

Determinants of Employee Participation in Retirement Benefits Schemes

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Abstract: *The study aimed at identifying the determinants of participation in retirement benefit schemes by employees of Nampak Kenya Limited. The consequence of low participation in retirement benefit schemes is evident from the low level of benefits paid to employees who retired from the company. This problem is bound to persist because majority of current employees still contribute only the mandatory 5% of their basic salary which means in future they will also retire without adequate retirement benefit. The study targeted current employees who are members of the company's retirement benefit scheme. Qualitative and descriptive methods of study were employed. The population comprised of 139 employees of Nampak Kenya Limited who are members of Nampak Staff Provident Fund Scheme. A representative sample of 70 employees was used and the study used primary data which was collected through use of a questionnaire. The study found out that knowledge and awareness, attitude, saving plan practices, education level and gender affect participation. The study recommends that employees should be provided with more knowledge and awareness in specific aspects of the retirement benefits scheme in order to make decisions that would increase their level of participation. Employees also need specialized training on personal finance management to help them appreciate the value and importance of savings and this will influence them to allocate more money towards retirement savings.*

Keywords: Employee participation, pension, retirement scheme

1. Introduction

Local and international companies attempt to improve compensation practices which include retirement benefits contributions. A company with a strong retirement benefit scheme enhances its labour market competitiveness which results in attraction and retention of talent. It also demonstrates that the company cares for its employees long after they leave employment and the employees become more committed to work because they know their future is well taken care of.

Both employer and employees contribute in accordance with the set minimum standards. However, employees are allowed to contribute more through the additional voluntary contributions (AVC) in order to maximize their savings. Currently, the number of employees who are contributing a significant amount to the scheme are few in Kenya as it stands at 8%. In Nampak Kenya Limited which is part of Africa's largest packaging supplier dealing in manufacture of world class metal and paper packaging products, only 27% of the members contribute more than the minimum 5%. Retiring employees are receiving very low benefits and this situation will persist because the majority of the current employees still contribute the minimum rate of 5% stipulated in the contract. This means that in future, all retiring employees will continue to receive retirement benefits that cannot support their financial needs. If such the situation persists, the objectives of establishing the scheme will not have been met.

2. Objectives

The study was guided by the following objectives: to examine the extent to which employees participate in the retirement benefits scheme, to assess the determinants of

participation in retirement benefits schemes at Nampak Kenya and to propose solutions for improving the participation of employees in retirement benefits scheme in Nampak Kenya.

3. Literature Review

Retirement Benefits

Retirement benefits refer to those payments whether lump sum, monthly or both which are paid to an employee upon retirement, death or termination of employment.

Occupational Pension Scheme

Armstrong (2000) defines occupational pension schemes as an arrangement under which an employer provides pensions for employees when they retire, income for the families of members who die and deferred benefits to members who leave.

Gratuity Benefits

The Oxford Advanced Dictionary defines gratuity as a gift (of money in addition to pay) to a retiring employee for services. Gratuity benefit is provided for in the terms and conditions of service of the employees vide a collective bargaining agreement which grants this benefit with effect from 1st September 1988. The agreement states that an employee who has a pension or provident fund shall be entitled to benefit from either such a fund or this gratuity scheme whichever is more favourable. This condition does not conform to the Retirement Benefits Act which vests retirement benefits fully to the employee irrespective of his or her membership to other schemes.

Employee Benefits

Retirement benefits constitute a part of the total employee benefits. Employee benefits are elements of remuneration given in addition to various forms of cash pay. They also

Volume 7 Issue 12, December 2018

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include items that are not strictly remuneration, such as annual holidays (Armstrong, 2006). Employee benefits are virtually any form of compensation other than direct wages paid to employees (Rosenbloom, 2001). Benefits constitute a major part of almost any individual's financial and economic security.

Employee Perception

Perception is a belief or opinion often held by many people and based on how things seem (Copeland, 2014). The employee perceptions are likely to be influenced by the historical factors surrounding the existence of both the provident fund and the gratuity benefit as well as the positions held by their shop floor representatives (Copeland, 2014). Perception can also be influenced by the level of awareness on the subject matter, personal beliefs or peer influences in regard to individual responsibility towards saving for retirement.

Employee Participation

Participation in this context means the extent to which employees get positively involved in activities of the scheme such as contributions levels, participation in meetings, and evaluation of scheme performance as well as benchmarking. Employee participation is defined by Guest and Fatchett (1974) as 'any process through which a person or a group of persons determines what another person or group of persons will do. It provides employees with an opportunity to play a greater part in the decision making process.

Global retirement pension Scheme

In USA, the percentage of wage and salary workers ages 21–64 who participated in a retirement plan in 2012 increased with age. For those ages 21–24, 16.4 percent participated in a plan, compared with 52.4 percent of those ages 55–64. Generally speaking, male workers were slightly more likely to have participated in a plan than females. However, female full-time, full-year workers were more likely to have participated in a plan than male full-time, full year workers. Being white or having attained a higher educational level was also associated with higher probabilities of participating in a retirement plan.

In India, non-contributory, unfunded, defined benefit pension and survivor benefits are granted to employees of the Central and State governments in India. In addition to the civil servants' pension scheme, government employees are also entitled to a contributory General Provident Fund. The New Pension Scheme (NPS) was launched by the Pension Fund Regulatory and Development Authority (PFRDA) in May 2009 for all citizens in the age group 18 to 55. The NPS is a voluntary, defined contributory pension scheme. Workers in the formal private sector in India are eligible for two benefit streams- a lump sum Employees Provident Fund (EPF) upon retirement and a Pension from the Employees' Pension Scheme 1995.

In Singapore, the mandatory Central Provident Fund (CPF) was set up by the colonial administration to provide retirement income security for private sector employees. Since its establishment in 1955, it has developed into a Fund consisting of a variety of schemes including CPF Life, Private Medical Insurance Scheme, Public Housing Scheme

and Education Scheme. The CPF- a mandatory savings scheme- is the main instrument of social security in Singapore. The Supplementary Retirement Scheme (SRS) is a component of the government's multipronged strategy to address the financial requirements of retirees. The scheme was introduced to encourage workers to save for their retirement to augment their CPF savings (Ginneken, 2003). In Pakistan, government pension schemes provide coverage to public sector employees, workers in statutory bodies and members of the armed forces. The Employees' Old-Age Benefits Institution (EOBI) provides pensions to the formal private sector. Retirement pension is therefore limited to formal sector employees, with the unorganized sector outside the purview of the above-mentioned pension schemes (Ginneken, 2003).

In Malaysia, Public sector employees and the armed forces are provided pension benefits, with the Pension Trust Fund and the Armed Forces Fund being the major Funds providing retirement benefits to public sector employees. The Employees Provident Fund (EPF), based on the EPF Act, 1991 is the national compulsory saving scheme for private sector employees in Malaysia. The EPF is a fully funded Defined Benefit scheme with employer-employee contribution being 12%:11%, making up a total contribution of 23%. The self-employed and workers in the informal sector are not covered by the EPF. The Malaysian government which has taken a policy decision to introduce a private pension scheme to supplement the EPF, launched a Private Pension Fund (including the self-employed) in late 2011. Employers are permitted tax deductions for contributions for the Private Pension Fund.

Knowledge and awareness and participation in retirement benefits schemes

Njuguna *et al* (2011) conducted a survey on financial and pension literacy for members of occupational schemes in Kenya and found out the pension literacy levels averaged 54.3%. Awareness on pension matters were found to differ significantly across gender, education level, occupational level, previous training on the subject and geographical location. The study also found that most awareness related to 'operational' issues of the schemes such as the right of members and responsibilities of various stakeholders. These were less important compared to 'technical' issues such as pension law, investment designs and calculation of benefits. In conclusion, Njuguna *et al* (2011) recommend that the even though the members have average literacy levels, their knowledge is confined to issues that do not have a significant impact on the management of the schemes. This implies that members will have a very limited impact in management of the scheme unless they are equipped with the right information.

Kamau (2012) did a survey on the experiences of retirees in Kenya and found out that 66% of retirees received income below Kshs 10,000 and only 5% of them were comfortable with the income. 61% of the respondents indicated they were comfortable with income of Kshs. 10,000 to 50,000. Relative to the low level of income was the fact that 51% only attended retirement training six months before retirement date. The low level of savings can therefore be linked directly to lack of awareness on pension schemes.

Irvine (1976) conducted a study in which many respondents admitted to 'how little they knew about retirement benefit schemes and how much they needed information.

Attitude and the participation in retirement benefits schemes

Loretto, White and Duncan (2000) conducted an attitude survey to employees in one firm in the financial sector towards various issues related to retirement and benefits. The respondents regarded the existence of an occupational pension scheme as having a major influence on job searches. They cited qualities of the scheme itself, the zero charge to members and opportunities for planning for the future as the most pertinent factors considered. The study further revealed that the levels of ignorance were discernible and the differentiated patterns of response among groupings of employees suggested that employees have diverse expectations and awareness on matters pension.

Gough and Hick (2009) conducted a study on employee evaluation of occupational pensions where they aimed at examining the role of an occupational pension in employee's psychological contract and the degree to which such pensions influence decisions relating to employee recruitment and retention. The study found out that pension plays a greater role in the psychological contracts of older employees. The provision of an occupational pension was found to be more successful in promoting retention rather than recruitment. This finding reflects the diversity in the current workforce and the need to rely more on consensus and cooperation in order to provide a pension scheme that meets the diverse expectations of the employees. This reality helps to understand why many schemes have been converted from defined benefits to defined contributions in order to provide equitable benefits to all. Armstrong (2000) attributes this to the changing nature of the psychological contract brought about by changes in the business environment and the need for flexibility and adaptability.

Skog (2006) examined what affiliates of the Chilean pension system knew about their pension system and whether they responded to incentives to learn more about their benefits depending on whether they stood to gain most from a particular aspect of the pension system. The findings from this study indicated that older, healthier, more highly paid and more educated men, display more pension literacy across the board. In addition, people appear more likely to inform themselves as knowledge becomes more relevant, which implies that they respond to incentives when investing in self-education. The study found that measures of knowledge may not be the best way to determine which groups to target for educational efforts. Finally, it was found that workers with a labor contract and who are union members have significantly more knowledge, as do those employed in larger firms, verifying the importance of informal systems in determining knowledge.

Saving plan practice and the participation in retirement benefits schemes

A very compelling study by Hales and Gough(2003) established that the link between pension provision and employee loyalty or commitment is very fragile. The study noted that employees join occupational pension schemes

largely automatically as a condition of employment. Their assessments and concerns about different aspects of the scheme are framed in more nuanced, instrumental and individualistic terms. Employees are more concerned about features that ensure a cost effective way of building up a fund of their own as opposed the features that provide security for the employee. The findings of the study underscore the need to collect objective feedback from individual employees on what they want from the scheme. The managers of such occupational schemes must incorporate the concept of employee involvement in order to fulfil the collective needs of the employees.

Authority (2007) conducted a study on individual retirement benefits schemes in Kenya. The study found out that individuals and households with a higher propensity to save and keep other forms of saving have a higher propensity to make additional voluntary contributions for retirement in PPPs. Such individuals generally start saving at an earlier age enabling them accumulate more assets. Individuals with no pension savings are most likely not to have other forms of savings.

Demographic characteristics and the participation in retirement benefits schemes

Guariglia (2000) in a study identified several factors that contributed to individual participation in personal pension plans in the United Kingdom. These factors include: age, educational background, occupation, gender, number of children, marital status, home ownership and individual expectations of future financial position. According to surveys conducted in America, the Individual Retirement Accounts (IRAs) have tended to attract households that have higher-income, are more educated, and married households. However, even among households with the similar income brackets, education background or marriage status exhibit variation in saving habits.

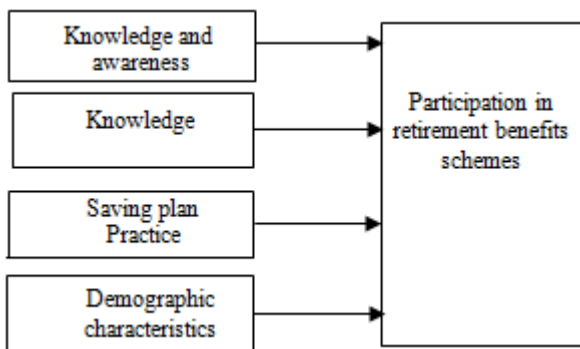
Authority (2007) in a Kenyan study found out that individuals with higher incomes and financial assets besides having the capacity to save, place a higher discount factor for the future and would therefore save for retirement. Low income earners have a low capacity to save and low discount factor for the future. They would place higher present value for consumption. The study also found out that married households are more likely to save than singles as a way of building up assets.

Hutch (2007) conducted a study for presentation at the RBA Individual Retirement Benefits workshop, Grand Regency Hotel, Kenya. The study found out that the young cohorts purchase PPPs to take advantage of compound interest effect which increases the financial value of contributions. The interest on interest return is highest, the longer the savings. On the other hand, purchase of PPPs increases with age. The necessity to keep old age savings for financial security in retirement becomes more vivid as individuals grow old.

Gitari (2012) in a study found out that financial literacy, income and the respondents level of education were strongly and positively associated with retirement planning and statistically significant at conventional levels (P value less than 0.05). Interestingly, age and marital status were found

to be statistically insignificant to retirement planning. Despite the enormous contribution to literature this study made, it did not include the informal sector.

4. Conceptual Framework



5. Research Methodology

The study adopted descriptive research design. The population of the study comprised of 139 employees of Nampak Kenya Limited who are members of Nampak Staff Provident Fund Scheme as well as beneficiaries of the gratuity scheme. The target sample was 50% of the population. The study employed stratified random sampling in respect to the nine departments. Simple random sampling was used to obtain the individual employees from the departments. Random sampling technique was used because it ensured that the selected respondents were representative of the whole population. A questionnaire having a five point Likert scale was used.

SPSS software was used to produce descriptive and inferential statistics which were used to derive conclusions and generalizations. For descriptive statistics, the analysis produced frequencies, mean scores and standard deviation and for inferential statistics, regression and correlation analysis was produced. The study also used the independent chi square tests to test the relationship between the employee participation and employee outcome and organizational outcome. In addition, the study used ANOVA where there were more than two categories.

6. Results and Discussion

Descriptive Statistics

Employee's participation in the retirement benefits scheme

The results imply that there has been a low participation of employees in contributing to the retirement benefit scheme as revealed by the majority of them responding that they have had an extra contribution for the last five years which was between 0-5%. On a five-point scale, the average mean of the responses was 2.01 which means that majority of the respondents had low extra contribution; however, the answers were varied as shown by a standard deviation of 1.13.

Determinants of participation in retirement benefits schemes

Knowledge and awareness

65% of the respondents agreed with the statement that they were conversant with provident fund scheme features, 68% agreed with the statement that they were fully conversant with gratuity scheme features, 65.8% of the respondents agreed that they had attended several retirement benefit scheme training/ AGM, RB seminars., 67.5% of the respondents agreed that they were fully conversant with how provident fund benefits are calculated, while 65.8% of the respondents agreed that in general, the provident fund offers better retirement benefits than gratuity.

These findings disagree with that of Kamau (2012) who did a survey on the experiences of retirees in Kenya and low level of savings can be linked directly to lack of awareness on pension schemes. This means that awareness alone cannot influence or determine participation hence the need to consider other factors as well such as attitude and savings plan practices.

On a five-point scale, the average mean of the responses was 3.87 which means that majority of the respondents had sufficient knowledge and awareness on the retirement benefit scheme; however, the answers were varied as shown by a standard deviation of 1.16.

Attitude

Seventy three point nine percent of the respondents disagreed with the statement that only high income earners should save more than the required in a retirement benefit scheme, 72.3% disagreed with the statement that there is no need to contribute more on a retirement scheme because it can be mismanaged by the management, 60% of the respondents disagreed that saving more in a retirement benefit scheme will affect other financial obligations, 73.8% of the respondents disagreed that saving in retirement benefit scheme is against their culture/religion while 70% of the respondents disagreed that saving in retirement benefit scheme will affect gratuity benefit. From the findings, the positive attitude towards the retirement benefit scheme can be attributed to the age profile of the respondents; majority who are older and have a growing interest in retirement benefits.

The findings agree with that of Gough and Hick (2009) who conducted a study on employee evaluation of occupational pensions where they aimed at examining the role of an occupational pension in employee's psychological contract and the degree to which such pensions influence decisions relating to employee recruitment and retention. They found out that pension plays a greater role in the psychological contracts of older employees. The provision of an occupational pension was found to be more successful in promoting retention rather than recruitment. This finding reflects the diversity in the current workforce and the need to establish a feedback mechanism that will provide information on what should be done to improve the participation of all employees irrespective of their diversities.

On a five-point scale, the average mean of the responses was 2.10 which means that majority of the respondents disagreed with the statements. This means that majority of the respondents had a positive attitude on the retirement benefit scheme; however, the answers were varied as shown by a standard deviation of 1.14.

Saving plan Practices

Eighty percent of the respondents disagreed with the statement that they regularly record income and expenditure, 78.5% disagreed with the statement that they have a written down saving plan, 80% of the respondents disagreed that they regularly adjust their contributions to their Sacco contributions in line with income growth, 78.5% of the respondents disagreed that they know how much they need to save in order to accumulate adequate retirement income while 72.3% of the respondents disagreed that they always do collection verification and filing of personal statements.

The findings agree with that of Authority (2007) who conducted a study on individual retirement benefits schemes in Kenya and found out that individuals and households with a higher propensity to save and keep other forms of saving have a higher propensity to make additional voluntary contributions for retirement in PPPs. Such individuals generally start saving at an earlier age enabling them accumulate more assets. Individuals with no pension savings are more likely not to have other forms of savings.

On a five-point scale, the average mean of the responses was 2.80 which means that majority of the respondents agreed with the statements. This means that majority of the respondents did not have good saving plan practices. However, the answers were varied as shown by a standard deviation of 1.27.

Correlation Analysis

Table 1: Correlation analysis results

Table 1: Correlation Matrix

| | | Mean Participation | Mean knowledge | Mean Attitude | Mean Saving practice |
|---|---------------------|--------------------|----------------|---------------|----------------------|
| Mean Participation | Pearson Correlation | 1.000 | | | |
| | Sig. (2-tailed) | | | | |
| Mean knowledge | Pearson Correlation | 0.058 | 1.000 | | |
| | Sig. (2-tailed) | 0.648 | | | |
| Mean Attitude | Pearson Correlation | 0.247* | 0.238 | 1.000 | |
| | Sig. (2-tailed) | 0.048 | 0.057 | | |
| Mean Saving practice | Pearson Correlation | 0.247* | .497** | 0.181 | 1.000 |
| | Sig. (2-tailed) | 0.047 | 0.000 | 0.149 | |
| * Correlation is significant at the 0.05 level (2-tailed). | | | | | |
| ** Correlation is significant at the 0.01 level (2-tailed). | | | | | |

The results show that knowledge and participation are positively and insignificantly related ($r=0.058$, $p=0.648$). The table further indicates that attitude and participation are positively and significantly related ($r=0.247$, $p=0.048$). It was further established that saving plan practice and participation were positively and significantly related ($r=0.247$, $p=0.047$).

Regression Analysis

The results presented in Table 2 present the fitness of model used of the regression model in explaining the study phenomena.

Table 2: Model Fitness

| Indicator | Coefficient |
|----------------------------|-------------|
| R | 0.691 |
| R Square | 0.476 |
| Adjusted R Square | 0.134 |
| Std. Error of the Estimate | 0.38079 |

Knowledge and awareness, attitude and saving plan practice were found to be satisfactory variables in explaining participation. This is supported by coefficient of determination (R square) of 0.476. This means that Knowledge and awareness, attitude and saving plan practice explain 47.6% of the variations in the dependent variable which is participation of employees in the retirement benefit scheme. These results further mean that the model applied to link the relationship of the variables was satisfactory.

Table 3 provides the results on the analysis of the variance (ANOVA).

Table 3: Analysis of Variance

| | Sum of Squares | df | Mean Square | F | Sig. |
|------------|----------------|----|-------------|-------|-------|
| Regression | 1.865 | 3 | 0.622 | 4.287 | 0.008 |
| Residual | 8.845 | 61 | 0.145 | | |
| Total | 10.71 | 64 | | | |

The results indicate that the overall model was statistically significant. This was supported by an F statistic of 4.287 and the reported p value (0.008) which was less than the conventional probability of 0.05 significance level. Regression coefficients results are shown in in Table 4.

Table 4: Regression Coefficients

| Variable | B | Std. Error | Beta | t | Sig. |
|----------------------|-------|------------|-------|-------|-------|
| (Constant) | 3.912 | 0.527 | | 7.426 | 0.000 |
| Mean knowledge | 0.205 | 0.150 | 0.186 | 1.367 | 0.177 |
| Mean Attitude | 0.250 | 0.110 | 0.273 | 2.273 | 0.027 |
| Mean Saving practice | 0.321 | 0.111 | 0.389 | 2.892 | 0.005 |

The findings show that knowledge and awareness and participation in retirement benefit scheme are positively and insignificantly related ($r=0.205$, $p=0.177$). The table further indicates that attitude and participation in retirement benefit scheme are positively and significantly related ($r=0.250$, $p=0.027$). It was further established that saving plan practice

and participation in retirement benefit scheme were positively and significantly related ($r=0.321$, $p=.005$).

7. Conclusions

The study concluded that all the determinants of participation studied had a positive effect on participation. Attitude, saving plan practices, gender, level of education and the years of being in the employment had a positive and significant effect while knowledge and awareness had a positive effect on participation of employees in the retirement pension scheme.

The study found that knowledge may not be the ultimate way to influence participation in the retirement benefits scheme. Despite a good level of knowledge, other factors such as attitude, gender, savings practices, level of education and years of employment influence participation. The knowledge acquired by the employees does not result in high levels of participation and this could be attributed to the fact that knowledge is confined to administrative or operational issues of the schemes such as the rights of members and responsibilities of various stakeholders. These were less influential compared to technical issues such as pension law, investment designs and calculation and vesting of benefits which are likely to influence individual participation.

Even though the members have average literacy levels, their knowledge is confined to issues that do not have a significant impact on the participation and involvement of employees in the scheme.

This implies that members will continue to limit their participation unless they are equipped with the right information which covers their rights and opportunities as members of a retirement benefits scheme.

8. Recommendations

- The study recommends that increased members' awareness on relevant aspects of retirement benefit schemes coupled with training in personal saving plans will influence the participation rate of the members.
- The company should organize continuous training and awareness programs to enable employees gain more understanding on how the pension fund benefits them.
- Training employees on personal saving plan practices will equip them with the skills for planning on how to prioritize, save and spend their income.
- Continuous collection of objective feedback is crucial in eradicating ignorance and negative attitude and promoting the feeling of inclusivity among the employees.

9. Areas for Further Studies

The study sought to assess of determinants of employee participation in retirement benefits schemes and it was established that knowledge and awareness, attitude and poor saving plan practices have an effect on participation. This study has however not gone into details of how the variables

affect participation because that would have expanded the scope of the study beyond manageable proportions.

One of the areas that would inform the next study will be to evaluate several aspects of knowledge and awareness and establish how they affect participation. This study will identify what aspects of knowledge and awareness have a positive contribution to participation and vice versa. The findings can help to develop appropriate content for training and awareness creation which will catalyse the desired action.

The target population of the study comprises the lower level of employees in the organization, a majority who have not more than secondary level of education and have limited capacity in understanding the technical issues in retirement benefit schemes. Some characteristics of these population fundamentally differs with other segments of employees within the organization and this means that the findings and recommendations may not reflect other employees not covered by the scheme or who are members of another scheme. Similar studies can be conducted on the other segments who display different demographic characteristics in education, earnings, economic, professional backgrounds etc.

Finally, studies can be conducted to establish what informs the different saving practices among the population and why such practices have failed to inculcate a culture of saving for retirement among employees.

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