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Nigerian Pension and the Contributory Pension Reform Act 2004: Issues and Challenges

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Abstract: The study was prompted largely by the desire to offer some little contribution towards alleviating the myriad of problems faced by retirees of in Nigeria. The hardship and severe suffering of retirees in Nigeria is common knowledge and well documented. It is precisely these conditions that provided the need to undertake the study with the view to providing a clear road-map to a peaceful retirement under the new regime of Pension Reform Act, 2004. The study examined the failure of the Old Pension Scheme, the reasons for the failure, the innovations brought about by the New Pension Reform Act and the hope of worker's yearning for its success, as well as the hitches still standing in the way. The study discovered that the human factor which brought about the failure of the old Act still exist to cause the failure of the new Act too. It concluded by offering tangible suggestions to Government towards realizing the objectives of the new Pension Reform Act.

Keywords: Pension, Pension Reforms, Retirees Welfare, Retirement Benefits.

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Introduction

According to Idowu (2009), before the introduction of the pension scheme in Nigeria, there had been traditional ways of protecting and caring for the elderly. This was a result of the extended family system, whereby people in the family made sure that older people were adequately taken care of in terms of what they ate, their clothing and health. However, as a result of modernization and so-called Western civilization, the system broke down. Subsequently, the government introduced a pension scheme in the early 1970s in order to guarantee the well- being of the elderly who are economically inactive but had given meritorious services to the nation.

Although before the advent of the new Pension Scheme, there was the National Provident fund which was the first formal social protection Scheme in Nigeria established in 1961 for the non- pensionable private sector employees (Anthony, 2008). Under this scheme, a lump sum benefit was provided for members or their dependants on retirement or death. The contributory rate was four naira (₦4.00) monthly, by both employer and employee. This Scheme had a minimum coverage, as it was strictly for private sector employees. There was also the Pension Decree 102 of 1979, this was an Act enacted in 1979 with retrospective effect from 1st April, 1974. This Decree repealed all pension laws from 1st January 1946 to 31st March 1974. Under this decree, all enactments on pension, incorporated pensions and gratuity scales of all public officers recommended by the Udoji public services Review Commission Report of 1974 was consolidated (Bassey, 2008). Despite the provision by the commission, the Scheme was marred by widespread corruption. There were rampant complaints of diversion of Pension Funds to other uses by Pension officials (Femi, 2001). There is also the Nigerian Social Insurance Trust Fund which came into being on the 1st of July 1994 under the NSITF Act of 1993 with emphasis directed towards enhancing Social protection of the Private sector employee. It took over all the assets of the NPF to run a limited Social Security Program (Ndubuisi, 2004). Like its counterpart, the scheme was also plagued with numerous problems e.g it suffered from underfunding, the reason being that the bulk of the contributions (6.5%) rested on the employers. As a result, most employers were unable to contribute adequately. In addition, this scheme also suffered from poor public perception (Ndubuisi, 2004), this is so because it was viewed by the public as an off-shoot of the NPF, which had many problems.

However, owing to complaints about and criticisms of the public pension scheme, there was adjustment of the old pension scheme, thereby leading to the introduction of the New Public Service Pension Scheme, which was backed and governed by the provisions of Pension Decree No. 102 of 1979 as amended (Pension Decree No. 102 of 1979). This decree provided for a pension scheme that was unfunded and non-contributory. Its benefits were largely related to earnings and relied on replacement ratio. This meant that the pension benefits and gratuities were functions of the number of pensionable years and the income earned while in service, the government paid pension benefits from the consolidated revenue fund (Pension Decree No. 102 of 1979).

As time went on, the structure of this pension scheme was Pay As You Go (PAYG) with a defined benefit, indicating that it is mainly unfunded, given the fact that the benefits that were paid during a certain period were financed by the government from the consolidated fund and not the employees. Furthermore, the pension scheme was non-contributory in the sense that employees did not directly contribute to the funding of the scheme, while the defined benefit plan dictates the benefit in advance as prescribed in the country' s pension formula that ensured employees a certain replacement rate given their number of pensionable years (Kolawole, 2003). This Pension scheme does not recognize any employee not up to 15 years in service for pension and 10 years for gratuity, however it was reduced to 5 years with effect from 1 June 1992 for gratuity and 10 years for pension (Pension Decree No. 102 of 1979).On 31 December 1990, the basic salaries of employees were used to calculate retirement benefits, but with effect from 1 January 1991 other approved allowances such as transport and rent allowance, and later utility, meals and entertainment allowances were included (James, 1995).

However, despite the laudable objectives with which the pension scheme was put in place, it hadn't a significant positive impact on the welfare of pensioners. This was as a result of problems such as the inflation rate, which depleted the real value of the benefits; the high dependency ratio in the country; fraudulent activities of the top officials of the pension scheme; inadequate pension coverage, erratic budgetary allocation and so on (Mainoma, 2005). Owing to these problems, pensioners continuously protested to the authorities against their poor conditions and welfare, and called for a reform in the pension scheme. As a result of the continuous pressure on the government to review the pension scheme that was in use, the Federal Government of Nigeria introduced a reform to the pension scheme called the

2004 Pension Reform Scheme backed by an Act of the parliament called "The New Pension Reform Act 2004 of the Federal Republic of Nigeria" (Federal Government of Nigeria (2001).

Elekwa (2007) opines that, the introduction of the 2004 Pension Reform Scheme was aimed at improving the standard of living of pensioners in order to avoid old-age poverty. Unlike the previous pension scheme, the current reform is not primarily designed to improve the welfare of the pensioners, but to guarantee the future financial sustainability of the scheme, as this is the core of the well-being of the pensioners.

In an effort to transform and improve the pension sector in Nigeria, The Federal government of Nigeria introduced the Contributory Pension Scheme (CPS) under National Pension Reform Act 2004 which was later amended in 2014.

To this end, the study seeks to evaluate the effect of National Pension Reform Act 2004 on the welfare of Nigeria's pensioners with special reference to Industrial Training Fund (ITF). This organisation had about 1934 pensioners as at the year 2017 who were either on the old or new pension schemes.

ITF was established by law in 1971 to promote, accelerate and encourage the acquisition of indigenous skills required in industry and commerce to meet the developmental needs of Nigeria. Over the years, the ITF has expanded its structures, developed training programmes, reviewed its operations and also strategies in order to meet the expanding and changing demands for skilled manpower in the economy. The Fund is headed by a Director General, as the Chief Executive Officer under the aegis of the ministry of industry.

The Fund has a 13member Governing Council and operates with 10 departments and 3 units at the Headquarters, 33 Area Offices, 3 skilled Training Centres, and a centre for Industrial Excellence. To reflect the co-operative spirit of the enterprise, a Governing Council of 13 members drawn from the Public and Private sectors are appointed by the Federal Government to manage the Fund. This will further address the need for private employers, organised labour, and the providers and users of training to co-operate in identifying training needs and devising training policy and system. Other responsibilities of the ITF include, providing Direct Training, Vocational and Apprentice Training, Research and Consultancy Service, reimbursement of up to 50% levy paid by employers of labour registered with it and also administers the Students Industrial Work Experience Scheme (SIWES). It also provides human resource development information and training technology service to industry and commerce to enhance their manpower capacity and in-house training delivery effort.

The Concept of Pension: A Discourse

Pension, simply put, connotes a form of official obligation in any employment relationship. It is a legal and economic obligation in which employers of labour are mandated to fulfil in their contractual relationship with employees. It is a form of employers' benevolence towards employees (Pitch and Wood, 1979) quoted in Inyokwe (2013).

Pension plans are usually established by a legal document called a trust deed with the declaration that the funds would be administered in accordance with the rules spelt out in the document. Employers offer pension benefits to attract, retain and reward employees. Employees, on the other hand, rely on retirement benefits as a form of financial security in their less productive years (Babatunde, 2012).

The above definition of pension, it only explains the relationship between employers and employees with regards to pension matters, but fails to outline the strategies needed to actualize the sustainable pension regime.

Pension is simply the amount set aside either by an employer or an employee or both to ensure that at retirement, there is something for the employee to fall back on as income. It ensures that at old age, workers will not be stranded financially. It is aimed at providing workers with security by building up plans that are capable of providing guaranteed income to them when they retire or to dependants when death occurs (Fapohunda, 2013).

According to Encyclopedia Americana, Vol. 21, 19, pension is a periodic income or annuity payment made at or after retirement to an employee who has become eligible for benefits through age, earnings and service. Benefits may also be paid in the event of death, total disability or job termination. Pension payments are usually in monthly installments.

Pensions are usually established by a legal document called a Trust Deed with the declaration that the funds would be administered in accordance with the rules spelt out in the document. Employers offer pensions benefit to attract retain and reward employees. Employees on the other hand, rely on retirement benefits as a form of financial security in their less productive years (Babatunde, 2012). Fapohunda (2013) also posits that the reason for pension scheme stems from the fact that first; an organization has a moral obligation to provide a reasonable degree of social security for workers especially those who have served for a long period. Second, the organization has to demonstrate that it has the interest of its employees at heart through pension schemes.

The Concept of Pension Reform

The Pension Reform Act 2004 is not the most recent legislation of the Federal Government, but it was aimed at addressing the associated problems of the old pension system. It established a uniform system for both the public and private sectors respectively with National Pension Commission (PENCOM) as the apex regulatory body (Ahmad, 2006).

The issueof pension administration in Nigeria is a challenging one, Inspite of huge revenue accruing from oil, successive regimes could not pay the salaries of working employees as at when due, let alone pension entitlements. The looting and "scramble" for pension funds by the pension "chieftains" were so suffocating that President Olusegun Obasanjo, seemingly concerned about the near destitution of the pensioners, said:

Over the years, retirement in our society has become synonymous with suffering as if ageing were a curse rather than a blessing that it really is. Often, pensioners are forgotten by their former employers who thus accentuate society's attitude that rejects pensioners as spent shells. The culmination of this persistent neglect of pensioners has become a threat to national security and indignant pensioners are made more and more inclined to public protests and demonstrations (Adedapo, 2004).

The Pension Reform Act 2004 (the Act) was therefore enacted to correct these abnormalities in the system. Based on these wrong attitudes, Obasanjo's administration introduced a pension system that is, according to him, sustainable and has capability to achieve the ultimate goal of providing a stable, predictable and adequate source of retirement income for each worker in the country (Ahmad, 2012). The pension reform Act 2004 was signed into law which gave birth to Contributory Pension Scheme (CPS) fully funded, privately managed, and based on individual account for both the public and private sector employees in Nigeria. The main objectives of the Act according to section 2, part 1 of PRA of 2004 include, to ensure that every person that worked in either the public or private sector in Nigeria receives his/her retirement benefits as and when due, to assist improvident individuals to save towards old age and to establish a uniform set of rules, regulation and standards for administration and payments of pensions.

Ideally therefore, governments and organizations need to identify a way of accommodating and adequately rewarding employees' past efforts, through organized pension plans, so that they can achieve the goals of their existence (Rabelo, 2002).

The Concept of Retirement Benefits

Retirement is a fluid concept, because, it connotes different things and is fraught with different experiences for different people. While some individuals view it positively and anticipate it with nostalgia others dread its eventuality with great anxiety. Thus, it could be said that it is not a homogenous experience for everyone. Retirement is a time of significant transition as far as the use of time is concerned. However, the importance of retirement is made more glaring by the fact that the retired person is made to face some challenges, because of his/her new status (as a retired person). It has been noted that retirement is a stressful experience to many because of its associated changes to lifestyle arrangements in general. It has been postulated by Elezua (1998) that the moment retirement comes knocking on the door (of an employee), it enters with challenges and expectations. Retirement is typically associated with attendant stress for the average employees especially in a country like Nigeria with austere economic policies.

Pensions provide income to individuals in their retirement, and just over half of full-time workers participate in some types of pension plan at work. However, the actual rate of participation depends on several things. For example, older workers tend to have a higher participation rate, and employees of larger firms have participation rates as much as three times as high as those in small firms (Dessler, 2003).

Dessler (2003), classified retirement benefits into three basic ways; contributory versus non-contributory plans; qualified versus non-qualified plans; and defined contribution versus defined benefit plans. The employee contributes to the contributory pension plan, while the employees make all contributions to the non-contributory pension plan. Employers derive certain tax benefits from contributing to qualified pension plans such as tax deductions for contributions; non-qualified pension plans get less favourable tax treatment for employees and employers.

With defined benefit plans the employee knows ahead of time the pension benefits he or she will receive. The defined pension benefit itself is usually set by a formula that ties the pension retirement to an amount equal to a percentage of the person's pre-retirement pay, multiplied by the numbers of years he or she worked for the organisation.

The Concept of Contributory Pensions

A defined benefit is a benefit whose value payments vary according to established rules for participation whereas a flat benefit is one that pays a unitary value to beneficiaries. Furthermore, within pension programmes, a distinction exists between a defined benefit plan and a defined contribution plan (Dagauda and Adeyinka, 2013). In a defined contribution plan, both the employer and the employee make defined contributions to fund the plan. As such, it is categorized as a Contributory Pension Scheme. Contributory pensions are income security programmes which mostly provide minimum pensions tied to a contribution history (Dagauda and Adeyinka, 2013). Ako, (2006) observes that this implies the criteria for pension eligibility to include a history of earmarked contribution having been made by the prospective retirees or their employers. The objective is usually that of replacing a greater proportion of income for low income workers in what could be referred to as a form of minimum pension guarantees. Contributory pension systems are therefore usually in the form of savings or insurance schemes.

The Concept of Non-Contributory Pensions

Non-contributory pensions are pure cash transfers to beneficiaries rather than savings or insurance schemes (Ako 2006). This implies that, the prospective beneficiary is not eligible on the basis of a contributory history but the eligibility criterion is usually a socio-economic or even political factor such as poverty, old age or political participation. Hence non-contributory pensions are sometimes called social pensions.

Defined Contributory Plans

Defined contributory plans according to Mainoma (2005) are those in which the benefit is defined as the future value of pension fund contribution made on an employee’s behalf. The exact value is unknown prior to retirement, because, it depends on future earnings of pension fund investments. Benefits are solely a function of accumulated contributions and for this reason the plans are called defined contribution. The value of benefits varies; it is dependent on contribution levels and earnings made on invested contribution (Mainoma 2005).

Defined contributory plans may be contributory or non- contributory. It is contributory where fuelling is shared by the employer and employee as provided by the new pension act 2004 in Nigeria. It is non-contributory if all contributions are made by the employer as the case of Nigeria before the commencement of pension Act 25. The benefit is defined either on a specific amount or by a general formula based on salary. However, non- contributory pensions are very costly affairs and the countries that operate them have had to battle with unsustainable fiscal deficits on account of several factors, including rapid demographic changes as well as changes in ages and sex (Ako 2006, Mainoma 2005).

In a defined contribution plan, investment risk and investment rewards are assumed by each individual/employee/retiree and not by the sponsor/employer. In addition, participants do not typically purchase annuities with their savings upon retirement, and bear the risk of outliving their assets. The “cost” of a defined contribution plan is readily calculated, but the benefit from a defined contribution plan depends upon the account balance at the time an employee is looking to use the assets. So, for this arrangement, the contribution is known, but the benefit is unknown (until calculated) (Dagauda and Adeyinka, 2013).

Despite the fact that the participant in a defined contribution plan typically has control over investment decisions, the plan sponsor retains a significant degree of fiduciary responsibility over investment of plan assets, including the selection of investment options and administrative providers (Dagauda and Adeyinka, 2013).

The Issues contained in the 2004 Pension Reform Act

1) Contribution of funds by both the Employer and the Employee to fund the retirement benefits.
2) Crediting the Employees’ retirement savings account with PFA’s with funds contributed.

3) Pension fund assets are to be privately managed and invested by professional Pension Fund Managers.
4) Strict regulation of Pension Fund Managers under uniform laws and regulations for both private and public sectors.
5) The establishment of the National Pension Commission.
6) Benefits under the Pension Act are not taxable provided that voluntary contributions are not withdrawn before the end of 5 years from the date the voluntary contributions are made.
7) Employees with less than 3 years or who are 3 years to retirement and contributors to existing Pension Scheme are exempted from the new scheme under the Act.
8) Judicial Officers (i.e Judges and Justices of Superior Courts) mentioned in Section 291 of the 1999 Constitution are exempted from contributing to the scheme.
9) The initial rates, in percentages of total contributions by employers and employees, to the contributory scheme are as follows:

Private and Public Sectors:
i. Employer–minimum of seven and a half percent
ii. Employee–minimum of seven and a half percent

Military:
i. Employer–minimum of twelve and a half percent
ii. Employee–two and a half percent

Factors that led to the amendment of the 2004 Pension Reform Act which gave rise to the 2014 Act

1) Staffing and funding of the Pension Transitional Arrangement Directorate (PTAD). The 2004 Act does not provide for the staffing and funding of the Federal Government and FCT PTAD (ss.42-49 of the bill). Consequently, it is recommended that additional provisions should be inserted to empower the PTAD to employ their staff and make provision for sources of their funding, which should primarily be from Government Subvention.

2) Re-admission after re-certification of medical fitness (s.16(3) of the bill). This says that the re-integration of persons certified by a medical board or a suitably qualified physician upon securing another employment was made subject to Guidelines to be issued by the commission from time to time. This is just to ensure that whenever such persons are employed, the onus of confirming their fitness for employment is on the employer based on extant labour laws.

3) Exemption from the scheme (S5 of the bill): Section 5(1) of the PRA 2013 included under the list of persons exempted from the scheme, Professors covered by the Universities (Miscellaneous provisions) Amendment Act 2012 and the categories of employees entitled by virtue of their terms and conditions of service to retire with full retirement benefits. This is not the intention of the amendment. These two categories of persons are not meant to be exempted from the Contributory Pension Scheme. Rather, they will continue to be under the CPS but would, upon retirement, get their full retirement benefits.

4) Pension component of accrued rights of retirees (S15 of the bill). The requirements for amounts derived from the Pension reviews to be credited into FG and FCT Retirement Fund Accounts respectively with CBN is being recommended for change in order to read that the amounts so derived from such reviews shall be credited into the RSA of the retirees since they have already retired and have nothing to do with the Retirement Benefits Bond Redemption Fund.

Pension Management and Retirees Welfare

A study conducted by Beredugo on pension fund accounting and pensioners' wellbeing together with their sustainability and life expectancy and published in International Journal of Development and Sustainability (2015) Volume 4 Number 1. The study was carried out on a sample of 400 pensioners drawn from Oyo, Rivers and Kano Square (OLS) was however adopted for the hypotheses tests and it was discovered that pension fund accounting significantly affects pensioners' wellbeing and that pensioners' sustainability is dependent on collective bargaining between the pensioners and their administrators. It was recommended that organizations should always recognize pension costs along with the plan's assets and obligations in their financial statements; and organizations or governments should bear the contribution of low income earners.

Another study conducted on Problems and Prospects in the Management of Retirement Benefits in Adamawa State Pension Board, Nigeria by Julius T. N and published in a Journal of Business and Management (2015) Volume 17 number 11, examined and analysed the problems and prospects in the management of retirement benefits in Adamawa State Pension Board. The research seeks to identify the efficacy of the board in managing retirement benefits of retirees. It further furnishes the strategies to overhaul the board toward meeting the retirees demand and expectation. A simple random sample was adopted in selecting 50 respondents from the pension board and responses obtained through administration of questionnaires.

The data was analysed using tables and percentages and it revealed that the strategies needed to tackle retirees' problems are by adequately providing technologically advanced instruments and approaches as well as provision for investment in research and development. The study further reveals the problematic state of the management of retirement benefit in Adamawa state pension board, the existence of bottleneck with regard to poor policy, inefficiency as well as corruption are responsible for delay in payment of retirement benefits and inefficient system which has adverse effects on the board in discharging its duties. It is recommended that planning and evaluation mechanism should be initiated to monitor pension system as well as establishing proper auditing mechanism to minimize wastages and embezzlements.

Another study conducted on an Evaluation of Pension Administration in Nigeria by Ayegba and published in British Journal of Arts and Social Sciences Vol.15 No.II (2013). The study evaluates pension fund administration in Nigeria by examining the extent of compliance by employers of labour in funding the Retirement Savings Account (RSA) of their employees as a requirement of the new contributory pension scheme in Nigeria. Key problems facing pension scheme in Nigeria was identified with an overview of the scheme. Secondary data were obtained from official publications, national dailies, documentations and internet materials. Chi Square method of data analysis was used to analyze the data. The analysis confirmed that regular upward reviews of pensions and gratuities in the country without appropriate strategies for financing the scheme has become a major problem, which calls for immediate attention in order to alleviate the suffering and hardship of retirees in the country(Nigeria).

The study recommends that the Nigerian government should encourage the option of having the banks where the salary accounts of employees are domiciled to make pension deductions on monthly basis possible and have it remitted to the Pension Fund Administrators. The need for public enlightenment on the merit of the new contributory pension scheme, the 2004

Pension Reform Act is key to enable Nigerians in Diaspora who may want to contribute to the retirement saving scheme to do so and the government should punish those who steal pensioners' funds to serve as deterrent to others. This study concludes that a well-organized structure that will ensure prompt payment of retirees and pensioners is highly desirable and this must be vigorously pursued by the government of Nigeria.

Conclusion

It is correct to conclude that, the importance of Pension provision in the life of an of an employee is, and has always been an issue for consideration for both the employer and the employee. As workers began to approach retirement, the realization that depending on family after retirement was more or less old fashioned and hence, the need to be able to take care of themselves even after active service since there was no guarantee that others will do that as it was practiced before. The success of the Pension Reforms depends on the commitment, proper implementation and of course the sincerity of all those entrusted with Retirement Savings Accounts domiciled with them etc. The New Scheme was to help correct the irregularities of the previous one and further build up some confidence in employees in looking forward to retirement and by so doing ensure more commitment to work by the employee since there is more motivation with the new scheme.

This study found out that, the new scheme has helped promote the workers commitment to work and also has built positive attitudinal change among civil servants to their retirement.

Recommendations

1) Government should provide a safer environment where funds can be invested with commensurate returns assured to the beneficiaries.
2) There is the need for continuous monitoring, regulation and strengthening of the institutional structure of the new Act to ensure that it functions accordingly.
3) Given the numerous scandals recorded with the past schemes, there is need then for closer and more effective management of the new scheme.
4) The government should intensify in the area of educating the public on Pension Matters so as to enlighten people who are ignorant or misinformed.

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