles utilized. Thus, apart from the amount contributed by the worker, the expertise of the fund managers as well as the performance of the macroeconomy is crucial in determining the amount the individual worker receives when he/she retires from active work.

In recent years, however, some investment firms in certain advanced economies like the United States of America and the United Kingdom have introduced some hybrid pension plans such as *cash balance* and *pension equity plans*, which seek to combine the features of the two traditional plans mentioned above.

The general motivation for retirement planning is to put measures in place to minimise shocks and setbacks in the life of a worker upon retirement. The specific objectives for retirement planning include:

- to smoothen sustenance from regular-income-earning life whilst in full employment to a stable non-income earning life in retirement;
- to make time for religious and social activities including the family in retirement. Many retirees are likely to spend their time on socially-enhancing activities such as counselling, evangelism, writing motivational books, and active participation in community self-help services;
- to enable retirees lead decent lives with dignity and honour. They then become role models to the younger generation and this can spur the youth on to achieve greater heights;

- to promote healthy life among retirees through guaranteed emoluments which give the elderly peace of mind and the sense of independence and dignity; and
- to reduce the burden the elderly might exert on their immediate families, the community, the government and the church.

## 3.0 THE ROLE OF THE EMPLOYER: THE CHURCH

As an employer, it is the responsibility of the church to be paternalistic and promote the welfare of its workers, whilst they are in employment and even in retirement. This suggests that the church is expected to put measures in place to protect and secure the economic future of its workers, particularly, the pastors and other full-time employees such as church administrators. It is hereby suggested that the church should:

- establish a special retirement scheme and, at the same time, contribute financially to the scheme towards the retirement of their pastors and other permanent staff;
- alternatively, join any well-established pension scheme which is well-known for its track record;
- educate the target beneficiaries such as pastors and church administrators to contribute part of their personal earnings to the fund towards their retirement; and
- educate its pastors and other full-time workers to put their finances in order before going on retirement.

In order to achieve the above, it may be incumbent upon the church as an employer to:

- formalise many of its activities including guidance and counselling, training workshops and seminars, published books and church paraphernalia, by giving these activities a business outlook;

- regularise and unify the incomes of its pastors and other full-time workers according to professional rank and experience rather than according to size of church and monies mobilised by a particular branch of the church;
- accept that the world has changed from socialist inclination and unlimited benevolence to capitalist inclination with limited benevolence; and
- invest in long-term income-generating projects such as the establishment of schools, vocational training centres, guidance and counselling centres, so that the regular retirement contributions payable by the church on behalf of its employees can be less stressful and more sustainable.

## 4.0 THE ROLE OF THE EMPLOYEE: THE PASTOR / THE CHURCH ADMINISTRATOR

The individual pastor, and indeed, any other permanent worker of the church such as the church administrator should make sure that:

- he/she draws an effective personal retirement plan which should include an estate plan and religiously work towards accomplishing its purpose;
- initiate personal retirement programme so that even if the church has some retirement packages for him/her, he/she could be in a better stead to receive higher pension benefits upon retirement;
- he/she takes into account unforeseen events such as divorce, disability or incapacitation and death in estate and retirement planning;
- the age difference between the individual and his/her spouse, the age of his/her children and issues related to dependency are taken into consideration when planning for retirement; and
- he/she is actually committed to securing his/her own economic life upon retirement, since joining a pension scheme implies reduced present income.

## 5.0 CHALLENGES AND POLICY OPTIONS: THE WAY FORWARD

Both the employer (the church) and the employee (the pastor/church administrator) are expected to decide on which available scheme is most appropriate for them. One common area of concern is to ensure that a *qualified retirement plan* is adopted and pursued. Both parties must think beyond the normal social security benefits because these benefits will not be enough to meet the retirement needs of a person, let alone provide for a comfortable old age. Social security was never intended to be the sole source of retirement income of any individual.

Some specific challenges that the church is likely to face in an attempt to establish a retirement scheme and/or promote quality retirement life for its pastors and other full-time workers are:

- Resistance from members and even the clergy itself. Some pastors will never want to retire. Others will think formalisation and unification of remuneration package of pastors is tantamount to cheating those in charge of larger congregation. Members may consider this as extra financial burden on the church.
- The church may be mandated to meet certain administrative requirements and deadlines with regard to record keeping and payment schedules on behalf of pastors and other permanent staff. In this regard, there may be the need to employ a full-time church administrator to handle records keeping and other administrative work. Even though the appointment of a church administrator may increase the wage bill of the church, it may also result in efficiency, higher motivation and productivity.
- Difficulty in the selection of the type of retirement package for pastors and other categories of workers.
- The reality is that it may be prudent to incorporate spousal retirement packages in the pension schemes of pastors in particular given their unique roles and the expected support from their spouses. This would, however, be an extra-burden on the church but, in the long-run, the benefits may outweigh the costs.
- The strenuous decision of whether or not to the church must establish its own pension scheme or join an existing pension fund.

- Coping with tax implications, at least, on personal income tax of pastors and other beneficiaries. This is why it is important for the beneficiaries to understand and accept the values of joining a pension scheme.
- The difficulty of mobilising sufficient resources to initiate the pension fund investment plan and sustaining the scheme. For instance, there may be the need to ensure that funding arrangements are put in place to play an increasingly important role in delivering income security of the retirees.
- Formalising payment systems and remuneration packages may bring in its wake additional financial burden on the church such as payment based on months of service, and payment for unused vacation time or sick leave.
- There may be the need for the church to appraise the adopted pension scheme from time to time. This may be required so that the appropriate reforms may be pursued to ensure that the scheme keeps pace with the expected outcomes and objectives of the policy.

Some policy options available to the church include:

- Creating a negotiated special high-interest earning pension fund investments with a reputable financial institution to earn positive real interest rate.
- Embarking upon profitable income-generating projects such as the establishment of schools, farms, printing press, photography, audio and video recordings, training organists and other instrumentalists, renting wedding gowns, sale of diaries, hymnals, calendars and other church paraphernalia.
- Valuing and incorporating into the remuneration packages of pastors and other employees of the church, some of the facilities such as residential accommodation, medical and utility bills, which many pastors enjoy free of charge, into their remuneration packages.
- Organising income-generating programmes such as counselling services, drama (plays and poetry), musical shows, conferences and seminars for which pastors are made to play a key role.

- Strategically insuring the property of the church as well as some components of its expenditure outlay including the medical, dental and the life of the pastors and their immediate families.
- Establish a pension fund and possibly including a provident fund which should not necessarily be restricted to the pastors and members of the church but open to the general public or Christians of other persuasions. It must be noted that the cost of managing the fund is likely to be higher under private accounts plan than under a social accounts plan. Besides, the more the contributors to the fund, the superior the opportunities for risk-sharing.
- Diversified stock options are also available to the church as an additional source of funds.
- Unlike many other social institutions which in recent years have been strongly promoting decentralisation, the church must see itself as unique and pursue non-discriminatory centralisation programme especially with regard to conditions of service and rewards systems.

## 6.0 CONCLUSION

In today's complex world of increasing competition, both in the physical and spiritual realm, the church cannot afford to be over-complacent with regard to payment systems and rewards for its pastors and full-time staff. Just as the church often find it prudent to encourage its members and especially spouses and to-be spouses, to adopt an open-door policy via the operation of a common account and jointly plan their estate together, so it is equally incumbent upon the church to put effective measures in place to ensure that their pastors and other full-time employees are well paid and protected against economic hardships when they retire. It is, therefore, the responsibility of the church to educate and motivate its employees and followers to plan for their retirement whilst they are still young and economically active to smooth their consumption pattern throughout their lives. This is the only way by which the church can have decent elders who would become role models and counsellors.

Retirement planning which involves organising one's finances in order to safeguard oneself against turbulent economic conditions in the uncertain future is more vital to the overall success of a church today than in the past. Estate planning which many churches strongly promote in recent years is an aspect of retirement planning. There is the need for the church to go a step beyond encouraging its followers to plan their estate, which involves the preparation of wills, living wills, and more that will assist trustees to carry out their final wishes, whether rich or poor. The church must be seen as directly contributing to the welfare of own employees, the congregation and even retires workers. This would serve as a motivation for the up and coming pastors and other full-time employees of the church.

Both the church and the individual pastor stand to benefit substantially from a well-established and an effective retirement scheme. For instance, the church will enjoy a higher goodwill and respect from its members and the public as pastors are made to concentrate on spreading the word and breaking new grounds. The pastors would be motivated to concentrate on their full-time work as pastors and probably become more spiritual in their undertakings. Above all, there is the likelihood that the church will become more stable both financially and spiritually, and grow at a faster rate as pastors are likely to be more willing to accept transfers and confront new challenges effectively.

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## 8.0 GLOSSARY

*Annuity* is money paid yearly or at some other regular intervals to reduce risk and increase longetivity. It may also mean the right to receive or the obligation to pay an annuity.

*Estate plan* is a systematic plan for the accumulation, conservation and distribution of an estate or personal property after death or bankruptcy. A good estate plan minimizes taxes payable by owner and beneficiaries and accomplishes the owner's goals efficiently and effectively. After the death of the owner, a good estate plan should be able to distribute the estate with minimum administrative costs. The sooner the plan is made, the more effective it can be.

*Net worth of assets* is the monetary value of assets less total indebtedness.

*Qualified retirement plan* is one that qualifies for special tax treatment under the relevant statutory provision.

*Retirement* is the point where a person stops employment completely. A person may also semi-retire by keeping some sort of retirement job, out of choice not as a necessity.

*Severance package* is the pay and benefits an employee receives when he/she leaves an organisation.

*Social Security* is a programme to provide for the consumption needs of the elderly.