

## Challenges Faced By Retirees Under The Contributory Pension Scheme

Okpanachi Ekele

Bello Taiwo A.

&

Agabi Paul T.

Department Of Public Administration,  
The Federal Polytechnic, Bida.

### Abstract

This paper is an attempt to find out the challenges faced by retirees under the New Contributory Pension Scheme as far as getting their entitlements are concerned. The Old Pension System in the Public Service was non contributory and the cost was fully borne by the government. The old Scheme was marked with various challenges ranging from non-availability of funds to pay pensioners, poor management of pension records to embezzlement of pension funds. Many employees who worked and spent the useful parts of their lives in the services of the nation were not paid their entitlements years after retirement. Some even died without receiving any benefit. The Contributory Pension Scheme was introduced to address the challenges of the Old Pension Scheme. How have retirees under the New Pension Scheme fared and how have the operators of the Scheme been able to operate according to the Pension Reform Act, 2004? The researchers interviewed fifteen out of the sixty personnel of the National Cereals Research Institute who retired between 2012 and 2017 to gather information for this study. From the data gathered from the interview, it was discovered that in terms of the worth of benefits, the retirees have not fared better than those who retired under the Old Pension Scheme as none of them gets 50% of his last salary as pension and even the promptness of the payment of entitlements is beginning to disappear as the delay syndrome is gradually creeping into the new system. The paper concludes that the desired objectives of the Contributory Pension Scheme are yet to be achieved. It is recommended that the National Pension Commission (PENCOM) should strengthen its regulation over Pension Fund Administrators (PFAs) to ensure that the Scheme runs according to the provisions of the Pension Reform Act (2004) amongst other recommendations.

Key words: Retirement, Employee, Pension, Pension scheme, and Contributory.

### Introduction

The concern that easily comes to the mind of workers as they approach retirement age is how to continue to meet their needs and those of their family members after retirement. The basic needs like food, clothing and shelter are the major issues that need to be addressed as long as a man lives whether he is in employment or not. It is on this premise that employers of labour packaged and put in place, terminal benefits referred to as gratuity and pension. Gratuity refers to the lump sum paid to a retiree upon retirement, while pension is generally understood to be the monthly payment given to a retiree. The underlying purpose of a good pension plan is to enable employers to remove superannuated employees from the payroll in a manner that is morally and socially acceptable and makes available to them a life income.

The Old Pension Scheme (both of the public and private sectors) were non contributory and the cost in the public sector was fully borne by the government. In the private sector, individual firms register in either the National Provident Fund (NPF) or the Nigerian Social Insurance Trust Fund (NSITF) for their future pension savings. Some few multinational organizations engaged the services of close pension managers to handle the pension matters of their employees. However, due to the non contributory nature of the old scheme there were no ready funds to pay the pensioners and on the long run pension debt culminated into 2 trillion naira and that became a big cause for concern in many quarters (Ibiang, Etuk and Okimba, 2010).

The establishment of the contributory pension scheme by the Obasanjo administration was a result of the failure of the old pension scheme known as the defined benefit pension scheme tagged 'Pay as you go' (Kudu 2015). Despite the new contributory scheme retirees still have challenges with getting their benefits. It is against the back drop of the above that this paper attempts to find out the challenges faced by retirees under the new pension scheme and proffer solutions to them.

### **Methodology**

To gather information for this study, the researchers interviewed fifteen retirees out of about sixty who retired from the National Cereals Research Institute (NCRI) Badeggi between 2012 and 2017. The unstructured interview was used to freely gather information from the selected retirees. The result of the interview is simply discussed in prose. This was backed up by information from existing literatures where applicable.

### **Statement of Problem**

The researchers have observed that retirees from Federal Institutions complain of challenges with the new pension scheme as far as getting their retirement benefits are concerned. The highest place we have financial scam in Nigeria is in Pension Funds. This according to Kudu (2015) was the “most notorious or is it Nigerian factor that led to the collapse of the old pension scheme”. Employees who worked and spent the useful parts of their lives in the services of the nation were not paid their entitlements years after retirement, some even passed on without receiving any benefit because there were no funds and where funds were made available, the operators found one way or another to divert the pension funds into their own pockets.

The contributory pension scheme was introduced to address the challenges of the defined benefit pension scheme but the following questions can be asked.

### **Research Questions**

1. How have retirees from the public service fared in terms of accessing their pensions and gratuities under the new pension scheme?
2. Have the operators of the Contributory Pension Scheme operated the system in accordance with the provisions of the Pension Reform Act, 2004?

### **Literature Review**

#### **Concept of Retirement**

Retirement means taking permanent rest from a routine paid job. It is seen as a period in one's life after he/she has stopped work at a particular age. At this period the monthly salary ceases. He/she may now depend on retirement benefits (gratuity and monthly pensions) and/or retirement investments (Kudu, 2015). The major consideration for the retirement of workers is age as it affects the productive capacity of the workers. Retirement policies allow employers to restructure the age composition of the workforce in order to promote organizational efficiency. This is done by removing superannuated workers. This policy is supported by the principle of scientific management on redistribution of the workforce in organizations. Pension is paid as compensation for those affected by this redistribution. The compensation must be adequate to address the psychological consequences of retirement and old age poverty (Otinche, 2012).

A public servant may retire under the following circumstances:

- i. On attainment of the mandatory age of retirement as obtainable in the organization where the person works.
- ii. On the advice of a suitably qualified physician or a properly constituted medical board certifying that the employee is no longer mentally or physically capable of carrying out the functions of his office.
- iii. Where the person has put in for voluntary retirement, provided that he is qualified to be so released. (Pension Reform Act, 2004).

### **The Concept of Pension**

According to Dike (1999) pension refers to the continuation of the salary for an employee after he has left the services of the employer. He sees pension as a right, which cannot be denied employees or withheld from them by employers. This definition according to Otinche (2012), is tenable under the regime of non contributory pension scheme where the burden of pension was borne by the employer. Under the contributory scheme, where the employee contributes a part of his monthly income to build up savings for retirement, it may no longer be seen as continuation of his salary because the cost is no longer solely borne by the employer. This calls for a more encompassing definition. According to Olaniyi (2008), pension is the sum of money paid to a person who no longer works because of age, disablement or paid to his widow or dependent children by the state, by his former employers from funds to which he and his employers have contributed. He further stressed that a pension scheme serves as a structured method of providing economic security to an individual who can no longer support himself as a result of old age or ill health. It is the amount of money paid regularly by the government or a company to someone who does not work anymore either from a fund to which he contributed or did not contribute. A pension plan is an agreement between the employer and the employee such that, under specified conditions, the employer provides for cash payments to the employees when they retire. The sum total of the plans under a particular system as legislated upon by parliament is referred to as the pension scheme. The present pension scheme operated by Nigeria was copied from Chile (Casey, 2011).

### **Brief History of Pension Schemes in Nigeria**

The history of regulated pension scheme in Nigeria began in 1961 with the establishment of the National Provident Fund (NPF) by an Act of Parliament. The purpose was to provide some form of income protection for employees as required by the International Labour Organization (ILO) Social Security (Minimum Standard) Convention 102 of 1952. The scheme was non - contributory. It witnessed different changes owing to other enactments until 1979 when decree no 102 of 1979 consolidated all enactments dealing with pension and gratuity in the public sector. The government established Pension Boards to handle the retirement benefits of public sector employees while those of the private sector employees were handled by their employers (for private firms that had pension plans) Ibiang et al (2010).

### **Major Challenges of the Old Pension Scheme**

One of the major challenges of the old Pension Scheme is that it was not fully funded. There was irregular and inadequate allocation of funds by the government for the settlement of retiree's entitlements. Secondly, the Scheme lacked proper maintenance of records on retirees. This gave birth to fraudulent practices whereby fictitious names were included in the payroll of pensioners thereby overshooting the basic annual budget of the government to the detriment of pensioners.

Thirdly, the scheme was not coordinated as the administration of public sector pension was done under Decree 102 of 1979, while that of the private sector was administered under the regulation of three separate bodies: The Joint Tax Board, Trustees Investment Act and the Securities and Exchange Commission (SEC). There was also a weak and lack of comprehensive framework for the regulation and supervision of the Pension Industry. All of the above culminated in a pension liability of about two

trillion naira owed public servants and therefore the need to establish a new scheme. (Ibiang et al 2010; Kpessa 2011; Ahmed, 2007; Bassey, Etim and Asinya, 2008).

### **The New Contributory Pension Scheme**

The Pension Reform Act, 2004 (as amended) is an act of the National Assembly of the Federal Republic of Nigeria which was enacted on 25th June, 2004. The Act established the Contributory Pension Scheme.

The objectives of the Scheme are as follows:

1. Ensure that every person who worked in either the Public Service of the Federation, Federal Capital Territory or Private Sector receives his/her retirement benefits as and at when due.
2. Assist individuals by ensuring that they save in order to cater for their livelihood during old age.
3. Establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the Public Services of the Federation, Federal Capital Territory and the Private Sector.

### **Highlights of Some Amendments of 2004 Pension Reform Act:-**

1. Increase in contribution from 7.5% by both Employer and Employee to 10% by Employer and 8% by Employee (amounting to 18%).
2. Penalty for Non-remittances, Employers, to be sanctioned.
3. Penalty for embezzlement of Pension Fund by 10 years imprisonment or paying 3 times the amount embezzled or both.
4. Investment of Pension in Federal Government Infrastructural Development, for example; Power, Oil and Gas, Roads and Rail Tracks.

Main Features of the New Pension Scheme:

The New Pension Scheme has three (3) major features, these are:-

- i. Mandatory :- The New Pension Scheme is mandatory for all Public Service of the Federation, Federal Capital Territory and Private Sector that has 5 employees and above.
- ii. Contributory :- The Scheme is also contributory, 7.5% each by both employer and employee. This however has been amended in July, 2014, 10% by the employer and 8% by the employee. However, an employer may agree or select to bear the full burden of the Scheme provided that in such a case the employer's contribution shall not be less than 18% of the Monthly emoluments of the employee.
- iii. Individual Account and Privately Managed: Personalized, portable, retirement savings accounts managed by PFA and Pension Fund Custodians (PFC). (Kudu, 2015).

### **Presentation and Discussion of Findings**

#### **Lump sum Withdrawal**

It was discovered from the interview that none of the interviewees was satisfied with what he/she got as a lump sum withdrawal. It was gathered that people who retired under the Old Pension Scheme earned more than twice what the retirees under the new Scheme earned. Retirees who had the option of retiring under the Old Scheme at the onset of the New Pension Scheme regretted waiting a few more years to retire. What they were able to withdraw as a lump sum was based on the contributions made and the accrued rights before the introduction of the New Pension Scheme. They got about half of what their counter parts under the Old Scheme got.

#### **Monthly Pension**

None of the interviewees earns 50% of his last salary as monthly pension contrary to the provisions of the Act that established the Scheme. Section 4 of the Act provides that a holder of a retirement savings account upon retirement or attaining the age of 50 years shall utilize his balance in a flexible manner. He is entitled to withdraw according to paragraph c "a lump sum from the balance standing to the credit of his retirement savings account: provided that the amount left after that lump sum withdrawal shall be sufficient to procure an annuity or fund programmed withdrawals that will produce an amount not less than 50 percent of his annual remuneration as at the date of retirement". This implies that anything less

than half of the salary (of the last month of work) paid to a worker as monthly pension is not envisaged by the Pension Reform Act, 2004.

The average monthly pension currently paid by PFAs to retired workers in the organization is between 20 to 28% of the retirees last Salary. An interviewee who volunteered his details explained that his last salary was about N214,000, but on the programmed withdrawal from his retirement savings account he was offered N50,000 per month (23.36%). He and others who retired on Consolidated Research Institutes Salary Scale (CONRISS) Level 12 are taking home monthly, an amount less than what their junior colleagues who retired on level 6 under the Old Scheme are taking home.

#### **Delay in Payment of Entitlements**

It was discovered that the old monster of delay under the Old system is gradually creeping back to the system. When the new scheme started retirees had to wait for only three months to get their entitlements, it later increased to five months, one year and then the last set of retirees in 2016 waited for one year and four months before getting their entitlements. According to Shittu (2017), (President of the Interim Association of Contributory Pension Scheme Pensioners) the pension fund administrators, and PENCOM have placed investing funds in business ventures over and above payment of pensioners as at when due and this amounts to insensitivity to the plight of Pensioners. Pensioners are scared of mismanagement and embezzlement of the buildup of N5.96 trillion under the scheme. The interviewees called on PENCOM, the regulatory agency to rise up to the challenge of ensuring that players in the pension sector carry out their businesses in accordance with the provisions of the law. They also called on serving public servants to demand for a fair and just pension system through their trade unions now as they will become retirees some day. It is believed that the demands of serving public servants will be better attended to than that of retirees as it is easier for the former to hold the government to ransom through strikes than the latter. Efforts made by the retirees so far have not yielded the desired results.

The only thing the retirees are happy about as far as the scheme is concerned is prompt payment of the monthly withdrawal when it commences. Most PFAs pay between the 10th and 20th of every month though the amount is meager.

#### **Method of Withdrawal**

Retirees have the option of either a programmed withdrawal or buying an annuity with Insurance Company. Under the programmed withdrawal, when your funds are exhausted you become stranded but an annuity covers the retiree for life. Most of the interviewees here moved from programmed withdrawal to annuity. One of the interviewees who volunteered his details on this aspect explained that he started with programmed withdrawal and was told he would get N40,000 per month for fourteen years and no more but under annuity he is getting a little above that and it will be for life. Retirees are advised to go for the annuity option if there is no disappointment from the insurance company.

#### **Hope of Review**

The interviewees lamented the absence of provisions for a review of their monthly pension despite increase in prices of goods and services. The old pension was reviewed from time to time but the new is static. One interviewee who retired five years ago has been on the same monthly stipend without any hope of review.

#### **Conclusion**

From the foregoing, it can be concluded that the New Pension Scheme has not brought the much needed succor to retirees because those who have retired under it so far are not better off than those who retired under the Old Scheme. In fact, they are worse off. The Scheme is not operating according to the provisions of the Act that set up the new scheme as employees do not get what the law prescribes.

#### **Recommendations**

- Ø A stronger regulatory role is required of PENCOM. The regulatory body should wake up to the challenge of ensuring that the scheme works as envisaged by the law and make efforts to address the inequities in the system by ensuring that no retiree takes less than half of his last salary before retirement as monthly pension.

- Ø The PENCOM should look into the calculation of the accrued rights of workers who have put in several years of service before the introduction of the New Pension Scheme as they get far below their colleagues who retired under the old.
- Ø Retirees are advised to go for an annuity instead of programmed withdrawal.
- Ø The PENCOM should look into the static amount paid to retirees as prices of goods and services are not static. That implies that the pension is not progressive.
- Ø The ugly trend of delay in payment of entitlements that is raising its ugly head needs to be checked before it becomes entrenched.
- Ø Those who are already working are advised to invest in ventures that will bring in returns after retirement instead of relying solely on the pension scheme.
- Ø Trade unions of current public servants should take special interest in what is going on with the new scheme as they would retire someday. Efforts of unions of retirees do not yield much result as it is more difficult for them to hold the government to ransom.

#### References

- Ahmed, S. (2007). The contributory pension scheme: sensitization of key stakeholders of Benue State. Makurdi, Benue State Government.
- Bassey, N. E., Etim O.U. & Asinya F. A. (2008). An overview of the Nigerian pension scheme from 1951 – 2004. *Global Journal of humanities* 7 (1 and 2).
- Casey, B.H (2011). Pensions in Nigeria: The performance of the new system of personal accounts. *International Social Security Review* 64(1)
- Dike, E.S. (1999). What a public officer should know about his retirement benefits. Abuja, Kez – Mek Publishers.
- Ibiang, E. B., Etuk, H. O & Okimba, B. L. (2010). The New contributory pension scheme Guide Book. Second edition, Lagos, Ade Prints.
- Kpessa M.W. (2011). A comparative analysis of pension performances and challenges in Ghana and Nigeria. *International Social Security Review*. 64 (2).
- Kudu, M. A. (2015). Retirement without anxiety and stress' Being a paper presented at a One – day sensitization workshop organized by the Pension Unit in collaboration with Medical Centre, The Federal Polytechnic, Bida, January, 2015.
- Olaniyi, C. O. (2008). in Otinche, S. I. (2012) Pension Administration in Nigeria. Abuja, Marvellous Printers
- Otinche, S. I. ( 2012). Pension Administration in Nigeria. Abuja, Marvellous Printers Pension Reform Act (2004) Abuja, National Pension Commission.
- Shittu, M. (2017). Federal Government insensitive to our plight'. *The Nation Newspapers* 18th, January.