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ASSESSING THE PENSION REFORM ACT 2014 IN NIGERIA

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Introduction

It is globally acknowledged that it is the responsibility of any government and employer of labour to provide and sustain the welfare of its workers while in the service and after the retirement. This is so because productivity and rate of growth are largely and positively related to incentives given to workers, (Dogon-daji and Mukhtar,2012) To demonstrate this successive governments in Nigeria have carried out various pension and salary reviews to ensure effective welfare scheme for pensioners in the country.. The main objective of pension policy is to provide workers with regular and stable income after retirement in order to cope with challenges of post- retirement livelihood. Thus a good pension scheme served as an incentive to workers as it helps in attracting

Abstract

The article is an appraisal of Pension Reform Act 2014. The contributory pension scheme introduced in 2004 was to ameliorate the suffering experienced by pensioners in the country and to further put to rest the fear hitherto exhibited by the working class. This article briefly examined the problems of the old pension scheme, evaluates the performance of the contributory scheme, challenges, achievements and how the present scheme has adhered to improve the welfare of the pensioners in the country. The article relied on secondary mode of information gathering and it found that before the introduction of the reform pensioners were subjected to hardship due to non-payment of their entitlements. It however suggested, amongst other

thing that emphasis should be on .

KEY WORDS: *Contributory, Pension, Reform, Scheme.*

and retaining experienced staff, (Okotoni and Akeredolu, 2005 and Dogon-daji and Mukhtar2012). Olayiwola (n.d.) opined that the efficiency and effectiveness of pension schemes are therefore measured on the bases of old age, welfare , insurance and promotion of economic development.

Problem with the Old Pension Scheme

The major problem of the pension administration in Nigeria was the non-payment of pension and gratuity by the Federal and State governments. The pension backlog was estimated to about N2.56 trillion as at December, 2005. Infact, pension fund administration became a thorny issue with thousand of retired workers living in abject poverty and they were neglected and not properly caterred for after retirement.(Orifowomo 2006). Most of the retirees went through difficult times and cumbersome processes before they were eventually paid their pensions entitlements.

Pension administration in the country was compounded with a lot of challenges. Besides the aforementioned; other problems were: demographic challenges and funding of outstanding pensions and gratuities, merging of service for the purpose of computing retirement benefits. These problems coupled with the administrative bottlenecks,bureaucracies, corrupt tendencies and inefficiencies of the civil service, and the economicdownturn have resulted in erratic and the non-payment of terminal benefits as at whendue (Orifowomo, 2006; Ezeala, 2007, Abade, 2004). In addition the gross abuseof pensioners and pension fund benefits which were politically motivated in some cases,extended family and other traditional ways already broken down due to urbanization andincreased labour and human mobility. There was no adequate safeguard of the funds toguarantee prompt pension and other benefits payments to retirees.

The unfunded scheme was discriminatory and not portable and the employee was not entitled to pension benefits if dismissed from service.and there was no provision to protect the pension fund. Due to the unsatisfying nature of the old scheme, the unpleasant experiences of retirees and pensioners there

was the need for reform and change in the industry. One of such was to guarantee workers' contributions and accruing interest in the event of failure of the PFA. Besides, it was estimated that over N600 billion (\$4.5 billion) investible assets could be amassed annually through the pension scheme in Nigeria. Hence, the government could not only pay the retirement benefits as they become due but also utilize the saved pension fund for long-term development purposes.(Odia and Okoye.2012)

The Concept of Pension

Pension is a form of social security for the retired. It is meant to serve as a supplementary source of income to retired workers when their current earning power ceases. (Madigliani and Murahlidhar, 2004). It has been defined as "a sum of money paid regularly to a person who no longer works because of age, desablement etc. Or to his widow or dependent children, by the state, by his former employers or from funds to which he and his employers have both contributed" (Onifade, 2001). Williams (1997) defined pension as the totality of planned procedures and legal process of security and setting aside of funds to meet the social obligation of care which employers owes their employees on retirement or death. Funds are paid at regular intervals to the employees to enable them cope with life after retirement. Pension constitutes financial obligation or commitment the government owes public servants on retirement. Pension is paid monthly to the pensioners. To be entitled to pension a person must have served for a maximum of thirty five years or one must be sixty years old and for academics, sixty five years or whichever comes first.

The New Pension Reform

The Pensions Reform Act (PRA) is one of the legislations of the Federal Government of Nigeria after the return of democratic elected government in May 1999, is aimed at reforming the pension system in the country. The scheme is known as 'Defined Contribution Scheme'. This involves all workers in the Public Service of the Federation, Federal Capital Territory (FCT) and the private sector where the total number of employee is up to five or more employees. The PRA of 2014 came into existent with a view to reducing the difficulties encountered by the retirees in Nigeria

under the old pension scheme. It was expected that the contributory scheme will guarantee the prompt payments of pensions to retirees, eliminate queues of aged pensioners waiting for hours and days in the sun to collect their pensions and thus increase their standard of living. The new scheme is regulated and supervised by the National Pension Commission (PenCom). The Commission empowered to formulate, direct and oversee the overall policy in pension matters in Nigeria. It establishes , standards, roles and regulations for the management of the pension funds. It approves licences, sanctions and promotes capacity building and institutional strengthening of the Pension Funds Administration (PFA) and Pension Funds Custodians (PFCs)

Challenges of the New Pension Scheme

Prior to the enactment of the PRA 2004, which was subsequently repealed in 2014 the pension industry in Nigeria experienced many problems. The introduction of the contributory pension scheme gave the Nigerian retirees and contributors high expectations that with proper management of the scheme the end of the plight of the ordinary pensioners is at sight. The expectation arose from the need to have sustainable standard of living in retirement and the benefits paid as and when due. This issue is still lingering as many pensioners are complaining of being short change in the payment of their entitlements.

The common problem contributors or retirees are facing is the non- funding of their retirement saving accounts by the fund custodians.. Many employees' accounts were either empty or have been funded for a period of time, latter stopped and yet to be funded. For instance, after opening the retirement savings account with Stanbic IBTC pension managers in March 2006, there was no information as to whether my account was funded or not until September 2013.

The lack of full compliance by the other tiers of government: The 1999 Constitution of the Federal Republic of Nigeria, does not permit the Federal Government to legislate for State and Local Governments on pension matters, in view of the inherent advantages of the scheme, it would be necessary for the other two tiers of government to embrace the policy. Otherwise, employees may have to face multi regulations on pension if they move from Federal Public employment to States or Local government/

One of the major reasons why the defined benefit scheme failed was the non-payment of the retirees' entitlements by the governments due to lack of funds and at present over 75% of the contributory pension funds have been utilized by the Federal Government for investment purpose. The delayed in payment in the presence scheme is largely attributed to government inability to fund her counterpart, hence, there is the fear that if government could not fund the scheme then refunding the money when needed may seem difficult and that might signal the beginning of another doom in the industry.

In the contributory pension system there is a problem of non-uniformity of payment templates in the new pension scheme. In a survey I conducted (2017) a respondent revealed that a retiree of lower grade level was paid over Three million Naira higher than a senior colleague of grade level G13. She added the template used to calculate payment of the entitlement to the male folks is quite different from the women counterparts. This development is an unhealthy and heart breaking.

The contributory individual accounts were expected to supply new investment capital that would encourage development of domestic capital markets. However, one of the biggest obstacles that the new pension funds have had to face is a limited array of potential investments in local capital markets. Pension fund investments are generally limited to investment grade instruments which are in short supply in emerging capital markets.

Another serious obstacle militating against the scheme is the lack of accurate personnel information for prompt remittance of monthly pension contribution of federal government employees of Ministries, Departments and Agencies that yet to be captured under the IPPIS platform.

The fear of insincerity by the operators in the industry, according to Orifowomo (2006) the role of the pension fund administrators (PFAs) in the success or failure of the CPS cannot be overemphasized, especially as they are vested with the management of the funds and a worker has no direct dealings with his/her retirement savings account except through the pension fund administrator.. Therefore, the licensing , operation, management, performance, competence, integrity, continuity of the PFAs determines the future and destiny of a worker under the new pension arrangement.

Some major achievements of Pension Reform 2014

Essentially the PRA 2014 replaced PRA 2004 and recorded changes that strengthened the operation in the industry to enhance quality performance in order to guarantee security of the contributors and retirees' funds

* Provision for increment in the contributory pension fund” In the repealed law of 2004 the minimum rate of contribution was 15% (7.5% by the employee and 7.5% by the employer) of the employees monthly emoluments, the pension reform act 2014 reviewed upwards, the minimum rate of contribution to 18% (8 % by the employee and 10% by the employer) of the employees monthly emoluments. The upwards review of the employees' contribution will increase with attendance enhancement of the retirement benefits at the long run (Akioye and Ehikioya, 2014).

*The new legislation made provision for the pension transition arrangement directorate (PTAD) to ensure greater efficiency and accountability in the administration of the defined benefits which had in the past exposed pensioners who retired under it to untold hardship. This department which is supervised by the commissioned will ensure that pension benefits under the old scheme are paid directly into the pensioners bank accounts.

Provision of stiffer sanctions and penalties: In the past, those who committed offences relating to misappropriation of pension funds got away with light penalties. Under the new legislation, a pension fund administrator or pension fund custodian or pension or body who misappropriate or divert pension funds is liable on conviction to a fine of an amount equal to three times to the amount misappropriated or diverted or to a term not less than 10 years of imprisonment or to both fine and the imprisonment. In addition to the penalty any, person or body so convicted should refund the fund the amount so misappropriated or diverted. There is also a provision in the new Act for a person so convicted, in addition to any punishment which the court may impose in respect of offence, to forfeit to the federal government of Nigeria any property, asset or fund with accrued interest, or the proceed of any unlawful activity under this act.

Eligibility for participation in the contributory pension scheme: Unlike the repealed legislation which stipulated a minimum of 5 (five) staff, a private firm with up to 3 (Three) employees is now subject to the scheme under S.2 of the pension reform Act 2014. The coverage of the policy was expanded to accommodate three employees mainly towards informal sector participation.

It also provided for the entitlement of employees of organization with less than three employees as well as self-employed persons, to participate under the contributory pension scheme, this will encourage more people to save towards their retirement in the long run.

Provision which covers all new employees in a closed scheme: New employees of organization that operated a closed pension fund administrator system are now required to open a retirement savings account under the contributory pension scheme, by virtue of S.51 of the pension reform Act 2014. This is a change from the 2004 which never provided for but instead allowed both old and new employees of such organizations to participate in existing schemes and closed schemes.

Conclusion

The new pension scheme is contributory in nature. The practice is to remove the management of the scheme from the public sector driven and places it entirely in the hands of financial institutions. Efficient pension administration is subject to a robust financial markets, which calls for well managed banks, pension funds administrators, insurance companies, funds custodians, and an effective regulatory framework in the money and capital markets. The new pension scheme was established as an antidote to the complexities of the old scheme and will ease the problems retired workers went through before their retirement benefits are paid. The most celebrated fraud and mismanagement of Twenty-seven billion naira (N27.2bn) in the industry despite structures and controls put in place for securing the funds has given the workers cause to worry. This scam was possible because the Police Pension is not under the new scheme.

The paper recommends that the regulatory authority PenCom and other operators in the industry should come under an insurance cover to protect the funds and investment of the scheme, as this will guarantee the future and destiny of the Nigeria worker. The scheme should be devoid of government interference and stiffer punishment must be meted to anyone or group of persons for any act of mismanagement or diverting of the funds and on the part of government all pension funds borrowed for investment purposes should promptly be refunded.

Measures should be put in place to prevent corruption in the industry. The accrued interests due to both the pensioners and contributors from the

invested funds should be specified and credited to all beneficiaries as at when due,

Government at the state level should embrace the new pension scheme especially those which are yet to join. This will bring about uniformity in the pension administration in the country within the civil service. The welfare of the pensioners should be given priority and all hands put on deck for its success.

The government must pay greater attention to welfare of pensioners in the country. We should strive towards having at least 60% prompt payment of retirees' entitlements and pensioners' monthly allowances as against what is presently operating in the industry where retirees wait over years before their entitlements are paid.

Government should set up a genuine committee to constantly review the activities and performance of the pension funds administrators in order to checkmate the system.

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