

AN ASSESSMENT OF THE CONTRIBUTORY PENSION SCHEME IN NIGERIA PUBLIC SERVICE

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**Abstract**

*The need to cater for the vulnerable segment of the society who by reason of old age, are not able to function effectively, accentuated the concept of pension. This study appraise the new contributory pensions scheme in Nigeria, to know if the problem that lead to the adoption of the contributory pension scheme had been addressed, its achievements, short comings and arguments for its abolishment. The study adopted the descriptive research design by using the survey method to administer 250 questionnaires to identified sample from five selected federal government agencies. These agencies are National Orientation Agency, the National Directorate of Employment, Nigerian Postal Service, Federal Radio Cooperation of Nigeria and the National Lottery Regulatory Commission, out of 250 survey instrument administered 183 was returned representing 76% of the entire population. Data was presented through the use of frequency distribution tables and interpreted using simple percentage and histogram curve. Findings from respondents' shows that majority of the respondents are of the view that problem that lead to adoption of the contributory pension scheme has been resolved. They also agreed that the contributory pension scheme has some noticeable flaws such as benefit adequacy, coverage compliance problem and financial sustainability of the scheme consequently, this study recommend that for any real transformation to happen in Nigeria's pension industry the background/ foundation leading to the problem must be properly established and agreed upon by every stake leading to a thresh hold of convergence*

**Key words:** Social security, pension, retirement

**Introduction**

The reality of pension over the past six decade of Nigeria's sociopolitical existence combines a mix grill of despondency, enthusiasm, assessment and resentment. This is attested to by the plight of the Nigerian pensioner. Especially instances of wanton delay in pension and gratuity payment, as a result of corruption, budget shortfall, or policy gaps and gaffes, accentuate a common occurrence of death frustration, depression and psychopathic disorder amongst retirees. Retirees been referred to as beggars says the least of harrowing state retirees in Nigeria have to pass through under the defined benefit scheme. In view of the forgoing sad reality of the defined benefit scheme, it was subsequently jettisoned and the new contributory pension scheme was adopted. The new contributory pension scheme was considered by stakeholders to be quite sustainable, as a result of greater private sector involvement and the level shared responsibility between employers and employees in the remittances' of pension. In spite of the above level of optimism, the scheme still suffers from some administrative and policy lacuna, resulting in its review in 2014. However, the scheme has not been holistic, as the scheme is only tailored towards some category of civil servants. For instance Otinche, (2014) argued that, the political class who are promoters of the scheme retire with life pension and handsome severance package without contributing a dime to their pension, based on the provision of section 84(5) of the 1999 constitution, thus building up resentment against the scheme, as some agencies are already questioning the propriety or logic of the scheme in view their less attractive pay.

To this end, this paper will be examining the issues that lead the adoption of the Contributory Pension Scheme in Nigeria, appraising the achievement of the Contributory Pension Scheme, evaluating some of the short coming of the contributory pension scheme, Identifying arguments supporting abolishment of the scheme.

**Statement of the Problem**

Before the introduction of the pension scheme in Nigeria, there had been the traditional ways of protecting and caring for the elderly. These were as a result of some extended family system, where by people made sure that older people were adequately taken care of in terms of what they ate, clothing and their health (Ojetende, 2005). However as a result of modernization and civilization the system broke down and retirees were left to suffer neglect as a result of lack of pension policy. On the above merit government introduced the defined benefit scheme also known as the pay as you go scheme, where government is wholly responsible for the payment of retiree's pension and gratuity. However owing to

complaints, criticism and failure of the scheme in achieving its strategic purpose, the federal government of Nigeria introduced new reform to the pension scheme in 2004 known as the contributory pension scheme, under Pension Reform Act 2004 of the federal republic of Nigeria.

According to the Pension Reform Act 2014 the contributory pension scheme is aimed at ensuring that retirees get their retirement benefit as at when due and assist improvident individual. The scheme aims at improving the standard of living of living of pensioner, in other to avoid old age poverty, unlike the previous pension scheme, and also correct most the flaws in the structure of the old pension system (Ojetende, 2005).

In spite of this modest prospect of the scheme, it has been subjected to critical appraisal by expert and stake holders, some of which bothers on it level of transparency and accountability, coverage level of the scheme, employee remittances and percentage of contribution. Leading to loud calls for the abrogation of the scheme as a result of what is termed the unjust elite manipulation of the employee by adopting the contributory pension scheme, against the bureaucratic elite who enjoy huge pension without contributing a dime of their earning to any pension pool. This has generated certain question like; Has the problems that lead to the adoption of the Contributory Pension Scheme been addressed; What are the achievement of the Scheme; Are there gaps in the scheme that need to be addressed; Are there argument for the abolishment of the scheme.

### **Conceptual Discourse**

#### **Pension**

Pension according to Lamke and Lins (2010) comes from a latin word pension payment which is a fund into which a sum of money is added during an employee's employment years and from which payment are drawn to support the person's retirement from work in form of periodic payment. A pension may also be defined as a defined benefit plan, where a fixed sum is paid regularly to a person, or defined contribution plan, under which a fixed sum is invested that then becomes available after retirement (Abdulahazeez, 2014:6). The Encyclopedia Britannica defines pension as a series of periodic money payments made to a person who retires from employment because of age, disability, or the completion of an agreed span of service. The payments generally continue for the remainder of the natural life of the recipient, and sometimes to a widow or other survivor

#### **Retirement**

Ugwu and Okechukwu (2011:2) opined that, retirement means different things to different people, according to them "to some it can be exciting, delightful, thrilling, reading, something to look forward to. While to some it means the end of the road, psychological, or living death etc," Ihuoma and Awopetu (2012), argued that, retirement is the formal disengagement from an employed job. Ugwu and Okechukwu (2011), sees retirement as a situation where people stop employment completely. Inaja & Martha (2013) describe it to means the stoppage or withdrawal from working simply because one has reached a particular age; either by chronological age or by virtue of years spent in service. Ali (2014), citing (Buckley 1974 and Cole 1997) define retirement as an inevitable stage of ageing where the individual gradually disengages from the main stream of active work, social work and is eventually replaced with younger ones.

### **Theoretical Issues**

#### **Crisis that lead to the adoption of the Contributory Pensions Scheme**

Since time immemorial, the academic landscape has been encircled with serious debate about the propriety or otherwise of pension policies in Nigeria, for instance civil servants, prior to Pension Reform Act of 2004, bore no direct responsibility, by way of payroll tax, instead pension benefits were paid directly through budgetary allocations to retirees (Nwane, 2015; Ojiya, et al., 2017; Odewole and Oladejo, 2017; Edogbanya, 2013). However Abdulhazeez, (2015), aver that the scheme became manifestly unsustainable by the government due to reasons which includes; **lack of funding, political control of pension fund, Pension payment default by state governments, pension record and disbursement flaws, tardiness in pension disbursement, resulting in untold hardship and abject poverty pensioners** (Ojiya, et al., 2017; Odewole and Oladejo, 2017; Edogbanya, (2013). Furthermore, Odewole and Oladejo, (2017) contend that the above situation has lead to serial neglect of pensioners by the successive administrations after retirement, thus leading to a precarious lifestyle with falling social status.

#### **Achievement of the Contributory Pensions Scheme**

Based on the level of despondency retirees in Nigeria were facing as a result the defined benefit scheme the federal government submitted an executive bill 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 1<sup>st</sup> July 2004 (Ojiya, et al., 2017).

The Act according to Abdulhazeez, (2016:4) brought about fundamental changes to the structure of payment of retirement benefit. The achievements of the of the contributory pension scheme since its inception are quite numerous. Amazu (2014) & Uzoh, (2018:529) highlighted some of these benefits to include;

- Stability, by providing a sustainable pension system that Nigeria and Nigerian workers can be proud of.
- Engendering a regime of regular payment of retirement benefits to all employees who retired under the scheme since 2007 without any delays.
- Separation of custody from management and supervision has resulted in a pension scheme with sound internal mechanism for transparency and accountability.
- “The ring fencing of pension fund assets and regulatory non-interference has resulted in the consistent growth in a large pool of pension assets of over 8 trillion which are invested in structured and safe financial instruments; a remarkable growth when compared with huge estimated pension liabilities in the public sector prior to the reform in 2004.”
- The scheme is also guided by the key principles of sustainability, accountability, equity, flexibility, and practicability.

#### **Flaws of the Contributory Pensions Scheme**

Years after the establishment of the new scheme there are still speculations about the success of the scheme (Ikeji, Nwosu and Agaboh, 2011). Workers were skeptical of the success of the new scheme mainly because of the failure of the previous schemes. Some Nigerian workers who had retired from their various places of work without a reliable pension scheme due to the failure by their employer to key into the scheme or failure to remit deductions to the appropriate pension manager. This may have accounted for why the scheme now has only 6.74 million contributors and an asset of only 6 trillion naira, out of a labour force of 74 million people (Ogah, 2016). Though the above estimated figure indicates a significant head room for growth within the industry, a review of the compliance reports forwarded by Pension Fund Administrators (PFAs) to the Commission during the first quarter of 2015 revealed that issues of non-compliance with investment limits by some PFAs; delay in the payment of retirement benefits; receipt of pension contributions without appropriate schedules; unresolved customer complaints; and non-implementation of disaster recovery plans are still weighing down the scheme (Ogah, 2016).

Also, PWC (2018) identified, benefit adequacy, coverage compliance, and financial sustainability, to be some of the key problem militating against the smooth running of the scheme.

**1. Benefit Adequacy:** According to PWC (2018) one of the major objectives of the Nigerian pension reforms was to “assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age”. The minimum contribution rate is set at 18% of pensionable emoluments (basic salary, transport and housing allowances). For the upper class who earn above \$65,800 per annum this could translate into considerable savings on retirement. However, the most vulnerable group i.e. the lower class which constitutes about 90% of the working population, retirement savings would not be sufficient to provide for them a meaningful income on retirement as they may receive a meagre \$25 per month as pension in present values.

**2. Coverage & Compliance:** the PWC (2018) also argued in their report that, most Nigerian workers don't have access to the contributory pension scheme CPS especially the economically vulnerable groups. And that those who are meant to comply with the provisions of the PRA 2014 have not done so.

**3. Financial Sustainability: skepticism had been raised by the PWC report asking if Nigeria can fulfill its responsibilities in managing the CPS in the short, medium and long term.** Also, Can it fulfill the financial commitments associated with the transition from the previous pay-As-you-go scheme to the new contributory pension scheme?

Similarly, Otinche (2012:56) is of the view that pension has its own inherent challenges for instance he argued that long term savings of pension reduces the value of money under high inflationary regimes, and reduces the purchasing power of retirees. Including low returns on investment as a result of economic glut and company's economic performance rating. **Resentment against the Contributory Pensions Scheme**

Fifteen years after the enactment of the Pension Reform Act 2004 and its subsequent amendment in 2014, there have been growing resentment about the sustainability of the scheme. This is as a result of inherited challenge from the old scheme and elite suspicion. For instance some agencies of government are already canvassing for a return to the old scheme as result of the percentage of their contribution which according to them eats deep into their meager earning, for instance the Academic Staff Union of Universities (ASUU) are of the view that they should be able to manage and run their own pension company, to avoid the huge deduction as currently the case under the 2014 pension reform act. Also there is growing feeling of being shortchanged by the political elite who by virtue of the provision of section 84(5) of the 1999 constitution... which stipulates that “any person who has held office as president or vice president shall be entitled to pension for life at a rate equivalent to the annual their salary”.

Similarly, under the Pension Reform Act they are entitled to life pension after serving a minimum of four years and a maximum of eight years in office without contributing a dime of their own earning, has steered up suspicion and feeling of elite conspiracy against the masses, leading to disparaging remarks from scholars and pension policy experts. According to Otinche, (2012:60),

the privatization of pension as currently the case in Nigeria represent a new scheme of bourgeois class exploitation of the working class, rather than the bourgeois class assuming responsibility of providing pension for workers, the state has mandate workers to contribute a percentage of their necessary value of their meager salary for upkeep at old age as (pension). which does not only represents the highest stage of bourgeois exploitation but bourgeois irresponsibility when the bane of state centric model of pension management is bourgeois machination and bourgeois induced corruption.

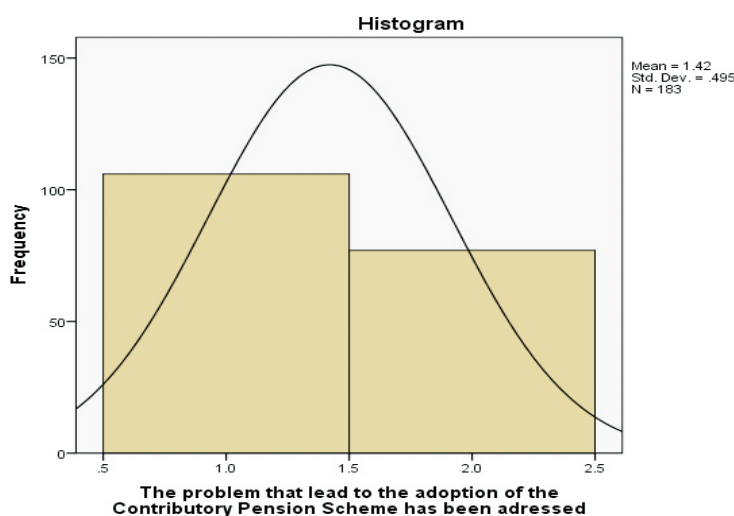
Confirming the above situation the Bauchi state government has legislated for the payment of (200,000,000.00) annually to past governors and legislators in the state as pension benefit.

**Research Methodology**

Survey design was used. A total of 250 samples were randomly drawn from five selected federal agencies whose employees are fully enrolled under the contributory pension scheme. This agency includes the National Orientation Agency, the National Directorate of Employment, Nigerian Postal Service, Federal Radio Cooperation of Nigeria and the National Lottery Regulatory Commission. Each agency was assigned 50 quotas each. A total of 183 questionnaires were retrieved representing 73.2% of the sample frame. The data were presented in contingency tables and analyzed with simple percentage.

**Table I: The problem that lead to the adoption of the Contributory Pension Scheme has been addressed**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	106	57.9	57.9	57.9
No	77	42.1	42.1	100.0
Total	183	100.0	100.0	



Source: Field Survey 2020

The result shows that 106 respondents representing 57.9% of the respondent agreed that the problem that lead to the adoption of the contributory pension scheme had been solved while 77 representing 42.1% of the respondent rejected the above assertion. The response from respondent as indicated by the histogram curve show a bimodal response pattern, which shows an almost even and symmetric response pattern. The implication of response from table shows that majority of the respondents are of the view that problem that lead to adoption of the contributory pension scheme had been resolved.

**Table II: The Contributory Pension Scheme has noticeable flaws**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	167	91.3	91.3	91.3
No	16	8.7	8.7	100.0
Total	183	100.0	100.0	

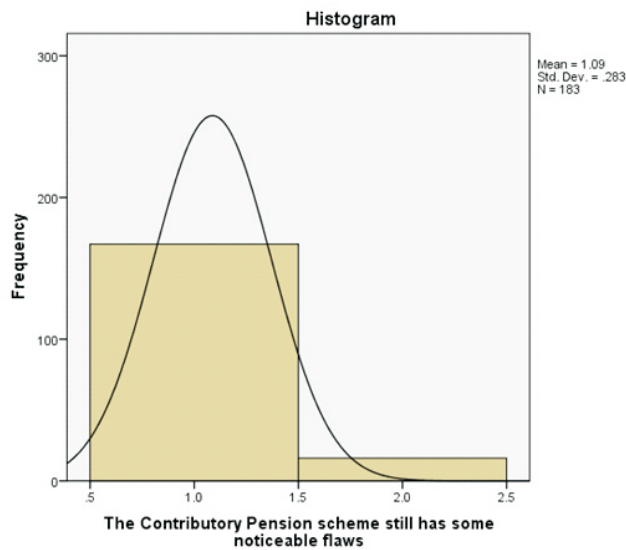
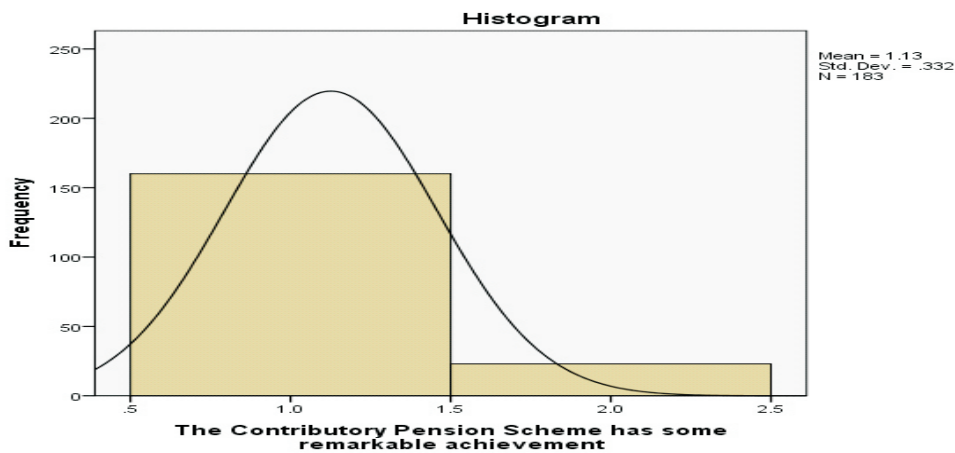


Table II indicates that 167 respondent representing 91.3% of the respondents agreed to the assertion that the contributory pension's scheme still has some noticeable flaws. On the other hand 16 respondents, representing 8.7 % of the population disagreed with the above assertion. The curve sloping downward show a skewed and unimodal pattern of response, as the response from respondent heavily favours respondent who agree that the scheme still has some noticeable flaws. The implication of table II suggest that majority of the respondents are of the view that the contributory pension scheme has some noticeable flaw, though negligible.

**Table III: The Contributory Pension Scheme has made significant achievement**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	160	87.4	87.4	87.4
No	23	12.6	12.6	100.0
Total	183	100.0	100.0	

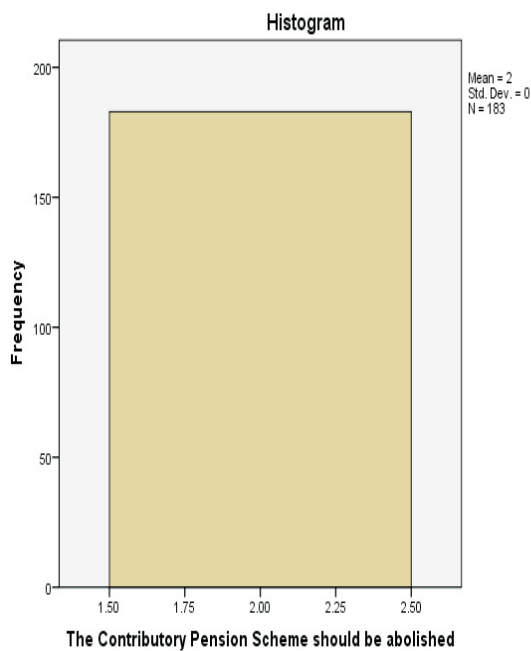


Source: Field survey 2020

Table III indicates that 160 representing 87.4% of the respondents support the view that the contributory pension scheme has made some remarkable achievements. On the other hand 23 representing 12.6% rejected the view, indicating a skewed and unimodal pattern of response to the right as indicated by the slope of the curve moving down wards. The implication of response from table III indicates that majority of the respondents concurred with the view that the contributory pension has made some remarkable achievement since its introduction.

**Table IV: The Contributory Pension Scheme should be abolished**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid No	183	100.0	100.0	100.0



Source: Field survey 2020



Table IV: indicates that 183 representing 100% of the respondents rejected the assertion that the contributory pension's scheme should be abolished. The responses show that all the respondent are of the firm belief that the contributory pension scheme should be continued, in spite of some her challenges.

### Discussion of Findings

The first research question that, challenges that lead to the adoption of the contributory pension scheme has been addressed was accepted. Respondents were of the view that most of the problems that lead to adoption of the contributory pension scheme had been resolved. Issues of delay in pension payment, irregularity in payment and issues bothering on lack of transparency and accountability in the management of pension fund. The above finding is similar to views canvassed by (Amazu, 2014; Abdulhazeez, 2016 & Uzoh, 2018). The second research question that the contributory pension scheme has some noticeable flaws was accepted, as the flaws were thought to be negligible to undermine the overall achievement of the scheme, in spite of issues bothering on coverage and compliance, benefit adequacy and the general financial sustainability of the scheme as identified by (PWC, 2014 & Otinche, 2016). The third research question that the contributory pension scheme has made some remarkable achievements was equally accepted. Finally the fourth research question that the contributory pension's scheme should be abolished was rejected, respondents are of the firm belief that the contributory pension scheme should be continued, in spite of some her challenges.

### Conclusion

The motivation behind this study is premised on the holistic assessment of issues surrounding the contributory pension scheme, firstly by looking at the background leading to it conception and issue arising from its implementation. The study note the level of frustration retirees faced prior to the enactment of the contributory pensions scheme. For instance under the Pay as you go system, where government is wholly responsible for the payment of pension, there were issues of delay in the payment of pension and lack of accountability, which often result in despondency, hopelessness, misery, dejection and depression of many retirees. Secondly the study examine the prospect and expectation of the new contributory pension scheme since its commencement in 2004, and also what it has being able to achieve so far, in terms of deliverables, for instance the contributory pension scheme has as its chief objectives the payment of pension as and when due, by the combined effort of employer and employee and also to assist improvident individual to retire happily. Thirdly, the study has equally establish that, it is not yet Uhuru as far as the scheme is concerned as there are still copious lapses, that needs to be covered, for instance transparency issues from operators, coverage and compliance problem, and pension remittances from employers. Lastly the study identifies areas of to resentment toward the scheme by certain stake holders; their argument was premised the extreme insincerity and double standard from the political elites of the country, as far as issues of pension is concerned. For instance public office holder are constitutionally entitled to life pension, as a precursor, political office holders in recent times have approved outrageous pension benefit for them self, without contributing a dime of their own earning after serving for maximum eight years. This has put a huge question mark on the integrity of the political class as regards the sincere implementation of the scheme.

However the study is not without some limitations;

Some of this limitation bothers on the methodology of the study. The study only accessed employees from five MDAS in Abuja, while the retirees who are the major beneficiaries of the contributory pension scheme were not captured, hence did not provide a holistic and objective assessment of the issues surrounding the implementation of the contributory pension scheme.

Also the study did not mention the population of the five MDAS used in this study; rather survey instrument was randomly distributed to the respondents of this MDAS. This apparently questions the validity and reliability of research findings.

Drawing from the forgoing limitations, further studies should look at the impact of the contributory pension's scheme on retirees, because retirees are the chief beneficiaries and primary stake holders of the scheme. Another area that demands keen attention is the private sector. Further studies should look at the level of private compliance to scheme. Knowing that the private sector forms the larger part of Nigeria's work force.

### Recommendation

1. Hence for any real transformation to happen in Nigeria's pension industry the background/ foundation leading to the problem must be properly established and agreed upon by every stake leading to a thresh hold of convergence.
2. No doubt that the scheme has made some remarkable achievement but there is room for

improvement by ensuring strong supervision of the activities of various Pension Fund Administrators and Pension Fund Custodians PFA/PFCS. This supervision can be enhanced by appointing seasoned expert on pension matters, with sound private sector background and deep insight and understanding of the workings of the PFA/PFCS to be at the helms of affairs of PenCom. This will engender robust interface between the PenCom and PFA/PFCS.

3. Some of the identified flaws identified can be adequately taken care of by expanding the scope of the scheme to accommodate most of the economically disadvantaged and economically unorganized groups, who form seventy percent of the Nigerian economy. Though PenCom in her recent guideline have initiated the micro pension scheme for the informal sector. This is not enough; it should be legislated upon to give it a legal frame work, just like the Pension Reform Act PRA.
4. Lastly, given the level of resentment, and pessimism that is currently hovering around the scheme as a result disparity in its application, the National Pension Commission (PenCom) should be given an independent status, similar to that of the independent National Electoral Commission (INEC) to handle pension matters dispassionately, without bias.

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