
THE NEXUS OF DEFINED BENEFIT PENSION SCHEME AND CONTRIBUTORY BENEFIT PENSION SCHEME: NIGERIAN PERSPECTIVES.

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Abstract:

This study examined Defined Benefit Scheme and Defined Contributory Pension Scheme in Nigeria. The history of Nigerian Pensions scheme over the years has experimented different pension administrations with the main objective of reducing suffering of retirees. The Defined Benefit Scheme have seems to have failed. The Pension Reforms Act of 2004 brought into limelight the new pension scheme in Nigeria which is a defined contributory scheme unlike the old scheme which was largely defined benefits. The study used secondary data sourced from PENCON periodic publications, journals and textbooks. It was discovered that the new scheme is better than the old scheme in that it is expected to help remedy the deficiencies and inadequacies prevalent in the Defined Scheme. The study concluded that the values of the 2004 pension reform scheme, by all standards, are superior to those of past pension schemes. The study recommended that the PENCON should give zero tolerance to any act of financial misappropriation, it also recommended that only proper coordination, supervision and regulation of the pension industry in Nigeria will make to happen.

Key words: Pension, Defined pension scheme, defined contributory, retirement benefits, pension fund administrators

Introduction

The greatest challenge to any government in the world is the problem Of pension fund management. Pension Management in both developed and developing countries become an increasingly great concern to most government and countries of the world. In African countries including Nigeria were guided by different pension administration. Nigeria pension regime before the promulgation of the contributory pension Act of 2004 was Defined Benefit Scheme (DBS)

The administration of pension and gratuities to pensioner has for several years been a nagging problem especially in the public sector. The payment of pensions and gratuities has been very erratic and irregular. Thus pension liabilities have grown so much that the government was not been able upset the liability. This situation has condemned many pensioners of the civil service into untold hardship, object poverty and squalor. Many pensioners have resorted to begging for survival while some have died waiting for the payment of their pensions and gratuities (Aibiyei, & Christopher, 2016). The defined benefit had become unsustainable with outstanding liabilities

nationwide estimated at N2.3 trillion, the Federal Government find it difficult to grapple with the enormous amount involved. This is as a result of the increase in pension entitlement (Emola and Obasi, 2011). The increase made it difficult for government to fulfil its pension obligation because of the embezzlement of pension fund by those entrusted with the administration of the fund. This further plugged the pensioners into abject poverty due to neglect caused by lack of payment. Put into words, the pension scheme failed.

All forms of pension scheme in Nigeria prior to 30th June, 2004 were Defined Benefit Scheme plan and were non-contributory. Prior to Pension Reform Act of 2004, bore no direct responsibility, by way of payroll tax, for the provision of pension; instead pension benefits were paid through budgetary allocations to be kept in the Consolidated Revenue Fund. Budgets are estimates of revenues and expenditures for the fiscal years concerned. It is entirely possible that the amount released may fall short of the actual appropriation for pension payment. For instance, in fiscal year 2001, N6.4b was needed for payment of military pensions but only N2.1b was released for Defence, leaving a balance of N4.3b pension arrears.

The final entitlements of all the employees under DBS were calculated based on the employees' length of service and terminal remuneration. From an historical point of view, it was established that the DBS has been poorly funded or unfunded. This poorly funded or unfunded had resulted in a pension deficit of over N 2 trillion. Also before the Pension Contribution Pension Scheme Act of 2004, the proportion of pensions to salaries had also swollen up from 16.7 per cent in 1995 to 30 per cent in 1999 (Jeff-Anyene et al, 2017). The DBS had a weak administration, therefore, it was inefficient and, faced with corruption, non-compliance in the private sector and it was a failure.

The thought of post service years have been a thing of great concern to the employees of Nigeria public service and the private sector. Many pensioners as a result of delay or irregularities in the payment of their gratuities and pensions, and post service compensation have experienced life difficulties, have died prematurely out of frustration, while some are living in abject poverty and malnutrition (Nwanna and Ogbonna, 2019). In today's world, many potentials retirees are faced with major challenges which include among others threat of rising costs, impact of increasing health care costs; and damages to long-term financial security for retirees, who no longer fund their living expenses out of wages. Inflation affect retirement planning by increasing the future costs of goods and services and potentially erodes the value of assets set aside to meet these costs, if those assets earn less than the rate of inflation (Kotun et al, 2016).

It is against this background the paper seeks to compare the current pension scheme

with the past ones, with respect to their core values, with a view to highlighting some expected benefits and salient issues, which constitute areas of departure (in the new pension scheme) from the past ones. It also aims at providing some insights into the bane of past pension schemes so as to draw some caution for the new pension scheme.

Historical Evolution of Nigerian Pension System

The pension system was introduced into Nigeria by the British Landlords in 1861; it was needed to guarantee fairly retirement age. This system operated in Nigeria up until 1960; it became drastically changed when Nigeria gained independence on 1st October, 1960. The first major legislation that gave birth to pension administration in Nigeria was the 1951 Pension Ordinance which has retroactive effect from January 1, 1946. The Ordinance provided public servants with both pension and gratuity (Ahmed, 2006). The National Provident Fund (NPF) scheme established in 1961 was the first legislation to address pension matters of private organizations in Nigeria. This was the first social protection scheme for the non-pensionable private sector employees in Nigeria. It was established under the basic Pension Decree 102 of 1979. There were also some other policies and provision Decrees made in 1988 and 1993 respectively.

The Pension Acts No 102 of 1976 which commenced on 1st April, 1974 encompassed the recommendation of Udoji Commission which included all consolidated enactments and circulars on pension as well as repealing existing 113 pension laws hitherto in force. Other Pension Acts included: Pension Rights of Judges Act No 5 of 1985, the Police and other Government Agencies Pension Scheme enacted under Pension Acts No.75 of 1987 and the Local Government Pension edict which culminated in the setting of the Local Government Staff Pension Board of 1987. In 1993, the National Social Insurance Trust Fund (NSITF) scheme was set up by Decree No. 73 of 1993 to replace the defunct NPF scheme with effect from 1st July 1994 to cater for employees in private sector of the economy against laws of employment men in old age, invalidity or death (Balogun, 2006).

In 1997, parastatals were allowed to have individual pension arrangements for their staff and appoint Boards of Trustees (BOT) to administer their pension plans as specified in the Standard Trust Deed and Rules prepared by the Office of Head of Service of the Federation. Each BOT was free to decide on whether to mention an insured scheme or self-administered arrangement. It must be recall that the first private sector pension scheme in Nigeria set up for the employees of the Nigerian Breweries was in 1954. The United African Company (UAC) scheme followed in 1957.

Under the 1979 New Decree 102, all enactments on pensions, incorporated pensions

and gratuity scales of all public offers recommended by the Udoji Public Service Review Commission Report of 1974 was consolidated (Aibieye & Christopher, 2016). They (Aibieye & Christopher) argued that the 1979 Decree formed the basic pension law by which all recent pensions are built. They further assert that at the level of parastatals and government owned companies, the pension rules are replica of the pension Act 102 of 1979. The Decree spelt out conditions of payment of entitlements, withdrawal from the scheme as well as forfeiture of pension rights among others.

Comparing Between the Old and New Pension Scheme

A comparison of the old and new pension shows some remarkable difference between them as shown in table 1. For instance, starting from the type of scheme, funding, membership to risk management of the pension fund, the new scheme seems to be broader, inclusive and more adequately provided for. While the old pension scheme was largely defined benefits and unfunded, the new scheme is defined contribution and fully funded. The new scheme is very portable and enjoys uniform application unlike the old which was not. In fact, employees who leave one employment for another or even dismiss from service have no fear of losing entirely their pensions or other retirement benefits under the new pension scheme. The regulation and supervision of the new scheme is by PENCOM whereas the SEC, NAICOM and JTB were jointly responsible for the old scheme. Akeni (2009) made a comparison of nine items in the old and new scheme by conducting a survey of the pension fund administrators, pension fund custodians and the beneficiaries in the public and private sector. He found that the new scheme was better than the old in terms of : accountability, accessibility, ease of payment of pension and gratuity, funding, management of pension fund, transparency, stakeholders' confidence in the scheme, auditor's control and corporate governance . Although there was agreement that the new scheme was applauded as far better than the old, he discovered that the new scheme may not address the difficulties currently encountered in the pension industry in Nigeria nor impact positive on the standard of living of retirees and pensioners unless there were proper coordination and supervision by the Nigerian Pension Commission of the pension fund administrators and custodians. Therefore PENCOM must undertake periodic review of the investment guidelines of pension fund and create conducive environment for smooth operations by the pension fund administrators and custodians. It must ensure that the administrators and custodians abide by the rules of the pension game in order to ensure their efficient and effective performance. The public must be regularly enlightened and adequately keep abreast of development in the pension industry by the Commission and the administrators.

Analytical Framework of the study

Our framework adopted the work of Essien and Akuma, 2014 which is based on Ando – Modigliani hypothesis, which is known as the life – cycle income hypothesis. The hypothesis has it that consumption of the individual consumer depends on the resources available to him, the rate of return on capital, the spending plan and the age at which the plan is made. Succinctly, consumption, as argued by Ando and Modigliani (1963), is a function of individual consumer's expected life – time income. In other words, the long – period consumption of an individual is related to his life – time average income. The consumer will, therefore, maximize his utility (or welfare) over his life – time subject to the total resources available to him. Given the consumer's life – span, his consumption is proportional to his total resources. And the proportion of his resources spent depends on whether he made the plan during his early or later years. The life – cycle income hypothesis places age as a crucial variable in determining the relationship between consumption and wealth. In this hypothesis, individual's average income, as a rule, is lower than his spending (or consumption) at the beginning and towards the end of his life. In the middle years of his life – career, his total earning or income is higher than his consumption (Onuchuku & Adoghor, 2000).

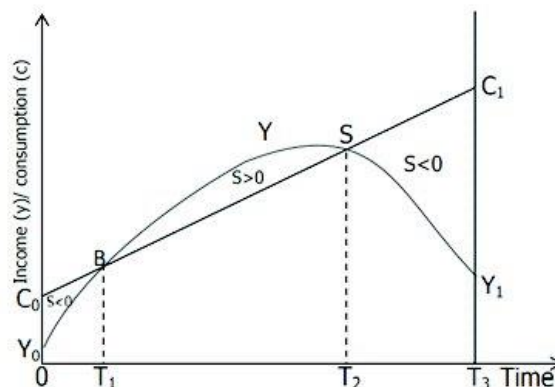


Figure 1: The Life-Cycle Income and Consumption

Figure 1: The Life-Cycle Income and Consumption From figure 1, Y_0Y_1 curve shows the individual income stream during his life – career time, $0T_3$, while C_0C_1 depicts his consumption function, which rises slowly over his life – time. S is saving, part of his income not spent on current consumption. At the early stage of his career life, $0T_1$, he borrowed C_0Y_0B amount of money to keep his consumption level, C_0B , which is above his income, Y_0B , thus, $C_0B > Y_0B$ resulting in $S < 0$, thus, he saves BY_0S amount to repay his debt and for the future. In the last years of his life represented by T_2T_3 , his

consumption SC_1 is greater than his income, SY_1 , so, he dissaves SC_1Y_1 amount, thus, $S < O$.

From the above analysis of the Ando – Modigliani income hypothesis, as applied in this study, we draw the following analogy: OT_1 as early years of the individual career life, already given; TIT_2 as the middle age of his career life in which his income, BYS , is greater than his consumption, BS , thus, enabling him to deposit part of his income as retirement savings with the existing national pension scheme. T_2 is the time the individual retires from his career. SY_1 as post – retirement income, which is less than SC_1 , his post - retirement expenditure (consumption), while T_2T_3 is his post – retirement life – time; and within this period, the retiree depends more on his pension he made between years T_1 and T_2 . If the pension scheme becomes ineffective and inefficient, probably due to financial misappropriation, so that the retiree does not receive his pension regularly, the pension scheme will be said to have fallen short of achieving its main objective of “improving the post- retirement living conditions of workers”, and the living conditions of the retiree, in his post retirement years, T_2T_3 , may rather worsen.

Literature Review

Pension System

Pension has been viewed differently by different policy makers and authors at different times to provide explanation to the agreement between employers and employees that would provide a stream of income especially at retirement age. To Ayegba, et al (2013) defined pension as a sum of money regularly paid to a person who no longer works because of old age, disability or retirement or to his widowed or dependent children by the state, former employers or from a provident fund to which he and his employer both contributed. Frank (2018) see pension as a contract for a fixed sum to be paid regularly to a pensioner, typically following retirement from service. It is different from severance pay because the former is paid in regular installments while the latter is paid in one lump sum.

Pension is a post-employment benefit as well as a form of social security that caters for a certain class of citizens of any nation that have offered the productive part of their lives in paid employment in public and some private institutions (Amiens & Abusmwan, 2019). The authors maintained that Pension systems are generally grouped into Defined-Benefit (DB) and Defined Contribution (DC) pensions. The former promised retirement pension payout. Based on the final contributions and number of years of service. While the latter elicits contributions from employers and employees and benefits.

Alonso-García, 2017, examines the sustainability and fairness of both DB and DC schemes and urges policymakers to ensure that pension contributions during working life correspond with pension rates at retirement while always maintaining an adequate level of liquidity. This has been the rationale for the movement from DB to DC pension schemes in the recent times with a view to making pension systems sustainable thus guaranteeing replacement incomes. Similar voices have been lent on the feasibility of these schemes in delivering the desirable outcomes of high investment returns, the certainty of retirement income, non-negative performance, efficiency and liquidity, and a smoothened consumption over the lifecycle (O'Dea, 2018) (Kolsru, et al. 2019). These authors postulate that in a bid to smoothen consumption, economic agents tend to hold the Marginal Utility of money constant over-time. e. Others examined the factors that affect the consumption smoothening process of these agents (Japelli & Pistaferri, 2017). Some studies concluded that countries are better-off under mixed pension systems (Boado-Penas, et al, 2020).

On the relationship between pensions and the economy, Wanger (2021) analyzed the long-run relationship between growth and old-age welfare. They argued that, increased economic growth increases employment which also determines labor incomes to build up pension benefits. There is a causality between growth and old-age welfare underpinned by appropriate savings and investment behaviour. Pension savings are not a leakage from the economy since they accumulate capital and if optimally invested could take employees out of retirement poverty and also stimulate economic growth.

DB schemes guarantee retirement income adequacy but are expensive and risky to manage. However, there is also the risk of inadequate retirement income under the DC schemes given that the burden is entirely borne by the plan participants whose savings decisions are full of flaws (Forsyth & Vetzal, 2019). They recommended a behavioral change regarding the required contributions, expectations and the optimal asset allocation mechanisms. Individual savings behaviors have been found to be influenced directly by their attitudes towards savings and levels of income, and indirectly by their views of longevity, replacement rate, age as well as their feelings as savers (Garcia, et al, 2011) (Kitces, 2017).

The advent of pension scheme into Nigeria is credited to the colonial administration (Sunday & Ehiogu, 2014; Uzoh & Anekwe, 2018). The authors' maintained that pension was founded on the premise that, after retirement, British citizens employed in Nigeria would be provided with old age revenue and protection. The historical development of pension and its reforms in Nigeria is documented in several studies such as Ekpulu and Bingilar (2016), Odia, and Okoye (2012). The focus in this paper is

on the recent reforms; Pension Reform Act 2004 and Pension Reform Act 2014 that ushered in the contributory pension era in the Nigerian Pension landscape. All forms of pension scheme effective in Nigeria prior June 30th 2004, were defined benefit plan and are non-contributory. The new contributory pension scheme, however, came into existence because of the 2004 Pension Reform Act (PRA), which created for all public and private workers a compulsory and contributory funded pension scheme. The Act is contributory in nature and is mandatory for all categories of workers in the public and private sectors.

Methodology.

The study used descriptive research method. It surveyed available secondary information and data from published works on Pension Reforms in Nigeria and Annual and Quarterly Reports from PenCom from 2004 to 2019. Information were also culled from Journal publications and textbooks. Specific data on the number of Registered RSA, public sector RSA contribution, private sector RSA contribution in Nigeria were collected from several issues of PencCom Annual Report and Quarter Report from 2005 – 2020.

Challenges of Defined Benefit Pension Scheme

The following are some of the challenges of old pension scheme in Nigeria.

Funding : Civil servants, prior to Pension Reform Act of 2004, bore no direct responsibility, by way of payroll tax, for the provision of pension; instead pension benefits were paid through budgetary allocations to be kept in the Consolidated Revenue Fund. Budgets are estimates of revenues and expenditures for the fiscal years concerned. It is entirely possible that the amount released may fall short of the actual appropriation for pension payment. For instance, in fiscal year 2001, N6.4b was needed for payment of military pensions but only N2.1b was released for Defence, leaving a balance of N4.3b pension arrears.

Political control of the public sector pension: Both Davis and Diamond argue that social security pensions provided on the basis of pay-as-you-go are subject to political risks. The risks contemplated take three forms. The first relates to the tendency of politicians, eager to capture the votes of the electorate, to offer fabulous pension increases that they are either not going to pay or which may fall on regimes other than theirs. The second aspect of the risk refers to the fact that the pension account, in not being distanced from political control, falls easy 'prey' to politicians who dip hands into pension funds to cushion up temporary fiscal shocks. The third relates to the socio-political indifference to the plight of pensioners by politicians.

Pension payment default by state governments: Furthermore, it is also claimed that pension debts in the public sector mount, in part, because of the failure of some state governments to provide their counterpart funds necessary to make up the amount provided by the federal government, in situations where the affected pensioners worked for both federal and state governments. As a rule, further release of money by the Federal Government to the State government can only happen on proven evidence that pension for the previous month has been settled. This seems to explain why a state would fail to collect federal government counterpart funds, for months, because the States affected could show no evidence of being up to date in payment of pensions.

Pension record and disbursement flaws: Both the way a record of pensioners in the public sector is kept and the procedure for payment of pension create avoidable problems. In some establishments no accurate record of actual pensioners exists. Corruption breeds more in the absence of facts and figures. This claim was dramatized in bold relief when verification of military pension account led to the discovery of 23,000 fake pensioners on the Army pension roll. Regular Nigeria's pensioner's papers verification by the pension administrators, for example, the Pension Transitional Arrangements Directorate. This frequent exercise has led to Nigeria's pensioners dying while undergoing this rigorous verification exercises.

Tardiness in pension disbursement: Another weakness found in the public sector system concerns the less than dignifying manner with which the senior citizens are treated. One observes how weak and frail-looking elderly citizens are compulsorily required to travel long distances to the point of pension payment. Worse still, they are left, under inclement weather for long hours and sometimes for days, before collecting their stipends. Some pensioners were claimed to have died while standing in a queue waiting to receive pension money.

Other challenges include

- i. Merging of service for the propose of computing retirements benefits
- ii. Administrative bottlenecks, bureaucracies, corrupt tendencies and inefficiencies in the civil service
- iii. Delayed of pension entitlements and refusal of payment of pension entitlements, as well as, nonpayment of pension entitlements. Sometimes, other challenge has to do with pension funds misappropriation.
- iv. Poor standard of living, occasioned by poverty among pensioners in Nigeria. This is due to increases in pension that are not in accordance with salary

inflation and/or lack of pension entitlements increase whatsoever.

- v. The old scheme is limited in coverage (only public organizations) and few private organizations. There was no uniformity in the scheme – there was disparity between the public and private organizations and even among various cadres in the same organization.

Advantages of Defined Benefit Pension Scheme

The following are identified as advantages associated with Old Pension scheme in Nigeria:-

- i. In the Defined Benefit Scheme, only the employer contribute and employees do not bear the burden of contribution.
- ii. There is general scale of benefit which is more generous than the new contributory scheme.
- iii. It involves periodic pension increase with salaries because monthly pensions were always increase whenever there was a wage increase.
- iv. There is no immediate pressure on employer's cash flow as payment is only made after retirement.
- v. It is also less expensive to administer since administrative cost begins from retirement.
- vi. The New Pension Reform Act 2004

The Pension Reform Bill, an Executive Bill, was submitted to the National Assembly in September 2003. The Bill sought to repeal all existing Pension Schemes including the Nigeria Social Insurance Trust Fund (NSITF) and replace it with a contributory and privately managed Pension Scheme. The Senate on the 23rd March 2004 passed the Pension Reform Bill and the President signed it into law on the 25th of June 2004. The implementation of the Act began on the 1st July 2004. The Act has brought about fundamental changes to the structure of leaving service benefits and the way they are provided for. The Act in section 1 establishes a contributory Pension Scheme for any employment in the Federal Republic of Nigeria. The scheme ensure that every worker (public or private) receives his retirement benefit as and when due, assist improvident individuals save for their old age and establish a uniform set of rules for administration and payment of retirement benefits. It is useful to note that all pension schemes existing before the commencement of this Act ceased to operate. The Act

applies to persons in the permanent employment of the public sector as well as private sector employees who are in the permanent employment of organizations in which there are five or more employees subject to the provision of section eight. However, a firm having less than five employees is eligible to participate in the scheme.

Every employee will choose any Pension Fund Administrator (PFA) of his choice, maintain a Retirement Savings Account (RSA) and each employee shall neither have access to the account nor have any dealings with the custodian with respect to the Retirement Saving Account except through the Pension Fund Administrator. The employer shall deduct at source the monthly contribution of the employee and remit an amount comprising the employees' contribution and the employers' contribution to the custodian, specified by the Pension Fund Administrator, of the employee to the exclusive order of such Pension Fund Administrator not later than 7 working days from the day the employee is paid. The custodian shall notify the Pension Fund Administrator who shall cause the Retirement Saving Account of such employee to be credited. The rates of contribution to the Retirement Saving Account by the employee and the employer are specified in section 9 (1). However, these rates of contribution may upon agreement of the employer and the employee be revised from time to time and notice of such revision shall be given to the commission.

Features of the New Pension Reform Act, 2004

The main features of the scheme are as follows:

- i. . It is contributive pension scheme which makes it mandatory for both the employer and the employee to contribute with a minimum of eight percent of total monthly remuneration from the employee and a minimum of ten percent from the employer.
- ii. The scheme applies to all employees, whether permanent, temporary, and casual or contract, in both the public and private sectors of the economy.
- iii. The scheme makes it compulsory for every person in employment in Nigeria to save towards catering for their livelihood during old age and after active years of service.
- iv. Provides for a uniform set of rules, regulations and standards for the administration and payment of retirement benefits for the public sector and private sectors. It also provides for the establishment of the National Pension Commission (NPC), which is empowered to register and license corporate organizations that will act as pension Fund Administrators (PFA) and each PFA in turn, select a pension Fund Custodian (PFC) who manages the fund on

its behalf.

- v. The scheme stipulates 50 years as the age at which an employer is entitled to pension.
- vi. Mandates for a minimum of three time annual total emolument of the employee in terms of death benefit to next of kin as regards group life insurance for employees.
- vii. Allow for increase in the rate of monthly contributions, subject to agreement between the employer and the employee.
- viii. Ensures that every employee maintains Retirement Saving Account (RSA) in his name with any pension fund administrator (PFA) of his choice.
- ix. Make pension deductions transferable from one employer to another because accounts, once opened becomes personalized to the individual who can move it in and out of employment within the same sector or across other sectors of the economy (Federal Republic of Nigeria Pension Reform Act, 2014)

Advantages of the Contributory Pension Scheme. The Contributory Pension Scheme (CPS) has several merits.

- i. It facilitates prompt and regular payment of benefits since funding is made monthly and credited to individual RSAs immediately. It also ensures availability of fund for investment, particularly to the capital market. Contributions are put to long term investments in the economy. It involves workers' participation since an employee contributes to his/her retirement fund and is also at liberty to decide who manages it.
- ii. With the new scheme there is now a central regulator the Pensions Commission (PENCOM) who oversees all pension matters nationwide. Unlike in the old pension system where we had three regulators in the pension industry. These were the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM) and the Joint Tax Board (JTB). SEC was the licensed pension manager while NAICOM was and still is the agency responsible for licensing and regulating insurance companies in the country. The JTB was approved to monitor all private pension schemes backed up with enabling powers from schedule 3 of the Personal Income Tax Decrees 104 of 1993. There is also private sector participation in the management of the scheme which has introduced profit making into pension administration and services

as a check against the inflationary effects on the contributions.

- iii. In addition, there is the portability of the scheme since it is now easier to change jobs. The employee only needs to provide the new employer with details of his retirement savings account.
- iv. The new scheme reduces government spending and commitment to payment of retirement benefit as employees now shares in it. There is less administrative cost to government because administrative costs are now largely borne by pension funds administrators and pension fund companies. More so the untimely payment of benefits which resulted in the accumulation of huge pension liabilities that are yet to be fully settled in the public sector is now a thing of the past for contributors under the new scheme.

Challenges of Contributory Pension Scheme

- i. Non-remittance by government: The default in pension remittances by government is impacting negatively on the implementation of the scheme in public universities in Nigeria. The federal government and many state governments have been defaulting and had not kept to its own obligation of ensuring regular remittance to the employees' retirement savings account (RSA). This contradicts the provisions of the Federal Republic of Nigeria pension reform act of 2014 which state in section 11 subsection 3(b) that "the employer shall not later than 7 working days from the day the employee is paid his salary remit an amount comprising the employee's contribution and the employers contribution to the RSA.
- ii. Non-compliance by many state government: Over 13 years of existence of the contributing pension scheme (CPS), not all state governments had enacted their pension laws to establish CPS to ensure that state employees are covered by the scheme. Most state employee's minimum wage is very meagre, they will have limited amount of contribution, therefore, their pension will be very small. Lack of effective enforcement of the existing pension regulations has been one of the challenges facing pension administrators in Nigeria. For example, CPS has been in existence for about ten years now, yet government has find it difficult to enact and enforce the pension regulations with a view to establish CPS, which to my mind, is a sign that there is deficiency on the part of pension administrators in Nigeria.
- iii. Limited Pension Payment:- there is limited pension payment to new entrants who might not have contributed much before his retirement from the service as such will only take the little contributions so far made. Example of an

employee who serve few years before his/her retirement age.

- iv. Complex to administer:- The CPS is very complex to administer because its administration involves monthly computations throughout the life of an employee which will attract higher administrative cost.
- v. Inability of state retired employees to access retirement benefits: This is a major issue with implementation of the contributory pension scheme in Nigeria. Many staff who had retired in the states where this scheme had been implemented cannot access their retirement benefits. The inability of retired employees to access their pension benefits have been a major challenge of implantation of the contributory pension scheme in Nigeria universities.
- vi. Perception of staff to the scheme: Many employees of some state employee in Nigeria have the negative perception that the contributing pension scheme may not be sustainable. Many even ascribed the implantation as double deductions from their salaries.
- vii. Inability of Many employees to open and own a retirement savings account (RSA): Many employees of various states government do not have retirement savings account with any licensed pension fund administrator in Nigeria. Many at the point of entry do not have any account and have not been able to open one. The pension units in many states do not have RSA details of staff and could not send to the national pension commission for remittance as expected or the state pension office.
- viii. Pension contributing ratio: The issue of pension contributing ratio between the Government and its employees (the state employee) is a major challenge hindering effective implementation of the contributory scheme. The Federal Republic of Nigeria pension reform act of 2014 stipulated that a minimum of 8% of total monthly remuneration from the employee and a minimum of 10% from the employer. It is however not encouraging to the employees of the some states government that after three years of the contributing pension reform act was amended that government had not complied with the provisions of the act to contribute its own 10%. The old practice of deducting 7.5% from the employee and the government pays 7.5% as the employer is still been observed in the government that have key-in to the new contributory scheme.
- ix. Inadequate induction and orientation programmes at the point of engagement: Many employees of some states still have this orientation that many state in the country are still operating the old defined benefit pension

scheme.

- x. Lack of Cash flow advantage:- There is no cash flow advantage to the employer because the contribution cannot be deferred by him. The contribution pension scheme is less flexible for employers who do not control funds contributed and cannot use it their advantage whenever there is a need.
- xi. Corruption:- The corruption of the old scheme has also already been transferred to the new scheme due to the lack of transparency between the schemes. About five years ago, the Economic and Financial Crime Commission investigated cases where N151b were stolen due to the grey schemes in pension funds.

The Pension Act 2014

On 1 July 2014, President Goodluck Ebele Jonathan signed into law the 'Act', which repeals the Pension Reform Act 2004. The new Act serve as the enabling legislation for the administration of the contributory pension scheme. Act has some major amendments which everyone, employers and employees should find quite exciting just as I do and benefit from the major changes which were made in this new act to alleviate the sufferings of the Nigerian Employee from the shackles of pension problems which the former Act did not address. Some of the major changes are highlighted below:

Participation and contribution:-The scope of participation of the contributory pension scheme for employers in the private sector has been decreased from minimum of five employees to three employees, which enables wider participation for the informal private sector, this is a wonderful development for employees in small scale employment, and they are not left out of the contributory benefit to secure their future. There is also an increase in the rate of contributions, Under the Act, employers are to contribute 12% of the monthly emolument which was previously 7.5%, and the employees on the other hand are to contribute 8% which was previously 7.5%. For an employer that bears the total pension contributions of its employees they will be expected to make 20% contribution. These contributions are applicable on monthly emoluments only. It is important to note that the scope of the monthly emolument has been given a wider definition than before i.e. Monthly emoluments under the Act is defined as the total emoluments as may be defined in the employees contract of employment but shall not be less than a total of basic salary, housing allowance and transport allowance.

Sanctions and Punishment on Employers:-The Act now empowers the National pension commission to institute criminal proceedings against employers for persistent refusal to remit pension contributions subject to the fiat of the Attorney General of the Federation, which will be to the delight of employees right now. Furthermore Pension operators who mismanage pension funds are liable on conviction to not less than 10 years imprisonment and/or fine of an amount equal to three-times the amount so misappropriated or diverted now. As it is clear that the benefit of pension is on the high side, some adamant employees still refuse to join this scheme, the pension act 2014 takes good care of these category of staffs by compelling an employer to open a Temporary Retirement Savings Account (TRSA) on behalf of an employee that failed to open an RSA within three (3) months of assumption of duty.

Recovery of Pension Funds:- The employees who have been involved actively in the contributory pension scheme often complain about recovery of pension after loss of job, the worry centers around the stipulated waiting period after a job loss, the new act has now given us a reason to smile as the act has reduced the waiting period for accessing benefits in the event of loss of job by employees from six (6) months to four (4) months. So in a sad case were you lose your job, you can quickly smile to the bank to access your benefits after 4months.

Finally It is clear that the new pension Act 2014 is quite advantageous to the employees as some keys issues have been addressed such as upward review of the penalties and sanctions, enhanced coverage of the contributory pension scheme and informal sector participation, upward review of rate of pension contribution, opening of temporary retirement savings account for adamant employees and access to benefits in the event of loss of job.

Observations:- It is observed that the values of the 2004 Reformed Pension Scheme are all ideally laudable and graphically superior to those of past pension schemes. It is further observed that starting from the type of scheme, funding, membership to risk management of the pension fund, the contributory pension scheme seems to be broader, inclusive and more adequately provided for. While the Defined Benefit Pension Scheme was largely defined benefits and unfunded, the CPS is defined contribution and fully funded. In fact, employees who leave one employment for another or even dismiss from service have no fear of losing entirely their pensions or other retirement benefits under the new pension scheme. The regulation and supervision of the new scheme is by PENCOM whereas the SEC, NAICOM and JTB were jointly responsible for the old scheme. Odi and Okoye (2012), also observed that the CPS was better than the old in terms of: accountability, accessibility, ease of payment of pension and gratuity, funding, management of pension fund,

transparency, and stakeholder's confidence in the scheme, auditor's control and corporate governance.

Conclusion:- The values of the 2004 pension reform scheme, by all standards, are superior to those of past pension schemes. However, the bane of past pension schemes – corruption (financial misappropriation) – which has permeated all sectors of the Nigerian economy, may likely affect the efficacy of the new pension if some drastic measures are not taken.

Recommendations:- In this light, we recommend that the leadership of PENCOM, which oversees the operations of PFCs and PFAs should determine to be anti-corrupt, and give zero tolerance to any act of financial misappropriation. All in all, Nigeria needs a visionary, disciplined, pro-development and an anti-corrupt leadership. This being so, the new pension scheme will have the needed congenial environment to practically bring to bear its expected benefits. The PENCOM must undertake periodic review of the investment guidelines of pension fund and create conducive environment for smooth operations by the pension fund administrators and custodians. It must ensure that the administrators and custodians abide by the rules of the pension game in order to ensure their efficient and effective performance. The public must be regularly enlightened and adequately keep abreast of development in the pension industry by the Commission and the administrators.

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