# ASSESSING EFFECTIVENESS OF MANDATORY CONTRIBUTORY PENSION SCHEME IN NON-GOVERNMENTAL ORGANIZATIONS: A CASE STUDY OF BAYLOR COLLEGE OF MEDICINE-CHILDREN'S FOUNDATION MALAWI

**MASTER OF BUSINESS ADMINISTRATION THESIS**

**ALLIETH MALIKHA CHIKOTI**

**UNIVERSITY OF MALAWI**
**THE POLYTECHNIC**

**September, 2019**

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**MASTER OF BUSINESS ADMINISTRATION THESIS**


**BY**

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**Thesis submitted to the Department of Management Studies, Faculty of Commerce, in partial fulfillment of the requirements for the award of the degree of Master of Business Administration**


**UNIVERSITY OF MALAWI**

**THE POLYTECHNIC**

**September 2019**

# DECLARATION

I hereby declare that this dissertation is my own work. It is being submitted in partial fulfillment of the requirements for the degree of MBA in the University of Malawi and it has not been submitted for any degree or examination in any other University.

**Name of Candidate :** Allieth Malikha Chikoti

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**Date** : 25th April, 2019

## CERTIFICATE OF APPROVAL

We, the undersigned, certify that we have read and hereby recommend for acceptance by the University of Malawi a thesis entitled, *'Assessment of Mandatory contributory pension scheme in NGO's working in Malawi: The case of Baylor College of Medicine'*.

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**Head of Department** : ______________________________________

**Signature** : ______________________________________

**Date** : ______________________________________

## DEDICATION

To my late dad Mr. Samson Malikha who instilled a hardworking spirit in me. He believed in my capacity and made me the person I am today. To my lovely Sister Ruth, My Brother Samson and My Mum Evelyn, your love and support towards me and my kids is amazing and I will always cherish your love and care.

# ACKNOWLEDGEMENTS

To my family, which endured my absence, I love and appreciate you for that, especially my dearest husband Mphatso Chikoti, for your encouragement throughout the process. You stood by me, your trust and encouragement helped me to continue working hard even during difficult times.

To my supervisors Mr. George Dzimbiri and Mr. Alick Kaumba for your support and guidance throughout the process.

To Baylor College of Medicine management for financial support and allowing me to study whilst working and your amazing trust in me.

To George Traoli Mwenye-Phiri for statistical support and Mr Peter Jiyajiya for editing this document, I appreciate your work.

God bless you all.

# ABSTRACT

Malawi recently initiated reforms of its pension system in order to improve effectiveness of pension administration. This study sought to assess the effectiveness of a mandatory contributory pension scheme in Non-Governmental Organizations in Malawi. The research adopted a descriptive research design in a mixed methods approach. Semi-structured self-administered questionnaires were used to collect data from 264 and 20 randomly sampled and purposively sampled Respondents which included Baylor active staff, Baylor ex staff, fund administrators, investment managers, Reserve Bank officer and Labor Officer, respectively. Results show that the odds of rating pension management as “effective” are two times more among Respondents with at least five years of working experience, compared to those that work for one year or less (Adjusted *OR* = 2.233; 95% CI: 1.145, 4.355). Factors such as: “trustees not being involved in investment”, “unavailability of advanced Information Technology”; “lack of knowledge by pension members”; and “country's unstable economy”, contributed to ineffective pension management. Also, non-remittance of pension, lack of transparency by pension administrators, trans-organizational transfer of pension funds, and lack of supervision by labour officers are some of the challenges associated with pension management in Malawi. The findings suggest that the perception is that the contributory pension system is not effective. Therefore, Malawi government should collaborate with PFA in conducting massive public awareness on pension issues, train trustees, and invest in advanced technology to promote efficiency on the way pension funds are being managed in Malawi.

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# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| BCM-CFM | Baylor College of Medicine – Children's Foundation Malawi |
| ECAM | Employers Consultative Association of Malawi |
| HIV | Human Immunodeficiency Virus |
| ILO | International Labour Organizations |
| IOPS | International Organisation of Pension Supervisors |
| IT | Information Technology |
| MCTU | Malawi Congress of Trade Union |
| MPS | Mandatory Pension System |
| NGO | Non-Governmental Organisation |
| NPS | National Pension System |
| OECD | Organisation for Economic Cooperation and Development |
| PAYG | Pay As You Go |
| PFA | Pension Fund Administrator |
| RBM | Reserve Bank of Malawi |
| UK | United Kingdom |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Pension has received much attention in many countries across the world over the past decades. The history of pension began after the civil war, when US government paid pensions to disabled, impoverished union veterans and to the widows of the dead. Southern states paid pensions to disabled veterans, such that civil war pensions became the basis for social security which also came to be known as pension system in other countries decade later (Seattle Times Staff, 2013).

As reported by Andrews (2006), the need for pension systems and reforms has become demanding as demographic aging has strained pension systems around the world. Ahmed, Abayomi, & Nureni (2016) state that pension management is one of the solid security attributes approved by the International Labor Organisation (ILO) Convention no. 102, which has worked extremely hard on social security matters since 1966. Ahmed et al., (2016) went further to indicate that pension reform is a continuous process, especially with the ever changing economic and political environment witnessed everywhere in the world. Babatunde (2012) indicated that Chile and some of its Latin American neighbors began a new system known as contributory pension system that was personalized to the contributor and was being managed by licensed private sector entities.

Estrada (2016) pointed out that most Asians are at risk of old age poverty, as such, formal pension system would play a big role since Asia does not currently have a matured and well-functioning pension system. This is because the pension system has limited coverage, as such, Asian countries would want to embark on pension reforms in order to address the current challenges with old age income.

An increasing number of African countries have recently initiated reforms of their pensions and social protection systems, although some have gone further along this journey than others. Most countries have introduced some form of arrangement for pension provision or have social security as a strategic goal. African countries are beginning to adopt different approaches to pension provisions to strengthen the retirement security of their workforce (Bailey & Turner, 2003).

Challenges and structure to pension systems differ in each country within Africa. Reforms in Africa have been adopted in order to improve the quality and effectiveness of their pension systems and Nigeria is the first African country to introduce contributory pension system after undergoing a number of reforms inorder to achieve pension effectiveness (Stewart & Yermo, 2009).

Malawi is a low income agricultural country with high rates of poverty and income inequality as confirmed by Mussa (2017), such that most Malawian citizens do not save for the future. In 2011, for example, the country embarked on an important pension reform, which sought to achieve a number of issues. Some of the issues were: to expand pension coverage to all formal sector employees, to improve the financial sustainability of public sector pension scheme by fully funding its liabilities and transforming it into a defined contributory pension scheme, and to establish a uniform regulatory framework for private pension funds (Feher & Holtzer, 2015). Malawi Pensions Act, 2011, was implemented to achieve a number of objectives which include: to ensure that employers to which the act applies provide pension to their employees, to ensure that every employee in Malawi receives retirement and supplementary benefits as and when due, to promote the safety, soundness and prudent management of pension funds, provide retirement and death benefits to members and beneficiaries, and foster agglomeration of national savings in support of economic growth and development of the country.

Malawi Pensions Act came into force on 1st June 2011 and the Act applied to every employee and employer except government employees and other specific groups of people. The Malawi Government was exempted from provisions of the Act up to 24 months from June 1, 2011. It was until August 2017 when the Malawi Government migrated to contributory pension scheme, but it only covered staff of 35 years of age and below and newly recruited civil servants. All civil servants who were above 35 years of age by 1st July 2017 continued to be on pay as you go (PAYG) pension system also known as defined benefit fund (Nyale, 2017). Malawi decided to implement a contributory pension scheme because the previous pension system had a number of challenges as highlighted by Mhango, (2012). The challenges include: self-regulation of each pension fund administrator, inadequate regulations which led to lack of legal personality in the pension fund, registration with tax authorities required but not designed to ensure compliance with minimum requirements, pension not mandatory, it did not promote preservation of retirement benefits, it did not regulate payment of death benefits, and it did not regulate investment of pension fund assets (Mhango, 2012).

Baylor College of Medicine – Children's Foundation Malawi is an international organisation which has been operating in Malawi since 2006. The Organisation has its headquarters in the United States (US) in Houston. It is operating in seven districts in Malawi and its head office is in Lilongwe behind Kamuzu Central Hospital where it runs a pediatric clinic. Other than the clinic, the organization has a number of outreach projects which focus on pregnant mothers who are HIV positive and the infected children. Due to financial constraints, the organization implemented the pension scheme in 2012 not in 2011 as per the requirement after getting a waiver from Reserve Bank of Malawi. Prior to the mandatory pension scheme, the Organisation was paying 10% per annum gratuity to its staff at the end of each contract period. The gratuity was equivalent to one month salary and was taxable at 30%. It was difficult for staff to make savings since only gratuity was paid to them at the end of their 1 year contract, no other benefits were paid including in case of death of an employee. Baylor has over 1000 employees and all of them are on pension scheme where the employees contribute 5% of their salary towards pension and the employer contributes 10% towards staff pension. The pension administrator for Baylor College of Medicine is Old Mutual Limited.

## 1.2 Problem statement

The new pension system in Malawi was implemented with the aim of "ensuring that every employer to whom the Act applies provides pension for every person employed by the employer, to ensure that every employee in Malawi receives retirement and supplementary benefits and to support the national savings in support of economic growth and development of the country" (Malawian Pensions Act, 2011 (sec 4)). Mhango (2012) argued that Malawi Pension Act promotes portability of pension benefits and provides tax incentives to employers and employees, which is beneficial to employees and cost-effective to employers.

However, Baylor Human Resource annual report of 2017 revealed that employees are not happy with contributory pension system despite the benefits that come with pension scheme. The staff do not appreciate that pension is beneficial and they lack trust in the pension system. The Staff are not convinced that when they retire or leave the organization, they will be able to access their pension benefits without any problems and are not sure if they will be able to receive adequate returns from their investment. It is also clear that pension members from other organizations are facing challenges with the current pension system. As indicated by Potani (2017), employees have been complaining to Labor Office that their pension contributions are not remitted to Pension Fund Administrators, a development which is very worrisome. If nothing is done to address this problem, the organization may experience high employee turnover or attrition rates as a good number of them may join other organizations where they believe their job security would be improved.

It is in this respect that the study assesses the effectiveness of pension system at Baylor College of Medicine, by assessing how pension is managed by pension key players.

## 1. 3 Significance of the study

This study would reveal gaps with the current pension system after assessing how the pension key players (PFA, RB, Trustees, Labour Office, and Investment Managers) are carrying out their roles in pension management. It would also reveal the gaps with Pensions Act and if there is a need to amend Pensions Act in order to address the challenges. In addition, the study contributes to theory by advancing knowledge of pension scheme to already existing knowledge unearthing social factors that influence pension administration's effectiveness. The study may help Labour Officers as well as the Reserve Bank to take supervision on pension issues seriously based on the findings from the study. The study will also contribute to pension fund management by providing some insights into the factors that influence effectiveness of mandatory contributory pension scheme and how to deal with those issues that affect effectiveness of pension scheme management. Furthermore, the results would provide evidence-based information underpinning how pension should be managed to improve effectiveness.

## 1.4 Research objectives

The purpose of this study is to assess the perception on effectiveness of contributory pension scheme for Baylor College of Medicine.

Specifically, the study seeks to:

i. Analyze the social factors that influence perception that pension fund management is effective.
ii. Establish factors that contribute towards ineffective pension funds' management.
iii. Assess the ratings of different stakeholders on the challenges perceived to influence its effectiveness.

## 1.5 Research questions

i. What are the social factors that influence the perception that pension fund management is effective?
ii. What are the factors that contribute towards pension funds management ineffectiveness?
iii. What are the challenges associated with pension scheme management is based on the ratings by different stakeholders?

## 1.6 Chapter summary and organization of the study

The chapter has introduced the topic of the study and is organized as follows: chapter one has discussed the background of the study, followed by problem statement, the significance of the study, research objectives and research questions. Chapter two reviews the relevant theoretical and empirical literature, as well as, the conceptual framework. Chapter three presents the research methodology that was used to achieve the research objectives while chapter four presents the findings of this study. The final chapter is chapter five: it provides the study conclusion, recommendations and points out the limitations of the study and suggests areas for further study.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter describes theoretical literature where it looks at pension concepts and pension theories. Under theoretical literature, the chapter defines pension, discusses the factors that contributes towards pension effectiveness, ways of improving pension effectiveness and pension systems in a number of countries. It further explains empirical literature, overview of literature and the conceptual framework that has been employed to answer the research questions.

## 2.2 Theoretical literature

A number of concepts and theories have been developed in line with pension and its effectiveness across the world. This section reviews some of these concepts and theories.

### 2.2.1 Pension defined

As people develop in life, they have an expectation that a time will come when they will retire, that is, when they start thinking of pension. Pension improves the living standards of elderly people who have outlived the labor force; it also acts as social security and a welfare package for the old as well as retired people when they are in their years of labor inactivity, as indicated by Ahmed et al., (2016). It is argued that one is supposed to work until he/she dies or cannot work anymore (Seattle Times Staff, 2013).

Thaler and Sunstein indicated in their report as quoted in (Mullins, 2010, p. 249) that:

> "*People can save more for tomorrow as long as they are encouraged to contribute more to pension scheme*".

Thus, in other countries, pension is an aspect of Social Security plan. Pension is defined differently by different authors. Ahmed et al., (2016,P. 385) defined pension as "the amount set aside either by the employer or employee or both to ensure that at retirement, there is something for employees to fall back on as income". On the other hand, Anspach (2019) defined pension as “a tax-efficient long-term saving plan, it is a way to keep the money coming in when one retires”.

In a number of countries, pension forms part of social security while in other countries, the pension is treated as a stand-alone policy or law. Laursen (2012) indicated that by the end of 1934, 28 states in the US had enacted mandatory pension system which provided benefits to some 236,000 people. Social security system in the US provides an old age pension for retired workers just the way other pension systems work across the world.

### 2.2.2 Factors that contribute towards pension effectiveness

#### *2.2.2.1 Social factors that contribute towards pension effectiveness*

***a. Age and Pension Effectiveness***

According to Foster (2017), studies have shown that young pension members have the longest period to contribute towards pension than elder members. Young people do not have much interest in pension issues because of the strong desire to live and poor understanding of pension issues and how pension operates. However, young people are very happy with contributory pension scheme because to them the employer’s contribution is regarded as free money which somehow influences them to save for the future and have some interest in pension issues (Pettigrew, Taylor, Simpson, Lancaster, & Madden, 2007). On the other hand Foster (2017) revealed that most young ones much as they are on the mandatory pension scheme, they confirmed that they do not put more effort to know about pension issues and all they know is that they do contribute and the employer also contributes, other than this they take no interest to know more. Age of the members somehow affects the pension effectiveness due to lack of knowledge and interest of young ones on pension issues.

***b. Income and Pension Effectiveness***

Foster (2017) indicated that those whose salaries are lower are the ones who are not very happy with pension regardless of the fact that it is mandatory or not unlike those whose salaries are higher and their contribution towards pension is also high.

*c. Experience and Pension Effectiveness*

Shaw (2018) revealed that long-serving workers, those on high salary are more engaged in pension issues by the employer and that they have more interest in pension issues than those whose experience is less.

### *2.2.2.2 Operational factors which contribute towards pension ineffectiveness*

Below are some of the operational factors which contribute towards pension ineffectiveness:

a. ***Technology and Pension Ineffectiveness***

Martindale (2016) pointed out that since the arrival of the internet two decades ago, pension fund administrators and employers have gradually deployed online capabilities to help employees and employers to access pension information online. Bartlet (2016) commented that with information technology, employees are able to access real-time information such that they are able to access their pension statements as well as update their personal details. Bartlet (2016) also mentioned that in order to attract younger workers, information technology is a way to go. Foster (2017) in his findings, indicated that most young employees suggested that if fund administrators would invest much in information technology so that they manage to access real-time information that would work better for them and will be well informed.

***b. Supervision and pension ineffectiveness***

Hinz (2014) stated that supervision is supposed to be encouraged in order to improve compliance with pension rules and regulations. During supervision, the information is collected and systems are closely monitored and proper support is provided. Supervisors also help in the application of sanctions on noncompliance with pension regulations. In the course of supervision, unresolved members' grievances can be easily realized and addressed.

***c. Staff training /orientation/induction and pension ineffectiveness***

Shaw (2018) stressed that if employees are well engaged or oriented on pension issues, the organisation benefits a lot due to improvement of staff retention and the contribution the employer makes towards pension is regarded as a benefit. Shaw encouraged the employers to do a proper orientation at the time they are being engaged by sharing more information regarding pension, while at the same time they avoid usage of jargons in order to send the right information to the right people.

### 2.2.3 Improving pension effectiveness

Babatunde (2012) came up with a number of recommendations in his article on issues to be looked at in order for the pension system to be effective. He recommended that both the government and pension administrators have the responsibility of educating the public, so that people should be participating in the scheme with full knowledge. Babatunde (2012) further points that pension administrators should always alert its members of statements of their accounts and enforcement of compliance with pension rules and regulations.

Regular review of the pension system could also help the pension system to be more effective. Reynaud (2000) indicated that in Japan the law requires that the regular pension system should be reviewed at least once in every five years. This process enables the officials in charge to involve the users or beneficiaries.

OECD (2013) highlighted that effective pension reforms depend on effective broad-based communication. They indicated that good communication and effective information on disclosure to members is essential in the defined contributory pension system. As part of effective communication, information can be disseminated through websites, internet, print media, social media and advertisement billboards.

Improvements in regulation and supervision do enhance pension management effectiveness and this is a good step in ensuring that the contributions that are made by both the employer and the employees are available at the time they retire (Schwarz, 2006) . There has been an outcry from across the world where members do always complain about the regulations and that regulators are failing to do a better job in making sure that there is compliance of regulations.

### 2.2.4 Pension systems in selected countries across the world

#### *2.2.4.1 China‘s pension system*

Chinese old pension system was facing a lot of challenges and it needed to be improved in order to be effective. The new pension system which China adopted was recommended by World Bank and was adopted by several countries. Dong & Wang, (2016) highlighted three pillar pension system which was adopted by the Chinese government as follows:

The first pillar looks at public pension scheme which is legally implemented to provide the minimum pension for retirees where the government has ultimate responsibility. It somehow holds Pay As You Go model which is financed by tax or contributions from current workers and payment of retirees.

The second pillar is a mandatory occupational pension scheme whose pension funds are from the distribution of pension members for the period they were on employment and funds investment earnings.

The third pillar is a voluntary pension savings. This pension plan follows accumulation mode. It is funded by individual voluntary contributions, which are combined with tax incentives whose goal is to provide more financial resources for those who would want to have more income when they reach retirement age.

The new pension system in China is effective in such a way that it enables the country to improve on incentives whereby members pay more and get more; combining social pooling and individual accounts; strengthening management and supervision of social insurance fund.

#### *2.2.4.2 India's pension system*

Swarup (2012) indicated that most of the elderly people in India depend on their personal savings while very few are on pension schemes. Traditionally, pension system in India has been mandatory where both an employee and employer used to contribute towards pension. This system was criticized to be ineffective because it had inefficient administration, liberal pre-retirement withdraws, poor information and poor service quality to subscribers. India had also a number of pension systems which includes: central and state government pension scheme also known as pay as you go, employees' provident fund, employees' pension scheme, and special provident fund. India introduced a new pension system that was originally introduced for government employees. Apart from government employees, the system was also open to all Indian citizens. It targeted new recruits except armed forces. This was a radical shift made from a defined benefit system to a defined contributory system. The subscribers were at liberty to choose the pension scheme of their choice.

India thought that the radical change made its pension system to be very effective because it promoted disclosure and transparency regarding investments. Respondents are at liberty to transfer their pension benefits from one investment manager to the other and it is regarded as a very cheapest investment product with National Pension Systems (NPS), subscribers withdrawing up to 25% from their pension benefits to carter for other personal needs (Nathan, 2016).

#### *2.2.4.3 Pension system in Russia*

Wilmington (2014) indicated that Russia, just like any other country in Europe, has undergone major structural changes on their pension system since 2009. The country shifted from their pay as you go financial defined pension system to a mixed system consisting of both pay as you go system and defined contributory system. The country realized that having only pay as you go pension system affected the way they were managing their pension because it found that gradually demographic and economic situations were changing due to growth in population as a result of a drop in fertility.

The new pension system which was introduced in Russia is in two pillars, namely basic pension and insurance part. The basic pension is pay as you go financed and is basically for low-income earners where it provides flat-rate benefit. The insurance part, also known as defined contribution, is financed on pay as you go basis but the benefits are related to earnings and based on the member's contribution record. Russia realized that the new pension system was very beneficial and effective because it does not distort individual decisions about savings and labor; and it creates incentives to reveal wages through the clear link between contributions and benefits (Maria, 2002).

#### *2.2.4.4 Pension system in Nigeria*

Nigeria was the first African country to introduce contributory pension system in Africa (Babatunde, 2012). Before contributory pension system was introduced, the country was characterized by Pay As You Go (PAYG) also known as defined benefit in the public sector which is non-contributory and was believed to have many problems. Pay as you go pension system became a great burden for the government of Nigeria, as the government could no longer cope with the payment of pension and gratuities to retiring workforce (Iyiola & Oluwatoyin, 2013). Pay as you go system was known to have so many problems which eventually led to pension ineffectiveness in Nigeria. The problems included: unavailability of pension member's records, uncoordinated administration, inadequate funding, fraud irregularities and conflicting laws. It therefore became imperative to embark on reform in order to restore hope for pensioners and all Nigerian workers. The pension reform of 2004 was compulsory contributory pension scheme and was aimed at making the pension scheme objective and effective. The new pension system had these objectives: to ensure that every person working for either private sector or public service receive their retirement benefits when due, to enable individuals save in order to cater for their livelihood during old age, establish uniform set of rules, regulations and standards for administration of payment of retirement benefits, to establish sustainable pension system that empowers employees to control over their retirement savings account, to ensure transparent and efficient management of pension funds, and promote wider coverage of pension scheme in Nigeria (NPC, 2019).

The contributory pension system in Nigeria resulted in an effective pension system which benefited both pension members and pension managers. , consultative and regulatory framework as well as rapidly increasing industry that attracts significant investment, which positively affects the society (Iyiola & Oluwatoyin, 2013) . Introduction of the compulsory contributory pension system in Nigeria was very effective in such a way that it addressed all the gaps PAYG pension system had.

#### *2.2.4.5 Pension system in Malawi*

On 1st March 2011, 193 members of parliament adopted pension bill no. 14 of 2010, which sought to establish the mandatory pension system. The mandatory pension system was implemented on 1st June 2011,replacing the old system of termination indemnities required under Employment Act of 2000. The Pensions Act 2011 and Employment (amendment) Act 2010 was drafted concurrently to resolve a number of problems such as the double burden on employers who were running voluntary pension funds, who were also required to pay both pensions and statutory severance benefits to their workers and the widespread income insecurity on retirement for the majority of Malawians (Mhango, 2012).

The pension reform faced a lot of resistance from the employers, most of them felt like it was a punishment such that employers presented their grievances through Employers Consultative Association of Malawi (ECAM), and on the other hand Malawi Congress of Trade Unions (MCTU) demanded employees to continue receiving both severance pay and pension. It was therefore agreed to have employees on the pension system but pay severance in cases where an employee has been retrenched from employment.

Section 12 of the Malawi Pensions Act requires both the employee and employer to contribute, where, the employer contributes the minimum of 10% of the employee's salary while the employee contributes a minimum of 5%. Furthermore, section 61(1) of the Act stipulates that the employer is expected to pay the fund administrator the deducted amount plus their contribution in fourteen days' time after the end of the month. This has proven to be a big challenge in most of the organizations, to extent that a number of employees from various organizations recently embarked on strikes because their employers were not remitting pension funds to pension fund administrators (Potani, 2017). In line with the Malawi Pensions Act of 2011, the Minimum retirement age is 50 years or 20 years of contribution towards pension. Contributions can be made to restricted funds, unrestricted funds, and umbrella funds. Most organizations use restricted funds. Pension administrators, trustees, government and employers are required to provide members with fund information which is accurate, meaningful and complete as stipulated in section 58 of the Act.

The Malawi Pension Act (2011), on section 10, has exempted a certain group of people who are protected under the Employment Act of 2000. Employees whose earnings are less than 10,000.00 are exempted from the Act, and these include tenants, domestic workers, seasonal workers, expatriates in possession of temporary work permit, and members of parliament. Employers who do not have more than five employees regardless of their salaries are also exempted.

The Malawi Pensions Act, section 64 stipulates that pension benefits shall be payable out of the fund only if:

> *"on application, the trustees are satisfied that; the member has reached the retirement age, the member has retired on the basis of years of service, the member has retired on the advice of a qualified medical practitioner registered with Medical Council of Malawi or a legally constituted medical board certifying that the employer is totally and permanently disabled from carrying the functions of his office, the member is about to leave the country or has already, the member has died, the member has permanently left the service of the employer, but the member has secured another job the benefits may only be paid out for transfer to another pension fund."*

Section 65 of the Act mandates an employee who has left the employment permanently or resigned, or in cases where the employer has terminated the employment to be paid the benefits out of the fund by the trustees if the registrar is satisfied that: the member has not secured another employment for a period of not less than six months, benefits are limited to the contributions made by the employee not the employer.

Reserve Bank of Malawi has been releasing reports which have revealed a few achievements which Malawi government has made as a result of implementing the mandatory Pension Act in 2011. According to the Reserve Bank of Malawi financial institution supervision annual report of 2014, it is indicated that annual pension contributions increased from MK6 billion in 2011 to MK30.6 billion in 2014. Pension assets grew from MK75 billion to MK245 billion in 2014. On the same, the pension benefits which were paid outgrew by 47.8 percent from MK6.7 billion in 2013 to MK9.9 billion in 2014.

It is believed that by using insurance companies with support from Reserve Bank, pension management is expected to be more efficient and effective.

### 2.2.5 Challenges with pension systems

There have been a number of pension reforms in a number of countries over the past years. Basically, most of the reforms have been embarked on as a way of addressing a number of challenges with the pension systems experienced by different countries. Different authors have pointed out some of the common challenges with pension systems.

Ahmed et al. (2016) indicated a number of challenges with the contributory pension scheme as follows: inadequate investment returns because there are cases where the fund administrators might invest in assets which do not make any return at all; delayed pension payment to retirees - there are cases when the retirees are required to have the valid identification documents before they access their money, for instance, one might need to present a birth certificate in order to prove that he has reached a retirement age, which is not easy in developing countries; and the fund administrators provide inadequate information to the contributors, which makes it difficult for members to know the status of their funds.

On the other hand, Nyakundi (2006) indicated the following challenges experienced by Kenyan pension system: lack of longevity insurance, low coverage, unfunded liabilities, imprudent asset management and weak enforcement of pension laws.

Pozen (2013) pointed out some of the challenges faced by the Chinese pension system which includes: pension members lack trust in pension managers, such that they doubt if they will be able to receive what the employer and themselves have contributed towards pension if they reach retirement age; investment returns are very low; the fund managers do have limited fund choices. China has a large working-age population which will rapidly deteriorate and make it hard to deal with this group when they retire.

Finally, Chinele (2016) indicated some of the challenges Malawi is currently experiencing with the new contributory pension system: inconsistencies and overlaps in the current legal framework regarding the roles of the registrar and the minister responsible for labor in ensuring compliance; some employers are failing to remit the pension contributions because of the current economic setup which is hard and unstable; and some organizations are deducting pension contributions from staff salaries but are unable to remit the same to fund administrator.

### 2.2.6 Theoretical framework

Two theories relevant to this study are the Life Cycle Theory and the Productivity theories. This section reviews these theories.

#### *2.2.6.1 Life cycle theory of pension*

The theory was developed by Franco Modigliani and his student Richard Brumberg in the 1950's. The theory examines the savings and retirement behavior of older and younger persons. The theory states that consumption is a function of lifetime wealth at one's disposal. The wealth could be in the form of financial, real assets and the expected value of future income is not affected by changes in the pattern of consumption as cited by Idowu (2006) in (Ahmed et al., 2016). According to Modigliani as cited in Deaton (2005) it is argued that one of the most important motives for pension is to provide for retirement. Young people save so that when they are old or when they can work no more, they will obviously have money to spend.

Ahmed et al. (2016) indicated that the theory believes that pension reform can affect the savings rate of pension plan Respondent by affecting the average wealth of the contributor. They argued that this is the case because a sustainable pension plan can grow huge financial resources for further or future investment earnings. This could cause a notable change in the distribution of income which may lead to increased wealth to the pension beneficiaries which may eventually encourage sustainable saving tendency.

Deaton (2005) argued that as the population is growing, so is the income of that population. As a result, each generation is better off than their parents. He believed that with population growth, there are more young people than old who are saving than dissaving, which initially means that the total dissaving of the old will be less than the total saving of the young, and that will result in net positive saving. Deaton (2005) went further saying that if income is growing, the young will be saving on a larger scale than the old so that economic growth, like population growth, causes positive saving, and at the higher saving rate.

Schwarz (2006) pointed out that pension system attempts to reduce poverty during old age, but also try to smooth consumption between the working years. For this reason, it is believed that those who consume more during working years will continue to consume more during retirement years.

The theory is very much applicable to this study as most of the Respondents who participated in the research are young. This generalizes that the majority of pension members in the country are young, who are somehow encouraged to save for the future because of mandatory pension scheme in the country. Having younger pension members automatically promotes the saving culture amongst the young employees since before the implementation of contributory pension, very few young persons were saving.

#### *2.2.6.2 Productivity theory of pension*

Dorsey, Cornwell, & Macpherson (1998) indicated that the productivity theory consists of two sides: the supply and the demand side and both sides agree that pension schemes are established as incentives and motivation to encourage workers to increase productivity or performance**.** The demand side of the theory mentions that employers make payments to employees' pension funds because workers prefer pension savings to cash payments to their emoluments because of the attaching benefits of: reduction in income tax, retirement benefits such as social security from employers contributions, and interests earnings on pension fund investment. The demand side of the pension productivity states that high earning income employees prefer pension to cash payment because of the fixed amount of money which is paid to them at regular interval for as long as they live.

The supply side of the theory argues that employees gain from pension, do raise high productivity amongst workers and reduce labor costs. The contributions which the employer make towards pension encourages the employee to remain in employment besides other benefits offered by the employer.

The theory informs that a good pension scheme should motivate its workforce to work very hard and with good performance as they look forward to a rewarding and exciting retirement period.

The theory is more relevant to this research because the Malawian pension scheme is defined contribution plan, whereby the employer does contribute the larger percentage than the employee towards pension. The employer's contribution is regarded as an incentive on the part of the employee which might have an impact on the way an employee works and it is assumed that it can somehow help in the good performance of an employee and somehow help with staff retention. With the maximum retirement age which the Pension Act of 2011 has put in place, it also helps that the employers do not need to deal with old staff who cannot be productive at a workplace.

## 2.3 Empirical literature

A number of writers across the world have done studies surrounding pension systems since, in most of the European countries, the pension is part of the social security act, which makes it difficult to establish. For the sake of this study, we will look at a few writers whose studies looked at pension systems and its effectiveness.

Ahmed et al. (2016) looked at effects of contributory pension scheme on employee's productivity, the evidence of Lagos state government. The main objective was the effectiveness of the contributory pension scheme on productivity. The study also looked at the features of the new pension system for Nigeria in depth. The study revealed that satisfactory pension provision serves as a part of motivation as it helps to enhance employee performance and also assist to increase organizational productivity. In conclusion the writers identified that the contributory pension scheme is one of the essential ingredients which is needed in both public, private and corporate organizations since it has an impact on efficient utilization of employees achieving the present and future goals of an establishment.

The report by International Monetary Fund (IMF) compiled by Feher & Holtzer (2015), indicated that the main purpose was to review the 2011 Malawi's pension reform, specifically to identify parametric reform measures that are needed to reduce the funding gaps and to discuss alternatives to the enacted reform strategy. Baseline projections were used and secondary source data was used during the assessment. Some of the findings include: the authorities are unable to monitor and enforce either mandatory membership or the legislated contribution rate. The assessment also revealed that there is a large number of private pension funds which were unregulated prior to 2011. IMF commended the 2011 pension reform as it reflected the international best practices in many ways, but the reform is incomplete, unrealistically ambitious and it requires further regulatory work, it was therefore recommended that the Government consider broad parametric reforms in combination with and the enrollment of newly hired employees in the funded scheme.

Oluwagbemiga, Olugbenga, & Zacchaeus (2013) did a study on contributory pension scheme on problems and prospects and the objective of the study was to stimulate a thought of concern for the need to improve on the Nigeria pension scheme so as to boost employee's commitment and productivities. A critical review of related literature was carried out which focused on the evolution of Nigerian Pension systems over the years and the changes the old pension system had. They also looked at the new pension scheme and its emerging challenges in Nigeria. The writers concluded that adoption of the contributory pension scheme in Nigeria would address the pension administration problem and the new pension system was recommended highly.

Iyiola & Oluwatoyin (2013) conducted a study on an impact assessment of pension scheme on employee's retirement benefits focusing on quoted firms in Nigeria with an objective to evaluate the impact of the contributory pension scheme on employee's retirement benefits. The study concluded that the contributory pension scheme has a significant impact on employee's retirement on quoted firms in Nigeria. However, variations in the application were still existing among the firms. The study recommended effective monitoring, supervision and enforcement of the pension reform and effective implementation of penalties on non-compliers regardless of their status in society.

Babatunde (2012) did a study on the impact of the contributory pension scheme on workers saving in Nigeria. The objective was to assess the impact of the contributory pension scheme on workers saving in Nigeria. The study found that: there is a significant relationship between the level of awareness of respondents and their savings, there is no significant relationship between contributory pension scheme and savings for retirement, it was hard for people to entrust their future in the hands of the fund administrators, and there is no intangible reward for those savings towards retirement. The study recommends that: pension administrators to always alert pension members about their accounts statements and encourage them to save more and trust them better, both Government and Pension Administrators to educate the public about pension because more members join pension without enough knowledge.

Mhango (2012) did a study on pension regulations in Malawi, where he was looking at the defined benefits and defined contribution fund. The article examined provisions in the Malawian Pension's Act, which makes it mandatory for every employee and employer to contribute towards pension fund. The report looked at the differences between defined benefit fund and defined contribution fund by critically assessing Malawi Pensions Act of 2011. In conclusion, the writer indicated that the enactment of Pensions Act in Malawi which is a defined contribution fund should be welcomed because it would promote the social and economic development by addressing the problems of income insecurities during retirement and social protection.

## 2.4 Overview of literature and conceptual framework

### 2.4.1 Overview of literature

The literature review shows that a number of studies were done on the contributory pension system by a number of countries and Nigeria is one of the countries, which has done so many studies on the contributory pension scheme. On the contrary, Malawi has done very few studies after implementing the contributory pension scheme in 2011. It is from this perspective that the study would fill the gap by assessing the factors that affect the effectiveness of contributory pension scheme in Malawi. The literature has revealed a number of challenges faced by different countries with the pension systems and it is clear that most of the challenges faced are common such that countries can easily learn from each other on how such challenges were addressed. A number of countries have shifted from pay as you go pension systems to the contributory pension system in order to improve the effectiveness of their pension systems and Nigeria has confirmed that adoption of the mandatory contributory pension system has indeed improved the countries pension effectiveness. On the other hand, some of the countries have adopted several pension systems in order to improve efficiency and to allow pension members to choose pension systems which suits their future plans.

### 2.4.2 Conceptual framework

The variables in the study have been explained by the model generated by the researcher and some of the variables are somehow linked to research theories for instance both theories of Life cycle and productivity discusses about income linked to saving for retirement . The study assesses the effectiveness of the pension system at Baylor College of Medicine, for the pension to be effective, it will depend on the factors which will contribute towards its effectiveness. The factors include:

**Social Factors**: These are the factors that influence an individual’s personality, attitudes, and lifestyle as indicated by the BusinessDictionary.com (2016). Some of the social factors which may affect pension effectiveness include:

> *Income:* Foster (2017) indicated that one’s monthly salary may affect the way she/he perceives pension effectiveness. High salaried employees may be very excited with the pension as they save more towards their pension contributions on monthly basis unlike those whose salaries are on the lower side.
>
> *Age:* The young might not see the importance of serving and might not appreciate much as compared to older employees (Foster, 2017).*Qualification:* Employees with higher qualifications might understand pension issues better than less qualified employees (Shaw, 2018).

**Operational factors:** these are the factors which can also affect pension effectiveness, mostly these could also be processes which are supposed to be achieved in order to manage pension effectively. These include:

*Employee's training/Orientation at the time of engagement:* if the staff are not well oriented on pension issues at the time of engagement, this might affect pension effectiveness. The same with trustees, if they are not well trained they completely fail to manage pension and end up frustrating pension members (Shaw, 2018).

*Supervision:* in line with Malawian Pensions Act of 2011, labor office is responsible to carry out supervisions from time to time to make sure that organizations are complying to pension regulations. If this is not properly done, pension remittance may go down.

*Technology*: since we are not operating in isolation, for pension to be effectively managed, fund administrators requires advanced technology so that members should be able to access information that concerns them online without problems. Old Mutual do have an online facility where pension members can access pension information without any problems. (G. Fumulani, personal communication, November 09, 2017)

*Resources:* in order for pension to be effective, resources need to be available. This includes both human and capital resources. Labor officers need money to carryout supervisions**.** Babatunde (2012) indicated lack of funding as one of the factors that lead to pension ineffectiveness.

**Moderating factors:** these are factors that affect the strength of the relationship between the independent and dependent variables. For instance, pension members are supposed to be employed in order for them to contribute towards pension in line with Pensions Act (2011). If one is not employed they cannot be a pension member. In other cases, if one was on pension but stay unemployed for six consecutive months they are allowed to withdraw from pension scheme. This affects the pension funds meant to support them when they reach a retirement age as they will end up receiving very less. Changes in investment policies might affect pension interest, of which pension members do not have control over.

**Intervening factors:** these are the factors which we do not have control over, they are also known as mediator variables. They are hypothetical variables used to explain casual links between other variables as indicated by (Tolman, 1938). For instance, the unstable economy might affect negatively pension savings for members in such a way that if the country's economy is bad, obviously there may be low-interest rate for pension members. Politics might affect pension effectiveness in such a way that government decisions might lead to pension ineffectiveness or effectiveness.

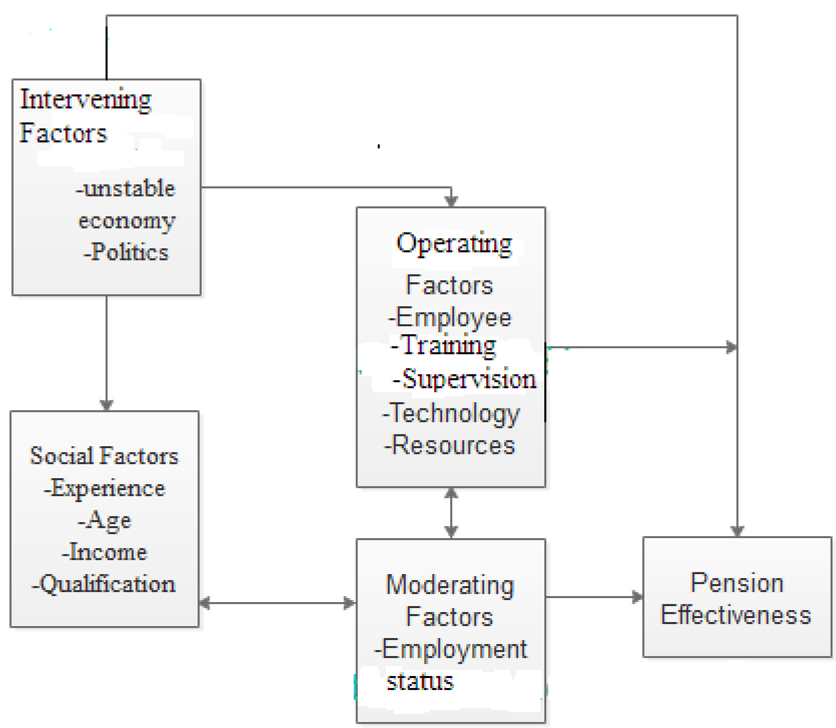


**Figure 1: Conceptual framework**

## 2.5 Chapter summary

The chapter presented the literature review whereby a number of studies related to the subject at hand were critically looked at. It illustrated the theoretical literature which has focused on pension concepts and pension theories. The chapter has also looked at empirical review, literature review as well as a conceptual framework. The next chapter presents research methodology.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter discusses the methodology used for the study. The main issues discussed in this chapter include: research design, sources of data, methods of data collection, population and sample size, the area of study, validity, and reliability of the research instruments and data analysis. The data analysis looks at both qualitative and quantitative analysis, and under quantitative analysis the regression model is explained including univariable and multivariable analysis.

## 3.2 Research design

Research design is the guideline which directs the researcher towards solving the research problem (Edogbanya, 2013). The study adopted a descriptive research design as it intended to produce clear, well-founded answers to some specific questions. Descriptive research was suitable for this study because the problem is well known and it followed precise rules and procedures (Saunders & Thornhill, 2004). It used a mixed method approach where both qualitative and quantitative data collection techniques and analysis procedures were used in the research design. Qualitative method enabled the study to gain the insight, explore the depth, richness and complexity inherent in the phenomenon being studied, while quantitative method tested the relationships of variables.

The study adopted a case study strategy because it is exploratory and descriptive in nature. The strategy was adopted because it allowed the collection of large data from a small population and is very economical and easy (Saunders & Thornhill, 2004).

### 3.3 Study population and study area

Population refers to the entire members of the elements in which the researcher is interested. The study targeted a population comprising 1081 Respondents. Of these, 1024 were Baylor active staff; 50 ex-staff; 4 Fund Administrators; 1 Labour Officer; 1 Investment Manager; and 1 Representative of Reserve Bank of Malawi. The Baylor staff were drawn from four districts: Lilongwe, Salima, Mangochi and Balaka.

### 3.4 Data collection techniques and tools

Semi-structured self-administered questionnaires were used to collect both quantitative and qualitative data. A semi-structured questionnaire was used in which each respondent was asked to respond to the same set of questions in a predetermined order. The questionnaire included both open- and closed-ended questions.

### 3.5 Sample size and sampling techniques

The sample size for active staff was arrived at by using Lemeshow's formula using a margin of error of 5.5% at 95% confidence level and a 6% non-response rate (Equations1 and 2).

$$n = \frac{1024}{(1+1024*0.055^2)} = 250$$

**Equation 1**

$$n = 250*(0.06*250) = 264$$

**Equation 2**

Where $n$ is unadjusted sample size; $n_1$ is the adjusted sample size (adjusting for non-response) and 1024 is the population of Baylor active staff. Feasible sample sizes were determined for the fund administrators, Investment managers, ministry of labor officials, and Baylor ex-staff.

This study used simple random sampling technique, purposive sampling and convenient sampling. Simple random sampling method was used when selecting respondents from Baylor active staff. Purposive sampling was used when sampling Baylor ex-staff and Pension Fund Administrator. Convenient sampling was used when sampling Reserve Bank Officer, Labour Officer, and Investment Manager.

Simple random sampling technique is good because each member of the population has an equal chance to be chosen as part of the sample. Purposive sampling is a non-probability sample that is selected based on the characteristics of the population and the objectives of the study. It is a judgmental, selective and subjective sampling technique. It is helpful in situations when you need to reach a targeted sample quickly and where sampling for the population is not the main concern (Crossman, 2017).

## 3.6 Data analysis

### 3.6.1 Qualitative analysis

Content analysis was used to analyze qualitative data where common themes were identified and coded.

Kumar (2011) indicated that coding is a system of organizing data and is a word, a symbol or a number that is assigned to the item of the data in order to answer a research question. The data were coded based on having similar meaning, patterns and important features to look at what was common. Gradually the assigned codes were re-organized and integrated according to emerging themes and sub-themes. The themes and sub-themes were reviewed and refined so that data within the themes should cohere and provide a meaningful story in relation to the research question.

### 3.6.2 Quantitative analysis

#### *3.6.2.1 Analytical framework*

Quantitative data were analyzed using Statistical Package for Social Science (SPSS) version 21. In order to analyse the social factors that influence the respondents' perceptions on effective management of pension scheme, logistic regression analysis was conducted by first performing a univariate logistic regression. The outcome variable was "In your opinion, what is your perception on the effectiveness of contributory pension system in Malawi, is it effective? (0 = no; 1 = yes)" . The independent variables (social factors) were experience; marital status; gender; age group, gross salary, and qualification. Variables whose likelihood ratio *p*-value was found to be < 0.25 or which theory has previously found to be significant predictors for effectiveness of pension management were included in the multivariable logistic regression analysis as shown in equation 3.

$$\log(\frac{P}{1-P}) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + ... + \beta_n X_n$$

**Equation 3**

Where $X_i$ ($i$ =1, 2, 3... $n$) are social factors whose p-value<0.25 or which theory has previously found to be significant predictors of effective perception of pension management and $\frac{P}{1-P}$ is the odds ratio.

Odds ratios were then used to measure the effect of the predictors on the probability of perceiving pension management as effective.

In order to determine the challenges that are associated with pension management, the mean rating scores for each of the proposed challenges were computed and presented in bar charts, with their associated standard deviations. This also ensures easy comparison of the results. The proposed challenges with mean rating scores being at least 4 (agree) were assumed to be possible challenges associated with pension management.

In order to describe the challenges that contribute towards ineffective pension management, percentages were found using bar or pie charts, and mean rating scores were displayed and compared on pie or bar charts, together with their associated standard deviations. This was done by first, negating variables that were proposed as factors for effective pension management, and then reversing their codes so that they appear as factors contributing towards its ineffectiveness. Finally, social factors, challenges or factors that were found to be associated with effective or ineffective pension management were grouped based on the conceptual framework that was proposed for the study.

### 3.7 Validity and reliability of research instruments

Reliability refers to the extent to which data collection technique or the analysis procedures yield consistent findings.

Validity test was carried out to check the ability of the research instrument to measure the variables it was intended to measure. This looked at the relationship between two variables. To achieve this, the questionnaire was pretested to the three site supervisors who are based in Lilongwe sites to review the content validity and ensure appropriateness of the questions in relation to the stated objectives of the study.

### 3.8 Ethical consideration

As indicated by Saunders & Thornhill (2004), ethical issues are very important throughout the research where the researcher's integrity is paramount. Informed consent from Baylor Management was collected before interviewing its staff and confidentiality form was signed with the fund administrator. The data collected were used strictly for research only and confidentiality was observed such that the collected data were not shared. All respondents who indicated their names were not revealed and the whole process was anonymous.

### 3.9 Chapter summary

The chapter presented the research methodology with focus on how the research design, study population and study area, data collection and techniques, sample size and sampling techniques, data analysis and presentation, validity and reliability of research instruments and ethical consideration.

# CHAPTER FOUR: RESULTS AND DISCUSSION

## 4.1 Introduction

The previous chapters of the study addressed the contextual, theoretical and methodological aspects of the study. The focus of this chapter is to present the major findings of the study and link the findings with research objectives. The chapter also links the findings to the literature that were already reviewed and the observations of the researcher.

## 4.2 Respondent demographic characteristics

Management of pension involves a number of players who contribute towards its effectiveness. Baylor active staff are in majority and are the pension members, Labor Office does carryout supervision's to check pension compliance in organizations, while Reserve Bank does work with fund administrators in making sure that FA's are complying with pension regulations and penalize them if they fail to comply. Investment managers come up with investment policies as well as making sure that pension funds are well invested. Ex-staff on the other hand were included for them to provide feedback as they already benefited from pension.

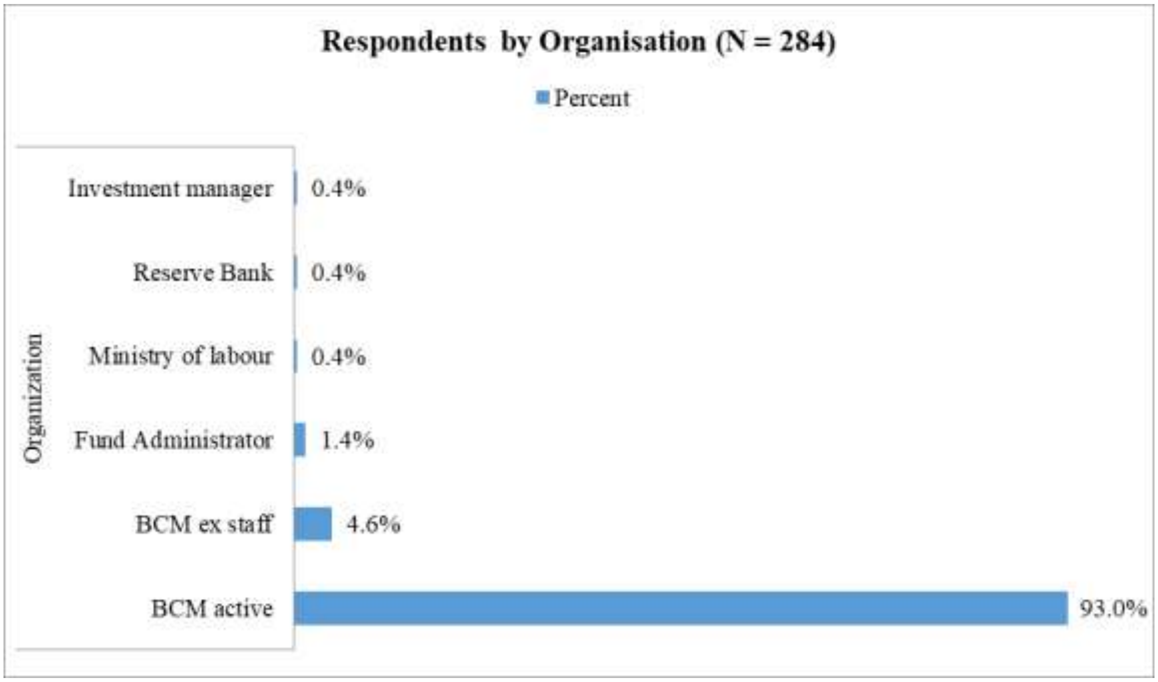


**Figure 2: Respondent demographic characteristics by organization**

In the sample of 284 respondents: 93.0% (n = 264) were active employees; 4.6% (n = 13) were ex – employees; 1.4% (n = 4) were from Fund Administrator; 0.4% (n = 1) were from Ministry of Labour; 0.4% (n = 1) were from the Reserve Bank; while 0.4% (n = 1) were Investment Managers.

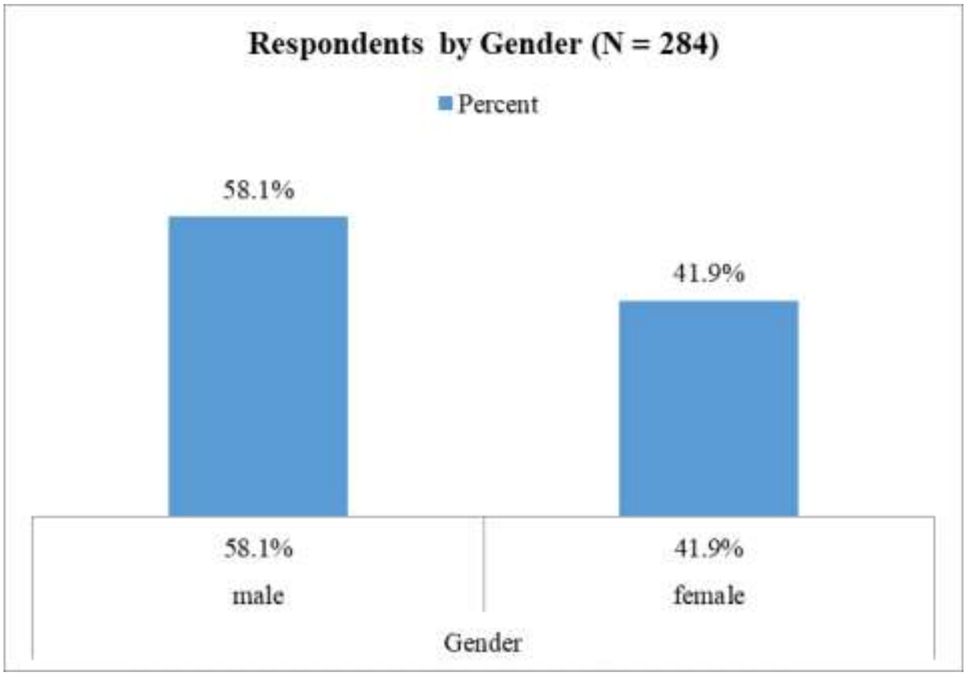


**Figure 3: Respondents by gender**

In terms of their gender, 58.1% (n = 165) were males and 41.9% (n = 119) were females.

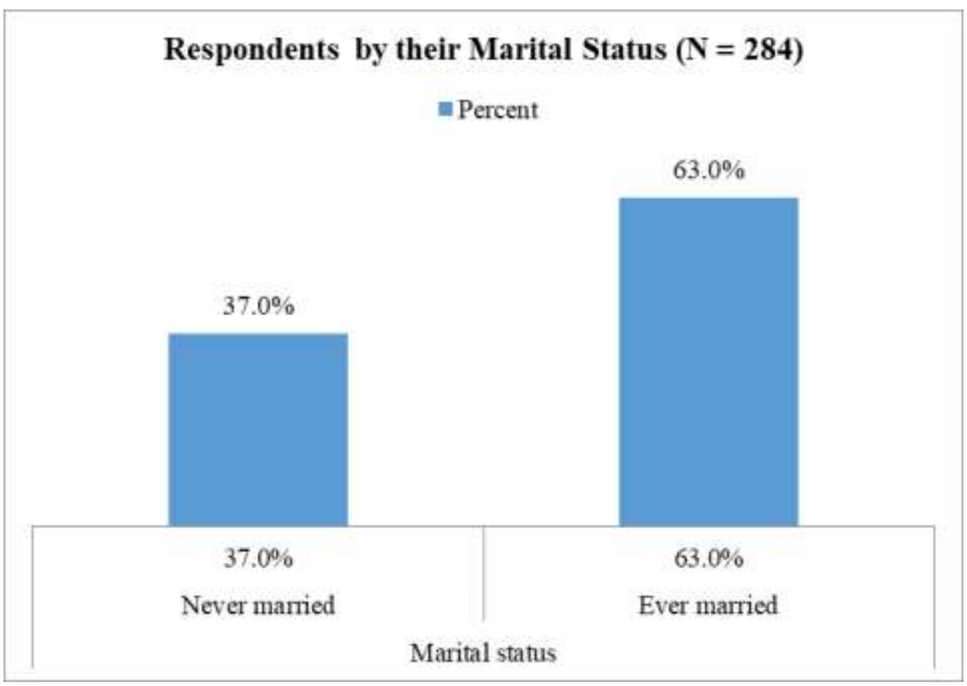


**Figure 4: Respondents by marital status**

Sixty-three percent (n = 179) had ever married, while 37.0% (n = 105) were never married.

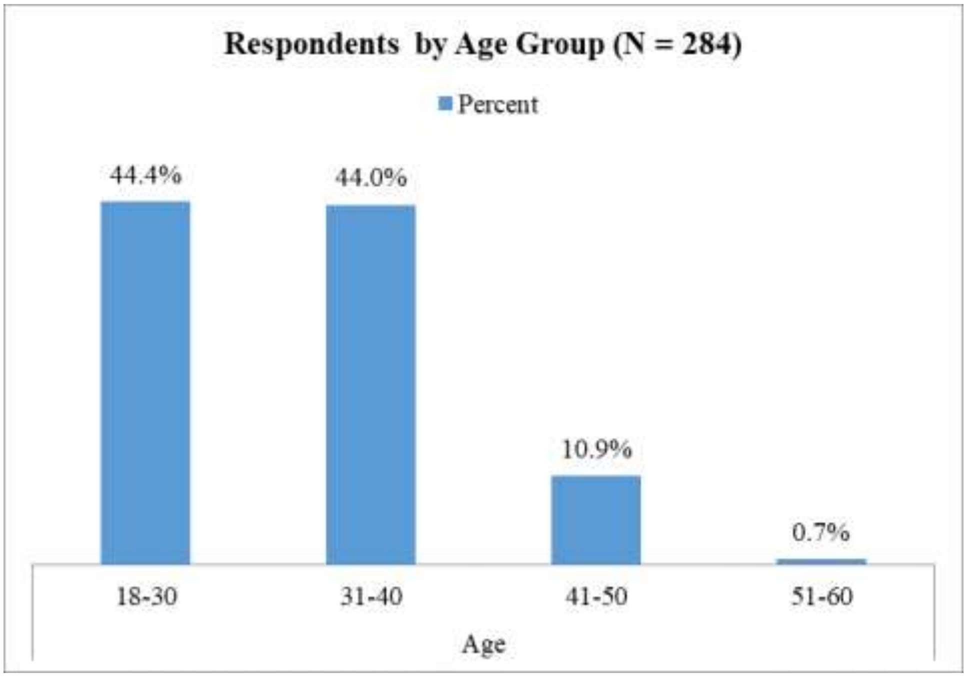


**Figure 5: Respondents by age**

Concerning their age, 44.4% (n = 126) were in the age group of 18 to 30; 44.0% (n = 125) were in the age group of 31 to 40; 10.9% (n = 31) were in the age group of 41 to 50; while the rest (0.7%, n = 2) were in the age group of 51 to 60.

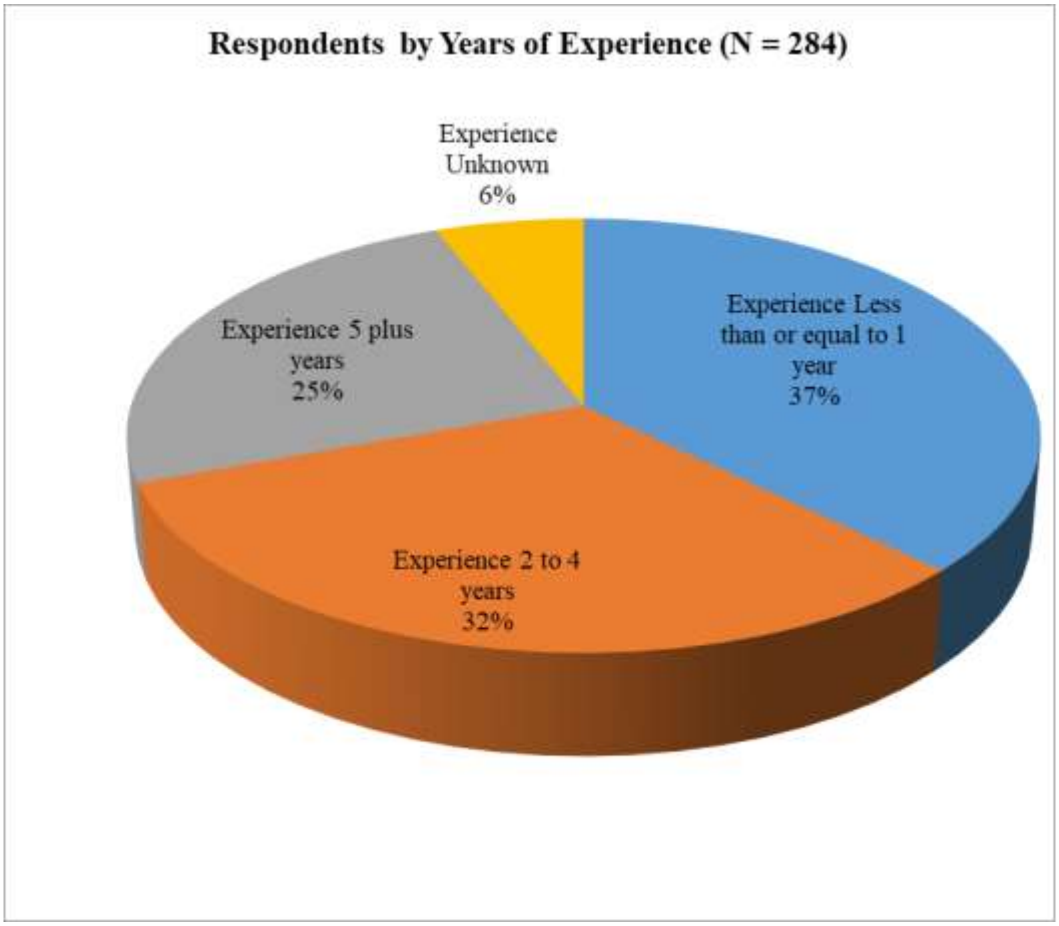


**Figure 6: Respondents by years of experience**

In terms of their experience, 37.3% (n = 106) had worked for at most 1 year; 32.0% (n = 91) had worked for 2 to 4 years; 24.6% (n = 70) had worked for at least 5 years; while 6.0% (n = 17) had unknown experience.

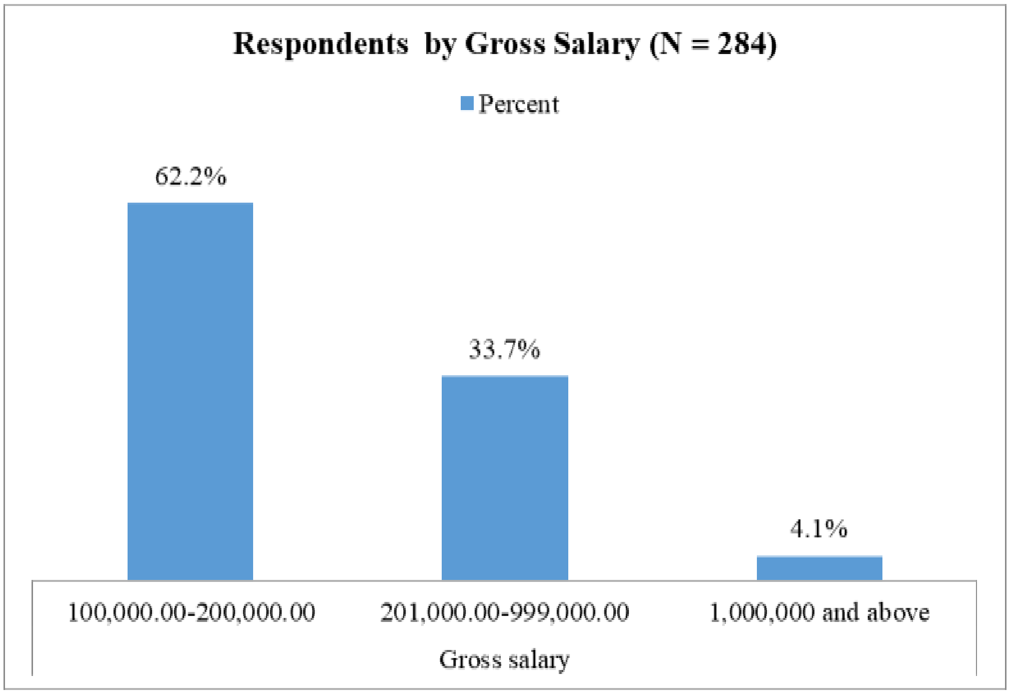


**Figure 7: Respondents by gross salary**

In terms of their monthly gross salary, 62.2% (n = 166) were receiving between MK100, 000 and MK200, 000; 33.7% (n = 90) were receiving between MK201, 000 and MK999, 000; while 4.1% (n = 11) were receiving at least MK1, 000, 000.

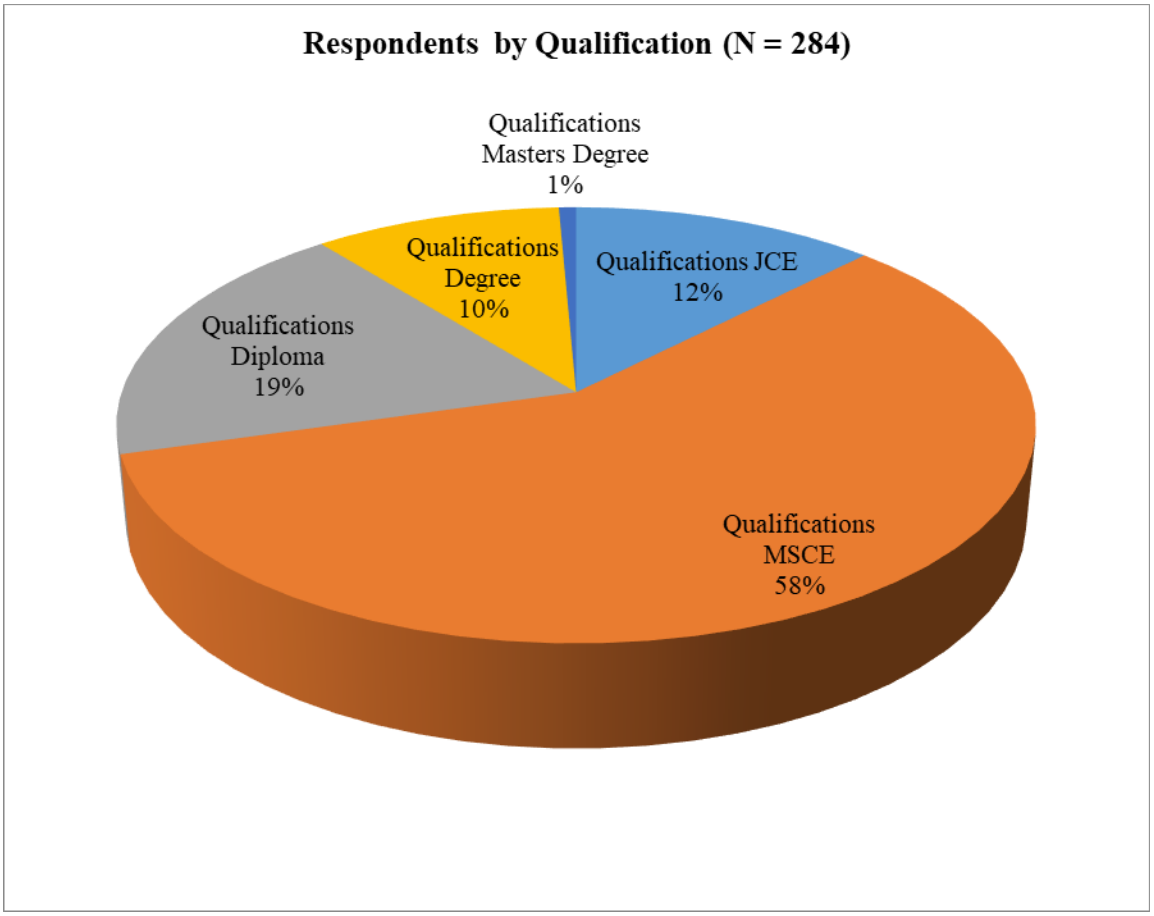


**Figure 8: Respondents by qualification**

Majority of the respondents (58.1%, n = 155) were holders of Malawi School Certificate of Education (MSCE); followed by Diploma holders (18.7%, n = 50); then by Junior Certificate of Examination (JCE) holders (12.4%, n = 33); followed by Graduate Degree holders (10.1%, n = 27); and finally by Master's Degree holders (0.7%, n = 2).

## 4.3 Social factors that affect effective management of pension

In order to determine the social factors which affect pension effectiveness, the researcher used regression analysis.

### 4.3.1 Descriptive statistics

Table 1 presents descriptive statistics for the perceived effectiveness of pension management.

**Table 1: Descriptive statistics of perceived pension effectiveness**

| **Factor** | | **Not effective, n = 175**<br>**N (%)** | **Effective, n = 109**<br>**N (%)** |
|---|---|---|---|
| *Gender* | Male | 104(59.4) | 61(56.0) |
| | Female | 71(40.6) | 48(44.0) |
| *Marital status* | never married | 67(38.3) | 38(34.9) |
| | ever married | 108(61.7) | 71(65.1) |
| *Age* | 18-30 | 80(45.7) | 46(42.2) |
| | 31-40 | 76(43.4) | 49(45.0) |
| | 41-50 | 18(10.3) | 13(11.9) |
| | 51-60 | 1(0.6) | 1(0.9) |
| *Experience* | ≤ 1 year | 73(41.7) | 33(30.3) |
| | 2 to 4 years | 56(32.0) | 35(32.1) |
| | 5 plus years | 35(20.0) | 35(32.1) |
| | Unknown | 11(6.3) | 6(5.5) |
| *Gross salary* | 100,000.00-200,000.00 | 107(61.1) | 59(54.1) |
| | 201,000.00-999,000.00 | 51(29.1) | 39(35.8) |
| | 1,000,000 and above | 6(3.4) | 5(4.6) |
| | Did not disclose | 11(6.3) | 6(5.5) |
| *Qualification* | JCE | 18(10.3) | 15(13.8) |
| | MSCE | 100(57.1) | 55(50.5) |
| | Diploma | 29(16.6) | 21(19.3) |
| | Degree | 16(9.1) | 11(10.1) |
| | Master’s Degree | 1(0.6) | 1(0.9) |
| | Unknown | 11(6.3) | 6(5.5) |

In the sample of 284 respondents, 175 (61.6%) indicated that they perceived pension management as ineffective. There were more males in the “not effective” group compared to the “effective group”, yet fewer females in the “not effective” group than in the “effective” group; more who were never married in the “not effective group”, yet less ever married respondents in the “not effective” group than in the “effective” group. Except for age group of 18 to 30 in which there were more observations in the “not effective” group” than in the “effective” group, other age groups showed more observations in the “effective” group, compared to the “not effective” group. It would appear that perception of effectiveness of pension management varied much with categories of experience as those with at most one year of experience were more in the “not effective” group, yet much higher in the “effective” group. Respondents who received MK100, 000 to MK200, 000 were more concentrated in the “not effective” group, compared to the “effective” group, while those who received higher gross salary were more concentrated in the “effective” group than in the “not effective” group. In addition, those who held JCE were highly concentrated in the “effective” group than in the “not effective” group. The pattern reverses for those holding MSCE and then resurfaces from Diploma level to Master’s Degree level where more observations are concentrated in the “effective” group, compared to “not effective” group.

### 4.3.2 Univariable analysis

Table 2 presents results of a univariable logistic regression analysis for selecting potential predictors for effective pension management obtained by regressing the outcome variable “*In your opinion, what is your perception on the effectiveness of contributory pension system in Malawi? Is it effective*? (0 = no; 1 = yes)” on each of the social factors such as: *experience*; *marital status*; *gender*; *age group, gross salary* and *qualification.*

**Table 2: Potential predictors for effective pension management**

| Factor | $\chi^2$ | *Df* | ***P* – value**[1] | |
|---|---|---|---|---|
| | | | **Wald** | **LR** |
| *Experience* | 6.378 | 3 | 0.097 | 0.095** |
| *Gross salary* | 1.715 | 2 | 0.423 | 0.424 |
| *Marital Status* | 0.339 | 1 | 0.561 | 0.560* |
| *Gender* | 0.331 | 1 | 0.565 | 0.565* |
| *Qualification* | 1.684 | 4 | 0.793 | 0.794 |
| *Age group* | 0.498 | 3 | 0.919 | 0.919* |

Note: (**)[2], (*)[3]

From the analysis, it is clear that *experience* whose LR *P* – value less than 0.25 (*P* = 0.095) is a potential social factor predicting effective pension management. However, based on theory, *marital status*; *gender*; *age group* are also included in the analysis. Factors such as *gross salary* and *qualification* were not found to be potential predictors as their *P* – values were found not to be less than 0.25.

### 4.3.3 Multivariable analysis

Table 3 presents the results of the multivariable logistic regression obtained by regressing the outcome variable on the potential predictors selected in the univariable analysis.

[1] Arranged in ascending order of the *P* – value by Likelihood Ratio (LR) test

[2] P-value < 0.25

[3] Theory has also shown these factors to be significant predictors for effective pension management

**Table 3: Social factors that affect pension effectiveness**

| Factor | | Estimate | Adjusted OR(95% CI)[4] | *P* - value |
|---|---|---|---|---|
| | 2 to 4 years vs. ≤ 1 year | 0.347 | 1.414(0.763, 2.622) | 0.299 |
| | 5 plus years vs. ≤ 1 year | 0.803 | 2.233(1.145, 4.355) | 0.019 |
| *Experience* | Unknown vs. ≤ 1 year | 0.198 | 1.218(0.390, 3.806) | 0.750 |
| *Marital status* | Ever married vs. never married | 0.070 | 1.072(0.605, 1.900) | 0.854 |
| *Gender* | Female vs. Male | 0.118 | 1.125(0.678, 1.868) | 0.683 |
| | 31 – 40 vs. 18 – 30 | -0.116 | 0.890(0.497, 1.593) | 0.590 |
| | 41 – 50 vs. 18 – 30 | 0.091 | 1.095(0.469, 2.556) | 0.694 |
| *Age* | 51 – 60 vs. 18 – 30 | 0.230 | 1.258(0.070, 22.503) | 0.839 |

Results of the analysis indicate that *experience* is the social factor that significantly predicts effective pension management at 95% confidence level. The odds of rating pension management as "effective" are almost two times more among respondents with 5 or more years of working experience, compared to those that worked for one year or less (Adjusted *OR* = 2.233; 95% CI: 1.145 to 4.355). Removing age from the analysis does not have a statistically significant effect on predicting the effectiveness of pension management as *P* – values for all age groups are greater than or equal to 0 05. Equation 4 shows the logistic regression:

$$\log\left(\frac{P}{1-P}\right) = 0.347\,experience1 + 0.803\,experience2 + 0.198\,experience3 + 0.070\,marital + 0.118\,gender - 0.116\,age1 + 0.091\,age2 + 0.230\,age3$$

**Equation 4**

[4] By Wald test per variable by enter method

Where *experience1*= 2yrs to 4yrs; e*xperience2* = 5 plus years; e*xperience3* = Unknown experience; *marital* = ever married; *gender* = Female; *age1* = 31-40 years; *age2* = 41-50 years; *age3*= 51-60 years.

This study revealed that long-serving employees have a better understanding of pension effectiveness unlike those whose experience is less. This is in agreement with a study by Shaw (2018) whose results revealed that long-serving workers, especially those whose salaries are on the higher side are more engaged in pension issues and they have more interest on pension issues. There is a possibility that long-serving employees are more engaged in pension issues and have interest because they appreciate the importance of pension and know that they will retire soon enough.

## 4.4 Challenges associated with pension management

Key pension players were asked to rate challenges that they perceived as being associated with pension management on a 5 – point scale (1 = Strongly disagree (StD); 2 = Disagree (D); 3 = Neutral (N); 4 = Agree (A); 5 = Strongly agree (StA). Figure 9 presents the results of the analysis.

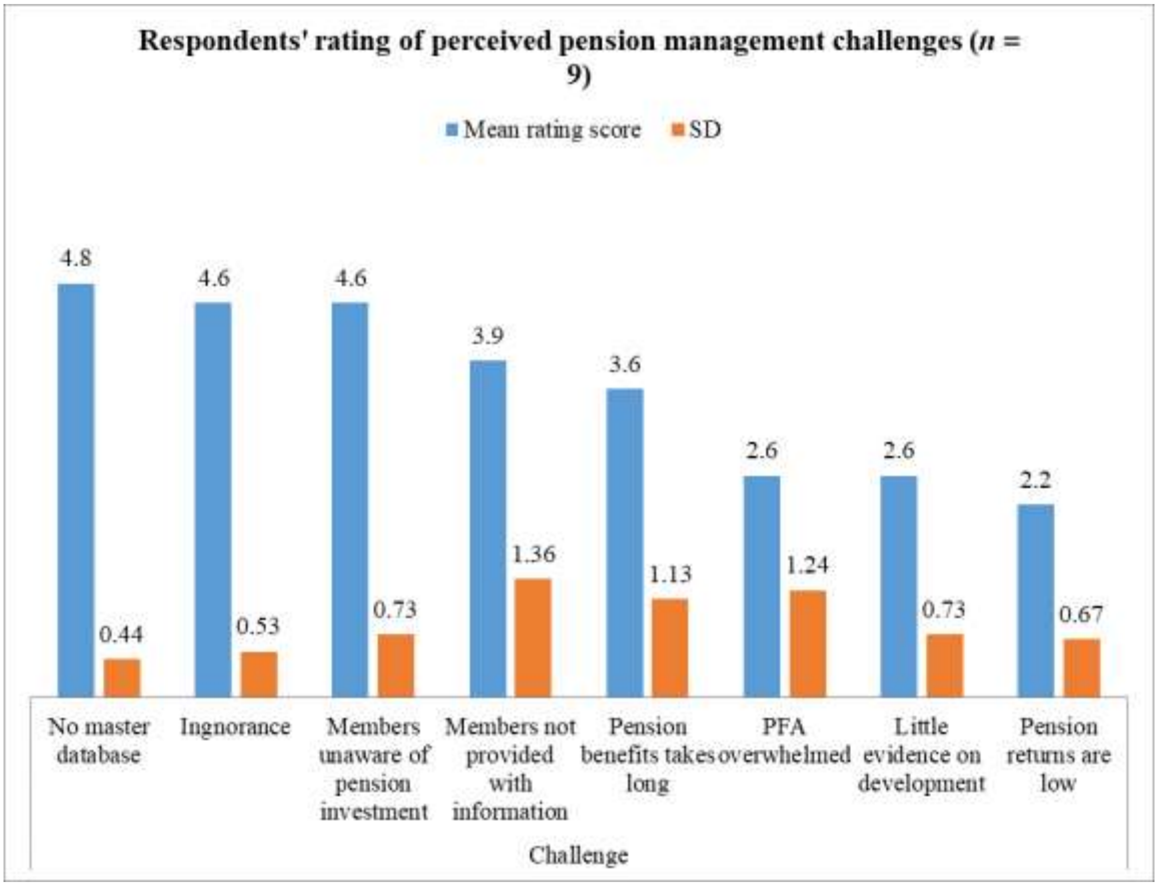


**Figure 9: Challenges associated with pension management**

On average, respondents agreed with the following as challenges that affect pension management: "*No master database*" (M = 4.8, SD = 0.44); "*Ignorance*" (M = 4.6, SD = 0.53); "*Members unaware of pension investment*" (M = 4.6, SD = 0.73); "*Members not provided with information*" (M = 3.9, SD = 1.36); and "*Pension benefits take long*" (M = 3.6, SD = 1.13), as scores for these challenges were close to 4 (Agree).

In addition, respondents were on average neutral on the existence of the challenges: "*Pension fund administrators are overwhelmed*" (M = 2.6, SD = 1.24); and "*Little evidence on development*" (M = 2.6, SD = 0.73), as scores for these perceived challenges were close to 3 (neutral). However, respondents on average disagreed with the existence of the challenge that "*Pension returns are low*" (M = 2.2, SD = 0.67), as the mean rating score was close to 2 (disagree).

The study revealed ignorance, lack of information sharing and lack of master database by PFA as main serious pension challenges. Onukwu (2017), in his study, found that indeed ignorance is high on pension members because of lack of adequate orientation and induction at the time of engagement. Ahmed et al., (2016) study results are consistent with the results of this study as his study confirms that Pension Fund Administrators do not provide adequate information regarding their pension funds due to lack of skilled labor or shortage of labor.

Furthermore, qualitative results of the study revealed a number of challenges associated with the mandatory contributory pension in Malawi. These were some of the challenges which were pointed out: pension takes a long time before they are processed, pension deductions makes salaries to be lower, interests paid by pension administrators are not well known how they are calculated, pension funds are not contributing towards development of this country , lack of information sharing, employees are unable to access pension details online,, transferring pension benefits from one employer not easy, pension benefits received not as expected, waiting period for unemployed members is longer, pension benefits withdraws affecting the net pension, non-remittance of pension contributions, loopholes in pension legislation, and limited resources for pension management.

Majority of respondents indicated pension processing duration as a main challenge with mandatory contributory pension scheme in Malawi. They indicated that in cases when an employee resigns and would want to withdraw from pension benefits after they have already waited for six months, pension fund administrators take a long time before they process their pension benefits. It was also pointed out that when an employee retires, it takes a long time for pension members to receive their pension benefits. This confirms what one active staff from Baylor (**R2**) had to say, that *"it takes a long period for pension to be processed when one claims from pension fund administrators".* This is consistent with the results from the study by Nyakundi (2006) where it was also found that pension benefits are paid late. However, these findings contradict what the ex-Baylor employees indicated. Ex-Baylor employees confirmed that pension payments are made faster but were not satisfied with the benefits which they received, and also indicated that the interests which are paid along with the pension benefits are too little. It was pointed out that the member only sees the interests indicated as part of the pension benefits and wondered how Pension Fund Administrator arrived at that amount. He indicated that she could have loved if the Fund Administrator could have clearly indicated all the interests the member accumulated per month until the date pension benefits were paid in order for her to appreciate how her savings doubled over the years.

Baylor active staff complained that the coming in of mandatory pension scheme is putting much strain on their net salary. It was indicated that staff salaries already attract a number of deductions which includes pay as you earn tax and yet the salaries are already low. This is what one of the respondent's respondent had to say *"the deductions made from our salaries are too many which includes pension deductions"*.

A few pension members expressed their concern on the lack of information on how pension funds are supporting the development of this country. The Labor Officer also agreed with this sentiment and indicated that it would have been better if the Fund Administrators could be using the pension funds as collateral instead of the pension funds to be kept in the banks and this is what he had to say *"pension funds are not used as collateral by members when borrowing money from the bank in order to upgrade the daily lives".* On the other hand, the Investment Manager confirmed that pension had left the developed financial market with limited investment opportunities. This was also seconded by Fund Administrator 4 and had this to say *"one of the pension challenges are limited investment opportunities".*

A number of members indicated that communication amongst members, trustees, and pension fund administrators is not effective at all. This is contrary to OECD (2013) who emphasized the importance of communication with members by using television, radios and press while focusing on the target group especially the youth. They shared their frustrations that some members do not have pension certificates and are not updated on new developments happening with pension fund administrators. They went further indicating that Fund Administrators and trustees do not update them on issues regarding their pension as such they are in the dark, and do not know what is happening with their pension funds.

A good number of members with ages ranging from 18-30 shared their concern on lack of innovation on the part of the Fund Administrators. They indicated that their age group do enjoy accessing information online, but the Fund Administrators have no such facilities as such it is very difficult to find real-time information online. This is the sentiment made by Baylor active 27 *"It is not possible to access member's pension details online, in order to know more about your pension".* Another member indicated that in 2015, the facility was introduced but it only worked for a few months and some of the information which was found online was not up-to-date. In his findings, Foster (2017) concluded that most young employees prefer accessing pension information online. It is therefore important for Fund Administrators to invest much in information technology. Surprisingly, G. Fumulani (personal communication, November 09, 2017) indicated that Old Mutual Malawi has an online web-viewing for statements, where clients can see their statements online. Old Mutual has also developed a system where claims are done online to improve efficiency but Baylor active staff are not aware of these facilities and this is a clear indication of the communication gap between FA, trustees as well as employees. On the other hand, Nico has also developed an online system which enables its members to monitor their pension statements online, thereby enabling them to know if the employer is remitting their pension benefits on a monthly basis (Singini, 2017).

A number of members who were working with other organizations before joining Baylor indicated that it is not easy to transfer pension benefits from one pension administrator to the other when they change jobs and this is what respondent 149 had to say: *"when changing jobs, it is very difficult to transfer your pension to new fund administrator".* On the other hand, members who once managed to withdraw from their pension benefits shared concerns that what they received as pension benefits did not meet their expectations. Ex-employee 1 had this to say: *"the pension benefits received were on the lower side than expected and the administrator did not provide a breakdown of how they arrived at the total amount which they received, and that made the whole transaction suspicious".* Others indicated that Fund Administrators are not transparent enough with pension transactions. Ex-employees also expressed a concern on waiting period before the pension is claimed from the Fund Administrator. It was pointed out that when an employee leaves the organization due to resignation or retrenchment, in line with the Pension Act of 2011, they are required to wait for six months if they remain unemployed.

They shared a concern that six months is a long period to wait before one claims for their pension benefits. This is what she said: *"when one leaves the organization, six months is a long period to wait for your pension benefits during the period you are not working".* On the other hand, Reserve Bank had this to say *"early withdraws will eventually affect the net pension which one will receive when they retire because as a country we do not have a better system to track if indeed one is working or not, as such in the long run the whole purpose of pension will not be achieved".*

One of the serious problems which was highlighted is non-remittance of pension contribution to fund administrators by employers. FA (4) had this to say: *"employers do remit pension contributions late and some fail to remit"*. Reserve Bank also confirmed that non-remittance of pension is one of the challenges the country is dealing with. It was indicated that one of the reason is because of funding challenges NGO's are facing, and as such they opt to use their limited funds to fund their operations rather than contributing towards pension. This is in agreement with Onukwu (2017) whose study revealed that non-remittance was one of the challenges faced at the time they were implementing contributory pension in public universities in Nigeria.

Chinele (2016) also confirmed that Malawi as a country is facing challenges with pension remittance since most of the organizations are failing to comply due to economic challenges the country is facing.

It was mentioned that the current pension legislation has loopholes such that it makes it so difficult to manage pension effectively. One of the loophole, which was pointed out, was on lack of clear laws on who is supposed to penalize companies that are defaulting. Nyakundi (2006) also confirmed the challenges with enforcement of pension laws in Kenya. Chinele (2016) also confirmed that there are inconsistencies and overlaps in the current legal framework regarding the roles of the Registrar and the Minister responsible for labor in ensuring compliance in Malawi. Similarly, the Labor Officer indicated that whenever they are doing their supervisions, they come across organizations which are not remitting pension funds. Interestingly, when they report to Reserve Bank they are told that the bank does not have the mandate to penalize any other organizations other than financial institutions. This leaves them with questions about who is supposed to penalize these other organizations.

In summary the study revealed a number of serious challenges with the current contributory pension scheme which includes: late remittance of pension contributions, communication challenges, loopholes in pension legislation, late payment of pension benefits to pension members, lack of effective communication amongst Pension Fund Administrators, employees and trustees, loopholes in pension legislation, late payment of pension benefits and staff unable to access pension details online.

## 4.5 Factors that contribute towards ineffective pension management

Respondents from different target groups were asked to provide their perceptions on factors contributing to ineffective pension management by rating several statements on different scales. The following sections present the results of the analysis.

### 4.5.1 Perceptions of Trustees and Principal Officer on factors contributing to ineffective pension management

Figure 10 presents results of Trustees' and Principal Officer's rating of factors contributing to ineffective pension management on a 5-point scale (1 = Strongly disagree (StD); 2 = Disagree (D); 3 = Neutral (N); 4 = Agree (A); 5 = Strongly agree (StA)

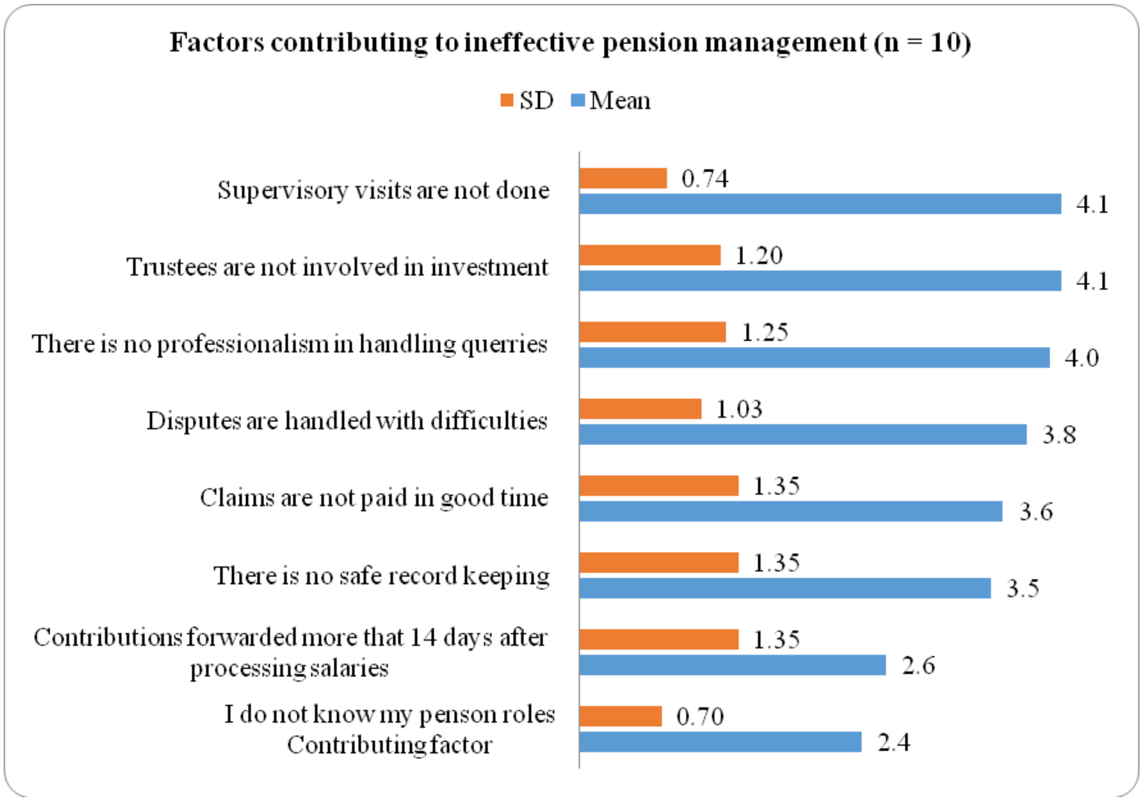


**Figure 10: Perception of Trutees and Principal Officer on factors contributing to ineffective pension management**

Results indicate that respondents agree with the following as factors contributing to ineffective pension management: "*Trustees are not involved in investment*" (M = 4.1, SD = 0.74 ; "*Supervisory visits are not done*" (M = 4.1, SD = 1.35); "*There is no professionalism in handling queries*" (M = 4.0, SD = 1.35); "*Disputes are handled with difficulties*" (M = 3.8, SD = 1.35); "*Claims are not paid in good time*" (M = 3.6, SD = 1.03); and "*There is no safe record keeping*" (M = 3.5, SD = 1.25), as mean rating scores for these statements are close to 4 (Agree). However, respondents were neutral on the possible factor "*Contributions forwarded to pensions fund more than 14 days after processing salaries*" (M = 2.6, SD = 1.20), as the mean rating score for this factor is closer to 3 (neutral). In addition, respondents disagreed with: "*I do not know my pension roles*" (M = 2.4, SD = 0.74), as a contributing factor since its mean rating score is closer to 2 (disagree).

A number of studies and reports have covered a lot on the supervision by Fund Administrators and not the organizations which are contributing towards pension. A report by Ashcroft & Stewart (2010) indicated that supervisory authorities might carry out supervision at pension funds own premises which allows them to assess the various systems and to test if they are working. Supervision is expected to be an ongoing activity. This is also consistent with the Malawian setting where the Reserve Bank as a regulator for all financial institutions carries out supervision as highlighted in their annual report of 2014, which reflects a significant increase in pension contributions, investment fee, payment of pension benefits and the increase of pension members.

In line with the Malawi Pensions Act of 2011, Trustees are supposed to be involved in investments. However, the study results have revealed that trustees are not involved in investment policies as opposed to what was indicated by the Investment Manager.

With the current Malawi Pension Act of 2011, queries are forwarded to Fund Administrators with support from Trustees which is different from UK system where pension members are at liberty to contact the pension regulator including issues to do with fraud. The UK has a system where members can call different landlines to complain about anything (The Pensions Regulator, 2019).

### 4.5.2 Perceptions of active staff on factors contributing to ineffective pension management

To determine factors contributing to ineffective pension management, active staff were asked to respond to questions: whether they know if they are on contributory pension scheme; and whether they know how long they can stay before receiving their pension benefits and their rating of other factors contributing to ineffective pension management on a 5 – point scale (1 = Strongly disagree (StD); 2 = Disagree (D); 3 = Neutral (N); 4 = Agree (A); 5 = Strongly agree (StA). Figure 11 to 14 present results of the analysis.

### *4.5.2.1 Whether the respondent knows if they are on pension scheme*

Figure 11 presents the results of the respondent's knowledge of whether they are pension scheme.

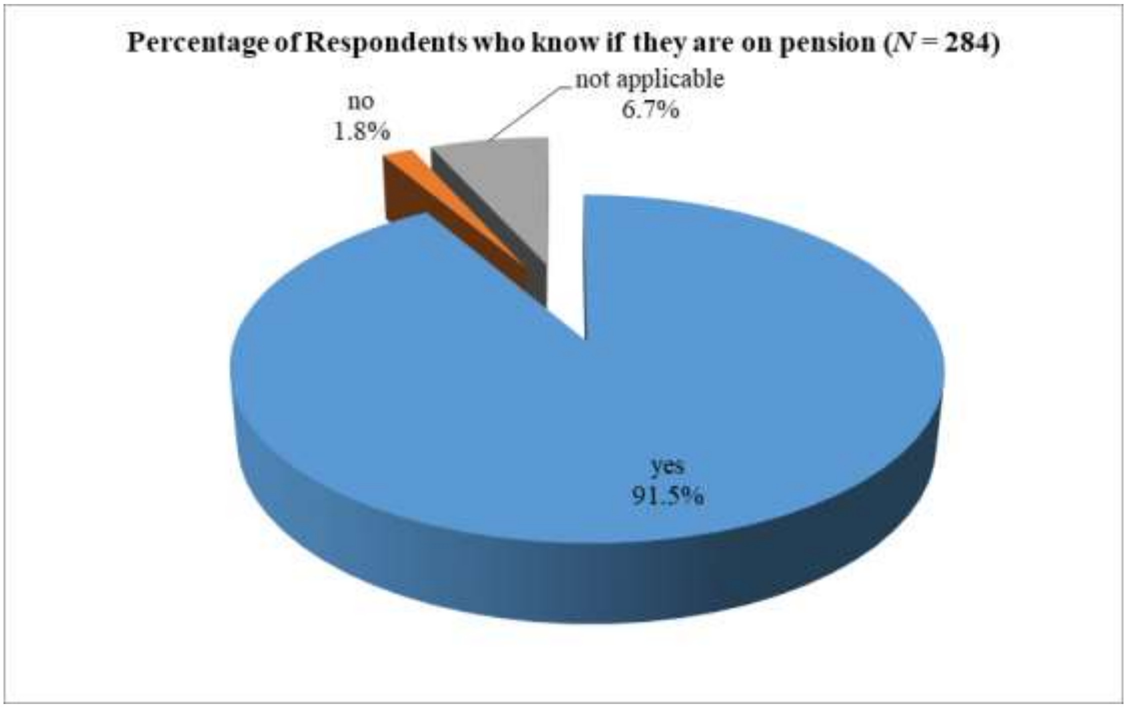


**Figure 11: Whether respondents knows if they are on a pension scheme**

In the sample of 284 respondents, 91.5% know that they are on a pension scheme; 1.8% do not know; while 6.7% were not supposed to respond to the question.

A big percentage (91.5%) of respondents confirmed that they know that they are on pension. This is consistent with the results from the study by Babatunde (2012) on impact of contributory pension scheme in Nigeria where he found out that out of 187 respondents 162 respondents confirmed that they were aware of their pension, 23 not aware and 2 no response. This confirms that pension members are always aware that they are on pension.

### *4.5.2.2 Whether the respondent knows if they are on a contributory pension scheme*

Figure 12 presents the results of the respondent's knowledge of whether they are on the contributory pension scheme.

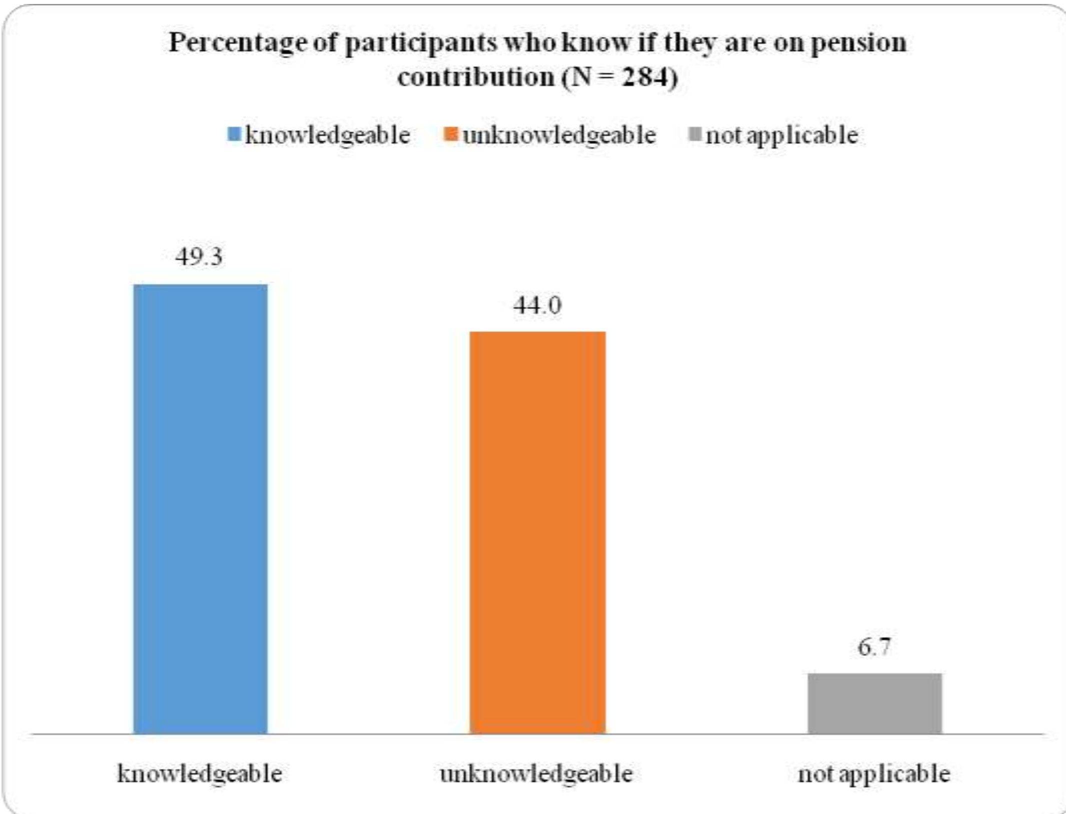


**Figure 12: Whether respondents know their contribution towards pension scheme**

In the sample of 284 respondents, 49.3% were knowledgeable about the percentage which they contribute towards pension scheme, 44.0% were unknowledgeable, while 6.7% were not supposed to respond to the question.

Majority of respondents (49.3%) showed a good understanding on their pension contributions and while a good number of respondents were unable to provide a correct percentage. This could be the case because employees lack interest in pension issues or due to lack of proper orientation by trustees at the time they were employed. Babatunde, (2012) in his study when he asked respondents if they know the percentage of their income that goes into pension, the results revealed that out of 187 respondents 90 said yes while 89 said no. This is very close to the results of this study, which means that almost half of the employees might know, leaving the other half not knowing.

### *4.5.2.3 Whether Respondent knows how long they can stay before receiving their pension benefits*

Figure 13 presents the respondent's knowledge of how long they can stay before receiving their pension benefits.

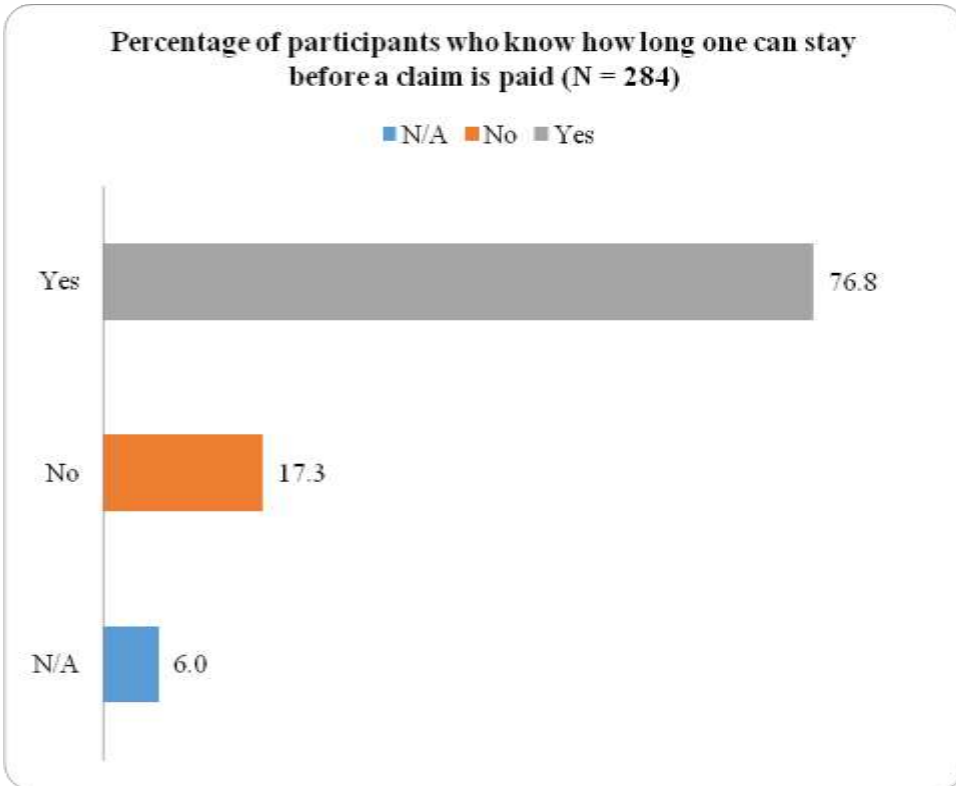


**Figure 13: Whether respondents know how long they can stay before receiving their pension benefits**

In the sample of 284 respondents, 76.8% know how long they can stay before receiving their pension benefits; 17.3% do not know, while 6.0% were not supposed to respond to the question.

### *4.5.2.4 Respondent's rating of some factors contributing to ineffective pension management*

Figure 14 presents the respondent's rating of some factors contributing to ineffective pension management.

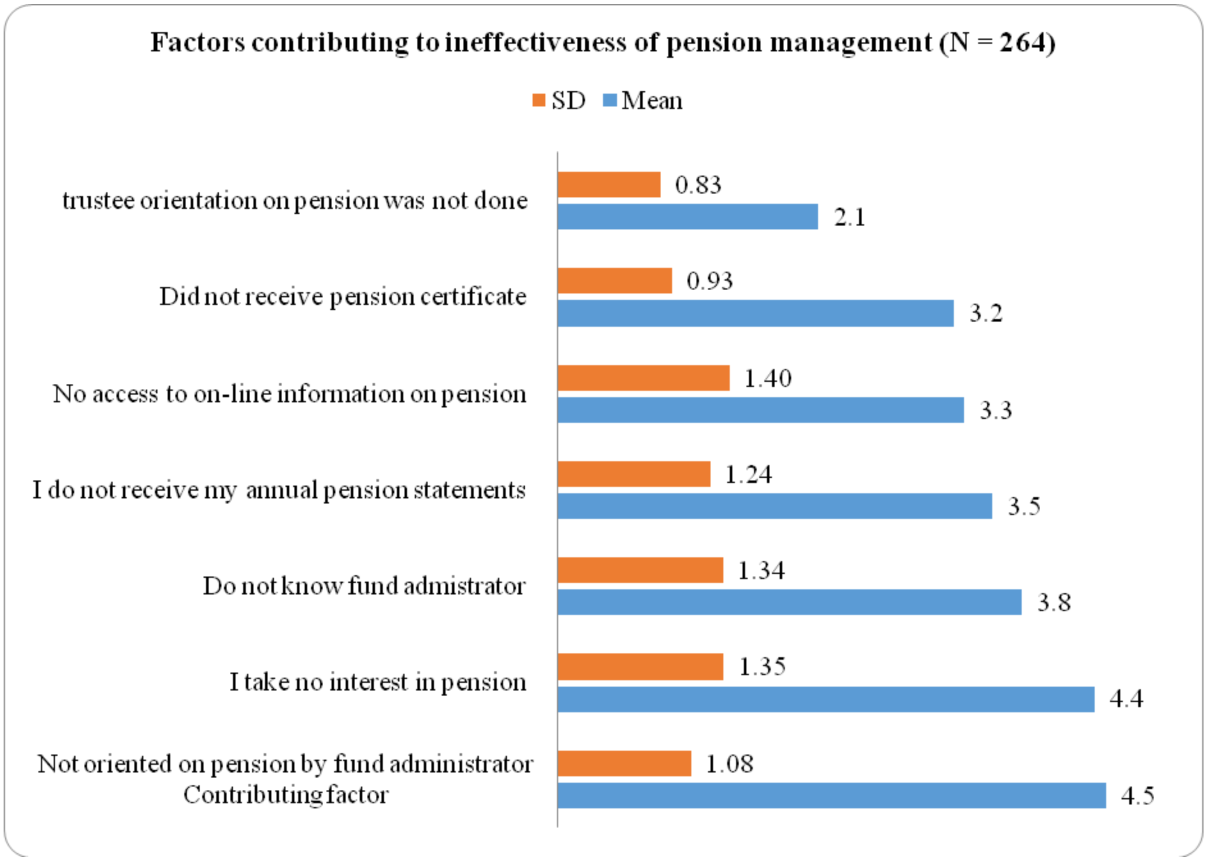


**Figure 14: Respondent's rating of some factors contributing to ineffective pension management**

Based on the results in Figure 6, respondents strongly agreed with: "*Not oriented on pension by fund administrator*" (M = 4.5, SD = 1.08) as a contributing factor for ineffective pension management; agreed with: "*I take no interest in pension*" (M = 4.4., SD = 1.35); "*I do not know fund administrator*" (M = 3.8, SD = 1.34); and "*I do not receive my annual pension statements*" (M = 3.5; 1.24), as contributing factors for ineffective pension management; but were neutral on: "*No access to online information on pension*" (M = 3.3, SD = 1.40) and "*I did not receive pension certificate*", and disagreed with "*Trustee orientation on pension was not done*" as a contributing factor for ineffective pension management (M = 2.1, SD = 0.83).

One of the factors identified which lead to pension ineffectiveness is lack of orientation by pension fund administrators. This could be the reason because the majority of respondents (Baylor active staff) are based in the field and have never been in touch with Fund

Administrator other than the Trustees. On the other hand, the Pension Fund Administrators address a smaller group based at head office and leave out the larger group in the field, which is consistent with the observations made by Babatunde (2012) in his study on whether the Fund Administrator regularly feeds staff with information. The results revealed that out of 187 respondents, 65 respondents said yes while 114 respondents said no, which agrees with these results that Fund Administrators do not usually feed staff with information.

There is a possibility that the Fund Administrators are trying their best to manage pension effectively, but most pension members are not very much interested especially those whose ages range from 20-30 years as confirmed by the study's findings. Foster (2017) confirms in his results that respondents whose ages were in twenty's confirmed that all they know is that the employer contributes towards pension and them too contribute something towards pension but they do not take much effort to know more about pension. Furthermore, Babatunde (2012) confirmed in his study results that a good number of pension members are on pension because it is compulsory but they are not interested. 50.8% of his study respondents agreed that they are on pension because it is compulsory but they are not interested.

A number of respondents indicated that they do know their pension Fund Administrator. This is contrary to Babatunde (2012) results where 55% of respondents confirmed that they are aware that they are on pension and know their pension administrator. Chances are high that respondents of this particular study are not aware of their pension fund administrator because there is a communication gap between the trustees, pension fund administrators and the employees.

### 4.5.3 Perceptions of ex-employees on factors contributing to ineffective pension management

To determine factors contributing to ineffective pension management, ex-employees were asked to respond to questions on their ex-employee category: period they had waited before receiving their pension benefits; whether they think Human Resource Officer or Principal Officer supported them with their pension claim; and whether pension benefits they received met their expectations. Figures 15 to 17 present results of the analyses.

#### *4.5.3.1 Ex-employee category*

Figure 15 presents the results of the analysis of ex-employee category.

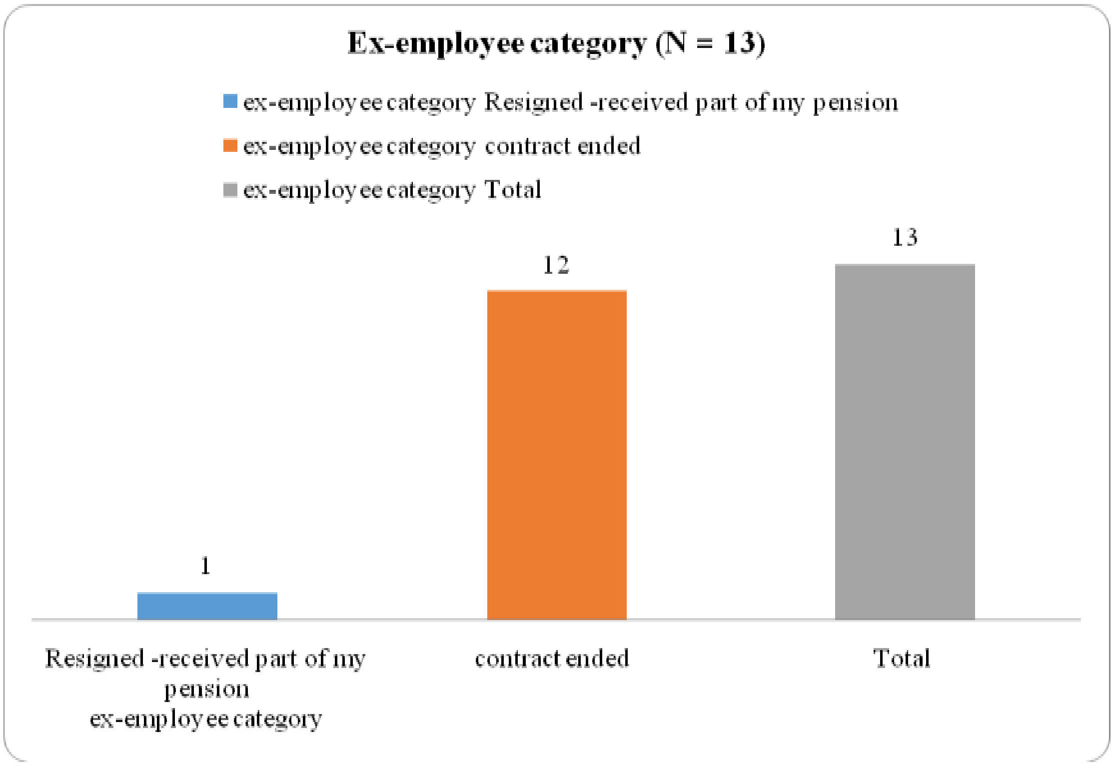


**Figure 15: Ex-employee category**

In the sub-sample consisting of 13 respondents, 12 had their contract ended while 1 resigned and received part of their pension benefits.

#### *4.5.3.2 Period ex-employee waited before receiving their pension benefits*

Figure 16 presents the results of the analysis of the period ex-employees had waited before receiving their pension benefits.

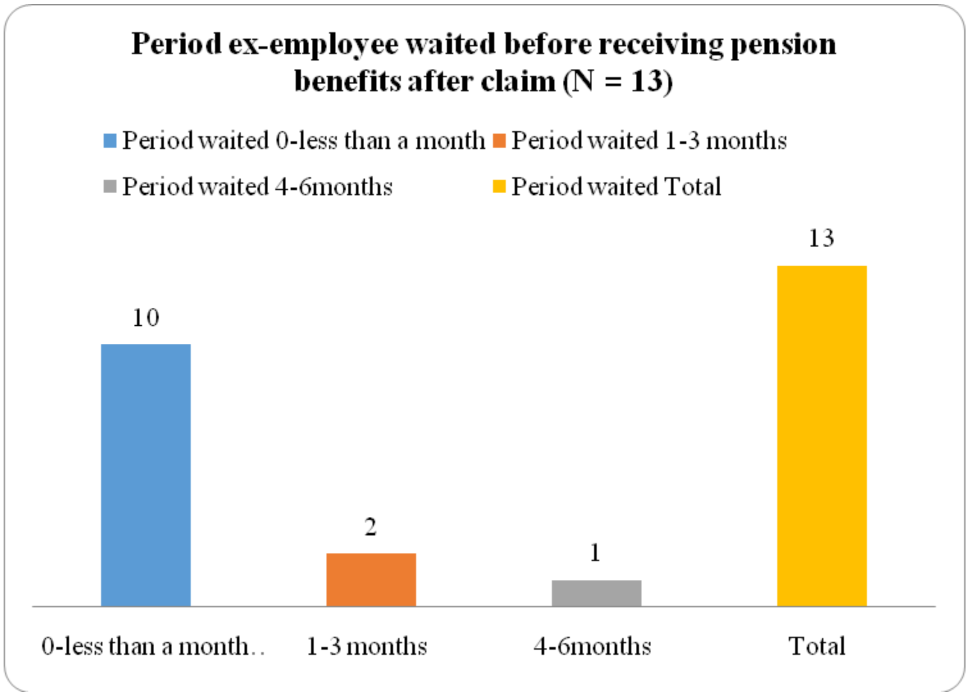


**Figure 16: Period ex-employees waited before receiving their pension benefits**

In the sub-sample consisting of 13 respondents, 10 had waited for less than a month; two had waited for 1 to 3 months, while one had waited for 4 to 6 months, before receiving their pension benefits. When the period is disaggregated by ex-employees category, results indicate that one ex-employee who resigned and received part of their pension benefit had waited for less than one month; 9 of the respondents who had their contract ended had waited for less than a month; 2 had waited for 1 to 3 months; while the remaining one had waited for 4 to 6 months (Refer to Figure 9).

Several studies have confirmed that pension benefits do take long before they are processed. However, in this particular study when ex-employees who already benefited from pension were asked regarding the period it took before they received their pension benefits, they confirmed that their pension benefits were paid in less than a month. This confirms that contributory pension scheme helps in that pension benefits are paid faster unlike pay as you go system as indicated in the study by Oluwagbemiga et al (2013) which indicated that one of the problems with old pension system was pensioners waiting for so many years before their pension benefits are paid.

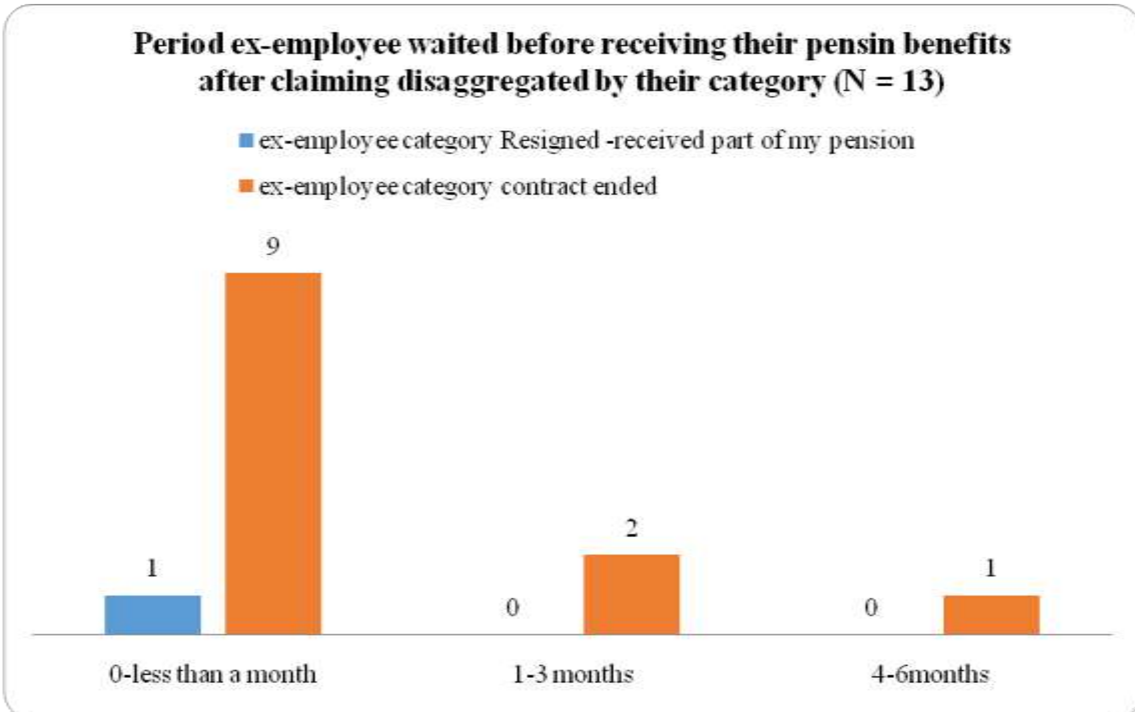


**Figure 17: Period ex-employee waited before receiving their pension benefits disaggregate by their category**

#### *4.5.3.3 Whether ex-employee thinks Human Resource Officer or Principal Officer supported them with their pension claim*

The 13 ex-employees were also asked to indicate whether they thought Human Resource Officer or Principal Officer had supported them with their pension claim. Figure 10 presents the results of the analysis.

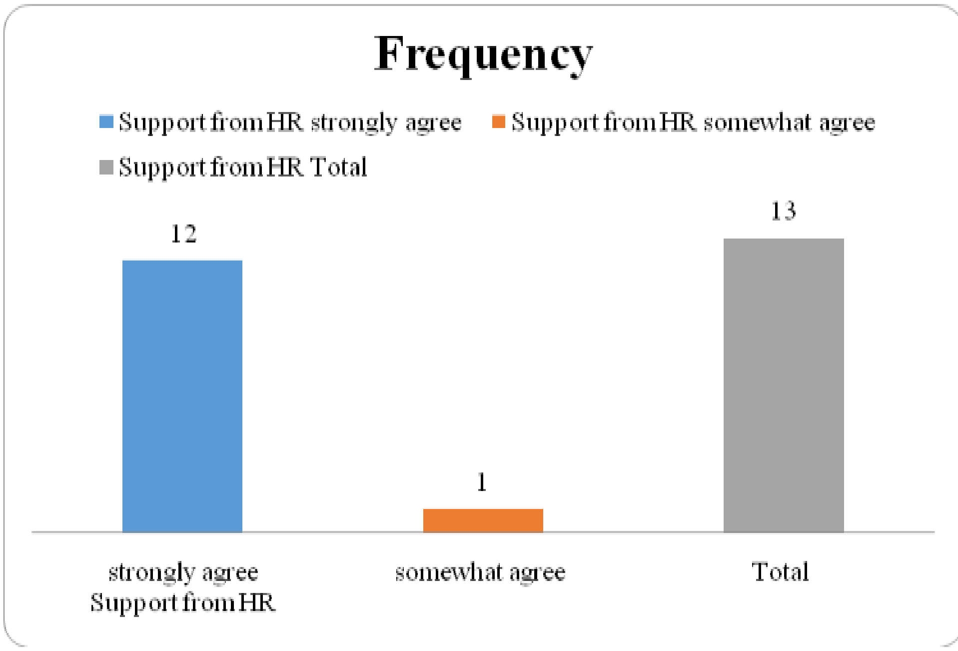


**Figure 18: Whether ex-employee thinks Human Resource Officer or Principal Officer supported them with their pension claim**

Twelve of the 13 ex-employees indicated that they strongly agree that they received support from the Human Resources Officer or Principal Officer. Mcneil (2014) confirmed that it is the responsibility of the Human Resource personnel to support employees to understand the pension issues better for them to understand the pension packages well. The HR personnel are expected to support staff even after they leave the organization in order for ex-employees to receive their pension benefits or transfer their pension to another employer without any problem.

#### *4.5.3.4 Whether pension benefits ex-employee received met their expectations*

When asked if the pension benefits they received had met their expectations, out of the 9 ex-employees who participated, 6 ex-employees indicated that pension benefits they received had met their expectations while 3 indicated that what they received did not meet their expectations.

Since most of the ex-employees confirmed that their benefits met their expectation, it is clear that this is perceived as not factor that contributed to ineffective pension management.

### 4.5.4 Perceptions of Reserve Bank, Ministry of Finance, Ministry of Labour and Fund Administrator on factors contributing to ineffective pension management

Eight respondents sampled from the pension regulator Reserve Bank, Ministry of Finance, Ministry of Labour and Fund Administrator were asked to rate factors contributing to ineffective pension management on a 5 – point scale (1 = Strongly disagree (StD); 2 = Disagree (D); 3 = Neutral (N); 4 = Agree (A); 5 = Strongly agree (StA). Figure 11 present the results of the analysis.

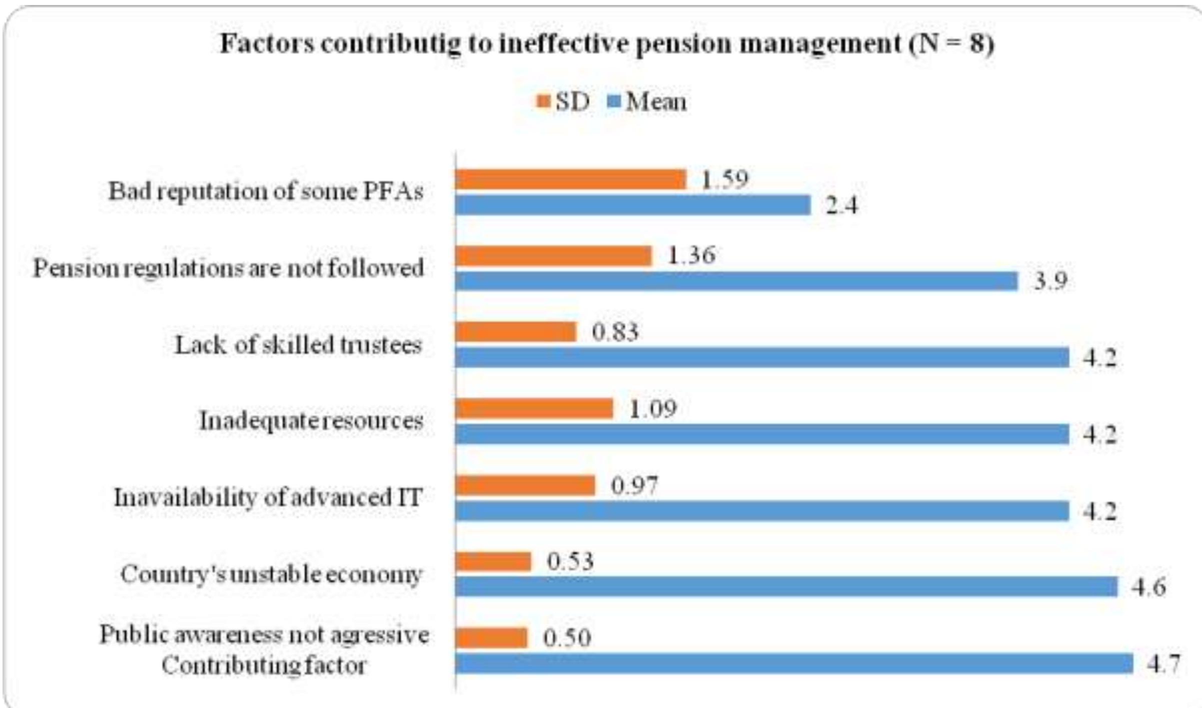


**Figure 19: Perceptions of Reserve Bank, Ministry of Labour and Fund Administrator on factors contributing to ineffective pension management**

Results from the analysis indicate that respondents strongly agree with: "*Public awareness not aggressive*" (M = 4.7, SD = 0.50); and "*Country's unstable economy*" (M = 4.6, SD = 0.53) as contributing factors for ineffective pension management. The results also indicate that they agree with: "*Unavailability of advanced Information Technology (IT)*" (M = 4.2, SD = 0.97); "*Inadequate resources*" (M = 4.2, SD = 1.09); "*Lack of skilled trustees*" (M = 4.2, SD = 0.83); and "*Pension regulations are not followed*" (M = 3.9, SD = 1.36), as contributing factors for ineffective pension management, but are neutral on "*Bad reputation of some Pension Fund*

*Administrators (PFAs)"* (M = 2.4, SD = 1.59), as a contributing factor for ineffective pension management.

During one of the conferences of pension of 2016, some of the ways of raising pension awareness by using letters and social media were discussed. This seems to be a very good strategy especially in a modern age where most of the pension members and the general public do like using social media. Although these issues are emphasized in various reports it appears very little awareness on pension is done across the world. This agrees with the results on pension awareness which took place in Netherlands between 2009 to 2011, where the majority of pension members confirmed that they were not aware of pension issues (Prast & van Soest, 2015).

It is believed that unstable economy of Malawi might be contributing towards pension ineffectiveness. This was confirmed by G. Fumulani (personal communication, November 09, 2017) who pointed out that pension entities face challenges on where to invest and companies wind up due to economic challenges. Lachman (2013) indicated that pension funds are a long-term investment as such its performance should be well evaluated. Lachman went further saying that the pension investment should be able to bring high returns in the long run.

OECD report on technology and pensions of 2017 mentioned the importance of using technology to enhance interactions with pension members, where they deployed Fintech to support with such advanced technological systems. The company provides facilities where pension members are able to use digital technological communications and periodic reports. This is considered as smart communication between the fund administrator and a member. Foster (2017) confirms that members indeed strongly believe that internet is not fully utilized because it only tells members the basics which change with time.

### 4.5.5 Perceptions of Investment Manager on factors contributing to ineffective pension management

The Investment Manager indicated that they "always" "formulate necessary investment strategies"; "analyse financial status before investing"; "monitor investments thoroughly";

"ensure that maximum returns are gained from investments"; and "provide advice on investment areas" as all the statements were scores with a 3 (Always), implying that to them there are no factors that contribute to ineffective pension management at investment level.

The responses by Investment Manager that they always formulate investment strategies, analyse financial status before investing, and monitor the investments throughout are in line with International Organizations of Pension Supervision (IOPS) report of 2017. The report emphasizes on the requirement of internal investment controls and investment risk which ensures that the implementation of pension management procedures allows easy monitoring of risks that are measured at any moment and impact of the implemented procedures on overall risks associated with investing.

Investment Manager, however, indicated that there is a need to develop a market in order to have more securities (equity and debt) and consider some effective investment in order to produce more returns for pension members. This contradicts with Nigeria whose industry is burgeoning, attracting significant investment which affects the society positively as a result of high returns on pension (Iyiola & Oluwatoyin, 2013).

## 4.6 Chapter summary

In summary, "experience" has been found to be the only social factor that significantly predicts the perception of pension management as effective.

Firstly "non-existence of database for all pension members for verification of one's work status", "pension members not being provided with important information regarding their pension", " lack of information on pension investment among pension members", "ignorance on the part of employees" " long duration before pension benefits are released" " long duration before pension benefits are released" " pension regulations have loopholes" " lack of resources to mitigate supervisions" "non-remittance of pension contributions" " pension members unable to use their pension as collateral for bank loans" " pension transfer from one employer to the other is a challenge" have been found to be challenges associated with pension management.

Finally, the study has found that moderating factors such as “Trustees are not involved in investment”; “Disputes are handled with difficulties”; “Claims are not paid in good time”; “There is no safe record keeping”; “Not oriented on pension by fund administrator”; “There is no professionalism in handling queries”; “Lack of skilled trustees”; and “Pension regulations are not followed” are contributing to ineffective pension management. The study has also found that there are operational factors affecting management of pension such as “Supervisory visits are not done”; and “Unavailability of advanced Information Technology (IT)”. Other notable challenges that the study has found include: Pension Challenges (“Lack of knowledge by pension members”; “Public awareness not aggressive”; and “Inadequate resources”); and Intervening variables (“Country's unstable economy”).

# CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This study assesses the effectiveness of mandatory contributory pension scheme in NGO's working in Malawi specifically at Baylor College of Medicine-Children's Foundation Malawi. The study looked at how pension fund management key players are carrying out their roles in line with the Malawi's Pensions Act of 2011 by assessing the Respondents' perception towards the current pension scheme. After assessing the Respondents' perception towards the current contributory pension system, the study has established that the pension system is not effective in some areas of operation. A number of studies done by different writers have confirmed that several countries are struggling to manage pension system effectively as they face a lot of challenges. It has been confirmed in Nigeria that pension reform assisted the country to have effective pension system where most of the challenges concerning pension were addressed. Some studies have also revealed several factors which lead to pension ineffectiveness and how such factors are addressed. The findings have revealed a number of challenges and factors which contribute towards ineffectiveness in the pension fund management system that is being used by the Baylor College of Medicine. Some recommendations are going to be provided in order to address the current lapses with the pension system. The chapter is devoted to conclusion and recommendations based on the review of related literature, analysis, and interpretation of data.

## 5.2 Study conclusions

The study has established negative perception of Respondents towards contributory pension scheme at Baylor College of Medicine. This means that the pension scheme has not been completely effective due to a number of challenges that some pension members and administrators are facing. Much as staff perception is that the current pension scheme is not effective, it is clear that the introduction of contributory pension schemes in Malawi as well as engagement of private insurance companies to run pension funds has somehow improved the way pension funds are processed. Pension members are now able to receive pension funds in time, which is very different from what was obtainable under the pay as you go system. It was however pointed out that pension calculations are not well documented and do not give a full picture of how the interests and pension benefits are arrived at and that makes members question Fund Administrators' credibility.

Members, including Baylor active staff, do not appreciate pension because very little is done to orient them on pension issues and at times they do not receive their pension statements. This gap has brought a big confusion amongst employees and has affected staff trust towards Fund Administrators and other pension stakeholders. The study has also concluded that the main challenge which needs immediate attention is lack of clarity with pension legislation on the responsible body to penalize organizations which do not comply with pension legislation.

The study has concluded that Reserve Bank of Malawi does not have the mandate to penalize non-financial institutions in case of non-remittances of pension funds as such Labor Office fail to do their work properly.

## 5.3 Recommendations

In accordance with the findings and conclusions, the study recommends the following:

- Baylor College medicine Trustees as well as Fund Administrators should take the responsibility of educating the Baylor staff since most staff are participating in the contributory pension scheme without much knowledge.
- Baylor management should make sure that new members of staff are well oriented the time they are joining the organization so that new staff members are provided with all information related to pension, including pension benefits. For instance, more information related to life insurance should be shared with new staff.
- Pension Fund Administrators should make sure that all Baylor staff including those in other districts are well addressed on pension issues rather than focusing only on members who are based at Baylor head office, since the results showed that field staff lack information regarding pension.
- Fund Administrators should make an initiative to train Baylor trustees from time to time in order for them to carry out their duties satisfactorily and to improve their skills.

Besides, Trustees do change jobs from time to time hence the need to make such training ongoing.

- To amend the Pensions Act so that it should clearly stipulate the one who has the authority to penalize those who violate Pensions Act since RB does not have such powers to penalize non-financial institutions.
- Pension supervisions in organizations should be enforced in order to deal with organizations which are unable to remit pension funds (PF) to fund administrators. This can be achieved by providing Labor Officers with enough resources.
- Much as Fund Administrators have confirmed that they have technological facilities which enable members to access their pension information online, there is a need to sensitize members since most of them are not aware of such facilities. It will be very important for Fund Administrators to update their online pension information more often in order for members to have up-to-date information at their disposal all the time.
- The government should encourage compliance with the Pension Act and ensure uniformity of application amongst organizations working in Malawi. This will establish a sustainable pension system that empowers employees to have control over their retirement savings account, because the current systems give much power to PFA.

### 5.4 Limitations of the study and areas for further studies

Firstly, the study sampled staff from Baylor College of Medicine. Pension members from other organizations were not included except pension key players. Therefore, it lacked an element of generalizability. It might be very necessary to research further on the same topic but involving a big sample from various organizations, including other Parastatals, NGO’s and a number of Fund Administrators from various financial institutions to increase its statistical power.
Secondly, the study is of mixed approach and therefore raises a number of opportunities for future research in order to refine and further elaborate on the findings.

Finally, the study further recommends the following as possible areas for further studies:

- Assessment of the effectiveness of mandatory pension scheme in Malawi Government (Civil Service).
- Evaluation of the Malawian Pension Act of 2011 – its strength and weaknesses.

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# APPENDICES

## Appendix 1: Authorization letter to conduct research

Children's Foundation MALAWI

Private Bag B 397
Lilongwe 3, Malawi

Phone: +265-(0) 1-750-877
Fax: +265-(0) 1-751-873
Email: info@baylor-malawi.org

6th February,2018

PRIVATE AND CONFIDENTIAL

Allieth Malikha Chikoti
Baylor College of Medicine
P/Bag B397
Lilongwe

Dear Mrs. Chikoti,

AUTHORISATION LETTER TO INTERVIEW BAYLOR COLLEGE OF MEDICINE STAFF (ACADEMIC RESEARCH)

Following your email dated 5th February, 2018 in which you requested to interview staff on effectiveness of contributory pension, being academic research you are conducting, I am happy to communicate that management has approved your request trusting that your studies will not affect your work in any way.

As indicated in your request, you will share the study findings with management.

I wish you all the best in your studies.

Yours sincerely,

THE EXECUTIVE DIRECTOR
BAYLOR CHILDREN'S FOUNDATION
MALAWI
2018-02-08

Dr PN Kazembe
EXECUTIVE DIRECTOR

Texas Children's Hospital

Romania • Botswana • Lesotho • Malawi • Swaziland • Uganda • Tanzania
Papua New Guinea • Angola • Colombia • Argentina

www.BIPAI.org

BIPAI
Baylor International Pediatric AIDS Initiative

**Appendix 2: Letter of consent to participate in research**

Dear participant,

My name is Allieth Chikoti, MBA student at the University of Malawi, The Polytechnic. I am doing a research study entitled: **Assessing the effectiveness of contributory pension scheme in Non-Governmental Organizations: A case study of Baylor College of Medicine-Children's Foundation Malawi.** The main purpose of the research is to establish if the current pension system is effective. The enclosed questionnaire has been designed to collect information on the following:

- General information regarding the Respondent
- Factors that affect pension management
- Staff general knowledge on pension
- Challenges with pension scheme
- Roles by different pension key players and how efficient they are

Please note that participation in this research is voluntary and no compensation will be given for your participation. However, you are kindly requested to participate in this research study.

The study expects to reveal the gaps which are affecting the effective pension management in the country and that will encourage the key players in pension management to take proper measures to improve the current pension system.

The questionnaire provided to you will take approximately 10 minutes to respond. To ensure anonymity, do not write your name on the questionnaire. Your responses will be highly valued.

To ensure confidentiality, the data from this research will be kept under lock and key and be rest assured that the research is being carried out for academic reasons such that once the study is finalized it will be submitted to the University of Malawi-The Polytechnic where it will be stored after the whole process.

Please be informed that there are no risks involved with your participation in the study.

The study has been approved by the Research Committee of the Faculty of Commerce at the University of Malawi-The Polytechnic.

All the information that you will give will be kept confidential. Once the data has been analyzed no one will be able to identify you.

If you have any questions about the research, feel free to contact the investigator on 0995607048, email: mzideyi@gmail.com. Alternatively, you may contact supervisors for the research, Mr. George Dzimbiri on telephone number (265) 999 293 620 and on email: gdzimbiri@poly.ac.mw.

There are no risks involved, as this study does not interfere with cultural beliefs or your dignity.

Thank you for your assistance in this important endeavor.

Yours Sincerely

Allieth Chikoti

## Appendix 3: Consent form to participate in research

CONSENT FORM

**Study title: Assessing the effectiveness of the contributory pension scheme in Non-Governmental Organizations: A case study of Baylor College of Medicine-Children's Foundation Malawi.**

**Investigator:** Allieth Malikha Chikoti

I confirm that the research has explained the elements of informed consent to the Respondent.The subject knows that their participation is voluntary and that they do not need to answer all questions if they are not comfortable to do so.The purpose of the research has been explained in the consent cover letter.The procedures, time, and commitment have been outlined as well.The Respondent understands issues of confidentiality.

Investigator's Name ____________________ Signature ______________________

Respondent  Signature ______________________ Date ______________________

**Appendix 4: Questionnaire for respondents**

QUESTIONNAIRE

**SECTION 1: SOCIAL ECONOMIC FACTORS THAT AFFECT PENSION MANAGEMENT**

*Please tick where applicable*

1. **Organization**

☐ Baylor College of Medicine active staff

☐ Baylor College of Medicine ex-staff

☐ Old Mutual Insurance Limited Company (pension fund administrator)

☐ Malawi Government - Ministry of Finance

☐ Malawi Government-Ministry of Labour

☐ Reserve Bank of Malawi

☐ Investment manager

2. **Gender:** ☐ ale ☐ Female

3. **Marital status** ☐ **ever married** ☐ never married

4. **Age :** ☐ 18-30 ☐ 31-40 41 -☐ 51 -60 ☐ Above 70 ☐

5. **Work experience with the current Organisation :**

☐ Less than one year

☐ 2-4 years

☐ 5 years plus

**6. a) Montly gross salary :**

☐ 100,000-200,000

☐ 201,000-999,000

☐ above 1,000,000

☐ did not disclose

**b)Highest Academic Qualifications**

☐ JCE ☐ Degree

☐ MSCE ☐ Masters Degree

☐ Diploma ☐ PHD

| |
|---|
| ***9 Questions 7 to 8 to be completed by Baylor Pension Trustees only*** |

**SECTION 2: EFFICIENT MANAGEMENT OF PENSION**

**7. Do you have any role in pension management within the Organisation? If yes, which is your role and if no please proceed to question 9.**

☐ PrincipalOfficer ☐ Trustee

**8.** To what extent do you agree with the statement

| STATEMENTS | Highly Agree | Agree | Neutral | Disagree | Highly disagree |
|---|---|---|---|---|---|
| a) As a trustee/principal officer, I know my roles so well | | | | | |
| b) Whenever a claim is forwarded to the pension administrator the payments are made in a good time, usually 10 days from the day the claim is forwarded to the pension fund administrator | | | | | |
| d) Both the employer and the employee's contributions are forwarded to the fund pension administrator fourteen days after salaries are processed | | | | | |
| e) All members disputes are handled without any difficulties by the pension trustees | | | | | |
| f) queries which are forwarded to the fund administrator are handled with professionalism by the administrator and in time good time | | | | | |
| F) ever since the pension was implemented at Baylor, at least we had once people from Reserve Bank or Min of Labor to supervise | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| pension transactions | | | | | |
| g)Members records are kept safe | | | | | |
| f) I am involved in the establishment of investment policies and the appointment of advisers | | | | | |

***Questions 9 to 12 to be completed by all Baylor active staff only***

**SECTION 3: FACTORS THAT AFFECT PENSION MANAGEMENT**

**9.** Do you know that you are on pension?

☐ Yes No ☐

**10.** If yes, are you aware of how much is being contributed towards your pension on monthly basis? If yes how many percentages? Employer ____% Employee ____%

**11.** Do you know how long one is supposed to wait if they are unemployed before claiming for their pension benefits from the date they leave the Organisation?

☐ 2 months ☐ 6 months 1 year ☐ Never ☐

**12.** To what extent do you agree with the following statements regarding pension management

| STATEMENTS | Highly Agree | Agree | Neutral | Disagree | Highly disagree |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| c) The moment I joined Baylor, I was oriented by the HR officer regarding pension | | | | | |
| d) I received my pension certificate | | | | | |
| d) I am able to access my pension details online | | | | | |
| e) I receive my pension statements annually | | | | | |
| f) I know the Company which is managing my pension | | | | | |
| g) I do take interest to know the status of my pension all the time | | | | | |
| h) The Organisation which manages Baylor pension and *pension representatives from Baylor i.e HR, representatives from management and few representatives from Baylor staff* do brief us on pension updates from time to time | | | | | |

***Questions 13- 17 to be completed by Baylor ex-staff only, if not proceed to question 18***

**13.** In which category are you?

☐ Retired and I received all my pension benefits

☐ resigned and I received part of my pension benefits

☐ resigned but I received all my pension benefits

☐ contract ended

**14.** How long did it take for you to receive your pension benefits,regardless of your category?

☐ 0- less than 1 month

☐ 1 month to less than 3 month

☐ 3 months to more than 6 months

**15.** Did the Human Resource officer -Principal officer support you with your pension claim?

☐ Strongly agree ☐ somewhat agree ☐ Do not agree

**16.** Were the pension benefits you received met your expectations?

☐ Yes ☐ No

**17.** If not why,please explain ?

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| ***Questions 18 to be completed by Reserve Bank, Min Of Finance and Min of Labour and old mutual only, if not proceed to question 19*** |
|---|

**18.** To what extent do you agree with the following statement on how the factors are somehow affecting pension management

| STATEMENTS | Highly Agree | Agree | Neutral | Disagree | Highly disagree |
|---|---|---|---|---|---|
| a) Luck of advanced technology is affecting how the pension is being managed by the fund managers | | | | | |
| b) Public awareness on pension are not very aggressive, as such employees are behind on pension issues | | | | | |
| c) Inadequate resources make it very hard for Min of Labor and Reserve Bank to conduct thorough supervisions on Organizations as well as fund administrators on pension management | | | | | |
| d) Our countries unstable economy has made an investment of pension funds a challenge | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| e) The bad reputation of some fund administrators makes employers not to put their staff on pension in fear to lose out. | | | | | |
| f) Pension regulations are not followed such that those who violate them, are not penalized. | | | | | |
| g) Organizations luck skilled and knowledgeable trustees who know their job well which affects effective pension management | | | | | |

***Questions 19 to be completed by investment managers only, if not proceed to question 20***

**19.** To what extent do you agree with the following statement

| STATEMENTS | Always | Sometimes | Never |
|---|---|---|---|
| h) We formulate the necessary strategies for investing pension funds | | | |
| i) Before we invest, we analyze the status of finances before investing | | | |
| j) The investments are monitored thoroughly | | | |

| | | | |
|---|---|---|---|
| k) Maximum returns are gained from the investments | | | |
| l) We always provide advises on investment areas | | | |

## SECTION 4: PENSION CHALLENGES

***Questions 20 to be completed by Reserve Bank, Min Of Finance, Min of Labour,old mutual and Baylor Trustees/principal officers only, if not proceed to question 21***

**20.** To what extent do you agree with the following statements on the challenges with pension management in Malawi?

| STATEMENTS | Highly Agree | Agree | Neutral | Disagree | Highly disagree |
|---|---|---|---|---|---|
| a) Pension benefits do take long before they are processed | | | | | |
| b) Maximum pension returns are very low | | | | | |
| c) Fund administrators are overwhelmed with more members, which has affected service delivery | | | | | |
| d) Most people are still ignorant of pension despite them contributing towards a pension | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| e) Very little evidence on how pension has benefited the country's development | | | | | |
| f) No master database for all pension members hence a challenge for fund administrators and trustees to verify if one is working or not | | | | | |
| g) Pension members are not provided with important information regarding their pension which concerns them | | | | | |
| h) Pension members are not informed on different investments which are made using their pension | | | | | |

***Questions 21 to 24 to be completed by all Respondents***

**21.** In your own opinion, what is your perception of the effectiveness of the contributory pension system in Malawi? Is it effective?

☐ Yes ☐ No

**22. What are some of the challenges the country or you as an individual are facing regarding pension? Mention three only.**

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**23. What can be done to deal with these challenges? Mention two only.**

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**24.** Any comments

**a**____________________________________________________________________

**b**______________________________________________________________**c**______

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***Thank you so much for your time in responding to this questionnaire***