

The Pension System and Retirement Planning in Nigeria

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Abstract

Over the years the management of pension scheme in Nigeria has been inundated by multiple and diverse problems arising from which retirement became dreaded by workers especially in the public service. The failures of pension schemes in the country have been attributed to poor pension fund administration, outright corruption; embezzlement of pension fund; inadequate build-up of funds and poor supervision. There have been several reviews of pension schemes by the federal government which have also caused implementation problems. In 2004, Nigeria established a funded system based upon personal accounts. This paper examines the features, prospects and challenges of pension management in Nigeria as an important aspect of retirement planning almost a decade after the commencement of the new reforms. It gives an overview of the scheme and identifies key problems facing pension scheme in Nigeria and proffers solution. Data was obtained from official publications, documentations, paper clippings and internet services. The paper concludes that there is not much evidence to show that the pension scheme is leading Nigeria in the desired direction. Numerous scandals have trailed the pension scheme, and a lot still needs to be done with regard to the effective management of the pension scheme. The importance of pension provision will continue to grow as individuals begin to place less reliance on family to look after them in old age and begin to face the reality that they need to look after themselves. The success of the pension reforms largely depends on the sincerity, collaboration and commitment of all stake holders.

Keywords: pension, scheme, retirement, planning, Nigeria.

1. Introduction

Employee benefits are elements of remuneration given in addition to the various forms of cash pay. Pension is one indispensable form of employees' solid benefits which has positive impact on employee discipline, loyalty and willingness to remain in the service of an employer, commitment to the attainment of job goals and concern for the survival of the organization. An occupational pension scheme is an arrangement under which an employer provides pension for employees when they retire or gives deferred benefits to members who leave. It is a system designed to provide the employees of an organization with a means of securing on retirement a standard of living reasonably consistent with that which they enjoyed while in service. Pension and related issues have received significant attention in many countries over the past decades. There are new changes in the way pension assets are managed and benefits are distributed to beneficiaries due to the difficulties associated with the pension schemes previously in existence. Robolino (2006) notes that many countries have opted for different forms of contributory pension schemes, in which employees and their employers are expected to pay certain percentages of their monthly earnings to a Retirement Savings Account (RSA) from which they would be drawing their pension benefits after retirement. Pension reflects money withheld during the period of employment and returned with interest to an employee after cessation of work, that is, at retirement. A retirement scheme is a way of providing an employee with either a lump sum of money when leaving the service of an employer or providing a pension to the employee. It provides benefits which can be regarded as compensation to an employee for the services rendered to the organization.

Over the years the management of pension scheme in Nigeria has been inundated by multiple and diverse problems such as inadequate funding, inadequate subventions and grants, poor documentation and filing in pension offices, direct release of pension funds to underwriters, accumulated arrears of pensioners, inability to determine appropriate investment portfolios, lack of accountability, corruption and embezzlement of funds. Others include

cumbersome clearance procedures, incompetence and inexperience of pension staff added to poor human relations, lack of etiquette and simple courtesy. This situation often affects employee loyalty and commitment to an organization negatively. There have been several reviews of pension schemes by the government which have also caused implementation problems. This paper examines the features, prospects and challenges of the new pension system in Nigeria as an important aspect of retirement planning almost a decade after its commencement.

2. Literature

2.1 The Concept of Pension

Pension is simply the amount set aside either by an employer or an employee or both to ensure that at retirement, there is something for employees to fall back on as income. It ensures that at old age workers will not be stranded financially. It is aimed at providing workers with security by building up plans that are capable of providing guaranteed income to them when they retire or to their dependants when death occurs. The reason for pension scheme stems from the fact that first an organization has a moral obligation to provide a reasonable degree of social security for workers especially those who have served for a long period. Second the organization has to demonstrate that it has the interest of its employees at heart through pension schemes. The most popular way to determine the amount of an employee's pension is to base payment upon a percentage of the employee's earnings computed at an average over several years multiplied by the number of years the employee has served the company.

2.2 Importance of Pension

Pension is a tool used to manage employment. It can be applied in an organization to attain and retain certain levels of labour productivity. Armstrong (2010) affirms that pension helps employees to readjust themselves properly into the society after leaving employment. It constitutes an important tool in the hands of management for boosting employee morale which may lead to efficiency and increased productivity of employees in particular and the organization as a whole. Besides pension is a device which employers use to meet their social responsibilities and thereby attract goodwill.

Furthermore, pension now plays an increasingly important role in the economy of any country because the money earmarked for pension could be used for the establishment of small enterprises. It can also relieve pressure on the company for individual assistance by instilling in employees a sense of confidence at challenging responsibilities for their future. Sterns (2006) observes that pensions could discourage labour turnover. If both the employees and employers contribute to the scheme, then it serves as a general area of joint interest and cooperation and therefore helps to foster better employment relations. However, employer and employee relationship in the provision of pension as a form of employee benefits is often affected by factors including: pensionable and gratuity age; the amount or the percentage of the proposed pension; method of financing; administration of pension and psychological pressure. Pension administration consists of five basic elements namely: flexibility; amount of benefits; finance; contribution to cost of pension and gratuity and death benefits.

2.3 The Pension Scheme in Nigeria

Pension reform according to Blake (2003) is not a new issue in any part of the world. It is usually a continuous process especially with the ever changing economic and political processes witnessed everywhere in the world. David (2003) affirms that the United Kingdom which is one of the first countries to introduce the pension scheme has conducted several pension reforms, the latest being the pension reform under the Labour Government of Tony Blair in 1997.

Balogun (2006) affirms that Nigeria's first ever legislative instrument on pension matters was the Pension Ordinance of 1951 which took effect retroactively from 1st January, 1946. Though pensions and gratuities were provided for in the legislation, they were not a right as they could be reduced or withheld altogether if it was established to the satisfaction of the Governor-General that, an officer was found guilty of negligence, irregularity or misconduct. Since the enactment of that first Pension Ordinance, the pension scheme in the has undergone various developmental stages.

The National Provident Fund (NPF) Scheme was established in 1961 by an Act of Parliament to provide income loss protection for employees as required by the International Labour Organisation (ILO) Social Security (Minimum Standards) Convention 102 of 1952. The NPF scheme however covered only employees in the private sector, and the monthly contribution was 6% of basic salary, subject to a maximum of =N=8.00 to be contributed in equal proportion of

=N=4.00 each by the employer and the employee. The NPF scheme was later converted to a limited social insurance scheme established by Decree No. 73 of 1993 and administered by the Nigeria Social Insurance Trust Fund (NSITF).

The NSITF was a defined benefits scheme covering employees in the private sector working for organisations with a minimum workforce of 5 employees. It catered for employees in the private sector of the economy with respect to loss of employment, income in old age, invalidity or death. The initial monthly contribution of members was 7.5% of basic salary, shared in the proportion of 2.5% by the employee, and 5% by the employer. In 2002 this was revised to 10% of gross salary (comprising basic salary, transport and housing allowances) shared in the proportion of 3.5% by the employee and 6.5% by the employer. The proportion of pension to salaries increased from 16.7 % to 30% between 1995 and 1999. The Local Government Pension Scheme was established by Military Fiat in 1977. In 1979, the Civil Service Pension Scheme was established by the Basic Pension Decree 102 of 1979.

Commenting on the provisions of the Decree 102 of 1979, Uzoma (1993) notes that in the special case of the public scheme the office of Establishment and Pensions acts as the trustee and constitutes the rules of the scheme. The scheme was for all public servants except those who were on temporary or contract employment. The compulsory retirement age for such workers was 60 years for both male and female workers except for high court Judges that was 65 years and 70 years for Justices of the Court of Appeal and the Supreme Court. However, the earliest retirement age was put at 45 years provided the worker had put in 15 years of service or more. In the same 1979, the Armed Forces Pension Scheme was created through Decree 103 of 1979 with retroactive effect from April 1974. Similarly, in the same year the Armed Forces Pension Act No. 103 was enacted.

There was also the Pensions Rights of Judges Decree No.5 of 1985 as amended by the Amendment Decree Nos. 51 of 1988, 29 and 62 of 1991. The police and other government agencies' pension scheme were enacted under the Pension Act No. 75 of 1987. The Local Government Pension Edict culminated into the establishment of the Local Government Staff Pension Board in 1987.

Another landmark development in the history of the Nigerian Pension System was the Police and other Agencies Pension Scheme Decree No: 75 of 1993 which took retroactive effect from 1990. At this time all governmental parastatals and agencies directly funded by the treasury had a unified pension scheme that was virtually managed by insurance companies many of which were unable to honour their pension obligations. In the private sector, the first pension scheme in Nigeria was set up for the employees of the Nigerian Breweries in 1954. This was followed by United African Company (UAC) scheme in 1957.

These Decrees remained the operative laws on Public servants and Military Pensions in Nigeria until June 2004 though there were several government circulars and regulations issued to alter their provisions and implementations. For instance in 1992, the qualifying period for gratuity was reduced from ten to five years while for pension it was reduced from 15 to 10 years. In all there have been about eight (8) registered pension schemes in the country before 2004 which were largely unfunded, self-administered and uninsured.

2.4 The Pay As You Go (PAYG) Pension Scheme

There are two notable schemes the self-administered scheme and the insured scheme. The self-administered scheme is administered on behalf of the staff by the trustees, in line with the Trust Deed and Rules. The administrators collect the contributions and invest such contributions through external or in-house fund managers. For the insured scheme, the administration of the pension is transferred to a life insurance company who collects the premium and invests the premium and on retirement, pays the retirees pensions. The most common form of this scheme is the deposit administration which allows the insurance company involved to invest accumulated pension fund contributions with subsequent interest. It is through the use of the insured scheme or the use of pension fund managers that the private sector managed its schemes effectively before 2004.

Prior to 2004 the pension scheme in operation was the Defined Benefit or Pay as You Go (PAYG). The government funded the public sector scheme hundred percent and it was a non-contributory pension scheme. Chilekezi (2005) observes that the pension payment was done through budgetary allocations for each fiscal year. The private sector scheme seemed better organized than the public sector and as Uzoma (1993) affirms it was mostly a contributory scheme, but in a few cases it was maintained as a non-contributory scheme 100% funded by the employers.

2.4.1 Merits of the Pay As You Go (PAYG) Pension Scheme

The PAYG pension scheme has certain merits. One merit of the system is that only the employer contributes and

employees do not bear the burden of contributions. Also for the PAYG scheme there is a general scale of benefit which is more generous than the new contributory scheme. In addition it involved periodic pension increases with salaries because monthly pensions were always increased whenever there was a wage increase. More so, payment by the employer is deferred and there is no immediate pressure on employer's cash flow as payment is only made after retirement. It is also less expensive to administer since administrative costs begin from retirement. The scheme is however fraught with challenges and problems.

2.4.2 Challenges of the Old Pension Schemes

The 2004 pension reform was necessitated by the myriad of problems that plagued both the Pay As You Go (PAYG) operated in the public sector and other forms of pension systems like occupational schemes, mixture of funded and defined benefits (DB) schemes that operated in the private sector. A major challenge of the public sector defined benefit scheme (PAYG) was its dependence on budgetary provisions for funding. Gbitse (2006) observes that the scheme in the public sector became unsustainable and was further compounded by increase in salaries and pension payments.

The corruption and embezzlement in the country also affected the pension scheme and funds meant for it. Moreover, resulting from lack of adequate and timely budgetary provisions the scheme became largely unsustainable and brought about not only soaring gaps between pension fund obligations and revenues, that threatened economic stability but also crowded out necessary investments in education, health and infrastructure.

In addition, Gbitse adds that the Pension Fund Administrators (PFA) were largely weak, inefficient, and cumbersome and lacked transparency in their activities. Added to these was poor supervision of pension fund administrators in the effective collection, management and disbursement of pension funds. Commenting on the old pension scheme, Toye (2006) alludes to poor record management and documentation processes by the pension board as well as the inability of pension fund administrators to effectively carryout their duties in providing for the expected pension allowances as at when due. The aftermath of this development led retirees to become more or less beggars.

Successive governments in the country also abused resources meant for development and payment of pensioners and pensions was largely neglected. The pension burden on governments at various levels grew so big that prompt payment became impossible. The problem was further compounded by the negative economic and social effects of the policies of Structural Adjustment Programme (SAP), hikes in fuel price, devaluation of the naira, and the global economic recession among others which made the pension scheme inconsequential.

The eventual collapse of the non-contributory pension scheme is therefore a cumulative effect of all these problems that produced generally worsening living conditions for pensioners. Compared to the 1980s and the 1990s, the pensioners became worse off because their pensions were significantly depreciated. Added to the foregoing, is the fact that inflation in the country has for over two decades remained in double digits, a situation which has undermined and made nonsense of not only the pension, but also the minimum wage. Therefore aside from the fact that pensions were not paid promptly, when they were eventually paid their real values had been gulped by inflation.

There were other challenges to the PAYG scheme. For instance it was limited in coverage since it only covered the public service and a few private organizations. It also lacked uniformity. There were disparities between public and private sector organizations and even among various cadres in the same organization. Moreover, the scheme was too generous to be sustainable. It crowded out other social expenditures in the budget since much was spent on it to the detriment of demands from other social responsibilities. Furthermore, there were distortions arising from changes in life expectancy because in reality retirees outlived their life expectancy by far, thereby putting pressure on budgetary provisions.

Commenting on the pension scheme, Hassana (2008) affirms that most pension schemes in the public sector had been under-funded, owing to inadequate budgetary allocations in addition to which budget releases that seldom came were far short of the total benefits. This situation resulted in outstanding, unprecedented and unsustainable pension deficits that estimated to over two trillion naira before the commencement of the Pension Reform Act (PRA) in 2004.

Others like Kunle and Iyefu (2004); Taiwo (2006) also observe that the administration of the pension scheme was weak, inefficient, and non-transparent. Toye (2006) adds that there was no authentic list or data base for pensioners, and several documents were required to file pension claims. The restriction in investment and sharp practices in the management of pension fund exaggerated the problem of pension liabilities to the extent that pensioners were dying on verification queues for payments.

The private sector schemes were characterized by very low compliance ratio due to lack of effective regulation and supervision of the system. Most of the schemes were similar to Provident Fund Schemes, and did not provide for periodic benefits. More so, many private sector employees were not covered by any form of pension scheme. Most employees in

the formal and informal enterprises were not catered for by any form of retirement benefit arrangements. Most pension schemes were designed as resignation schemes rather than retirements schemes. A direct result of these myriad of problems was that the Federal Government constituted various committees at different times to look at the challenges of pension schemes in Nigeria and proffer solutions to move forward. One of these committees was the Fola Adeola committee whose report was enacted into the Pension Reform Act (PRA) on the 1st of July, 2004.

2.5 The Pension Reform Act 2004

In 2004, the Federal Government of Nigeria revolutionized pension management and administration in the country with the enactment of the Pension Reform Act 2004. The Act assigned the administration, management, and custody of pension funds to private sector companies, the Pension Fund Administrators (PFA) and the Pension Fund Custodians (PFC). The Act further mandated the Nigeria Social Insurance Trust Fund (NSITF) to set up its own Pension Fund Administrator (PFA) to compete with other PFAs in the emerging pensions industry, and also to manage the accumulated pension funds of current NSITF contributors for a transitional period of five years.

As earlier noted, prior to the Pension Reform Act 2004 (PRA), most public organizations operated a Defined Benefit (pay-as-you-go) scheme in which final entitlement was based on length of service and terminal emoluments. The system failure gave birth to the new initiative, Pension Reform Act 2004 with a Contributory Pension Scheme (CPS) to provide remedy. The Pension Subcommittee of the Vision 2010 (1997) had suggested that (only the rich (countries) can successfully operate an unfunded, non- contributory pension scheme. The Vision 2010 committee had set the objective of most Nigerians having access to a formal social security programme and it argued that this could be achieved by establishing a funded pension system backed by large-scale privatization.

The major objectives of the new scheme were to: ensure that every person who has worked in either the public or private sector receives his retirement benefits as and when due; assist improvident individuals by ensuring that they save to cater for their livelihood during old age; establish a uniform set of rules and regulations for the administration and payment of retirement benefits in both the public and private sectors; and stem the growth of outstanding pension liabilities.

The CPS is contributory, fully funded and based on individual Retirement Savings Accounts (RSAs) that are privately managed by Pension Fund Administrators (PFAs), while pension funds and assets are kept by Pension Fund Custodians (PFCs). The Pension Reform Act 2004 decentralised and privatised pension administration in the country. The Act also constituted the National Pension Commission (PENCOM) as a regulatory authority to oversee and check the activities of the registered Pension Fund Administrators (PFAs). The provisions of the act cover employees of the public service of the federal government, and private sector organizations.

The move from the defined benefit schemes to defined contributory schemes is now a global phenomenon following success stories like that of the Chilean Pension Reform of 1981. There seems to be a paradigm shift from the defined benefit schemes to funded schemes in developed and developing countries resulting from factors like increasing pressure on the central budget to cover deficits, lack of long-term sustainability due to internal demographic shifts, failure to provide promised benefits etc. The funded pension scheme enhances long-term national savings and capital accumulation, which, if well invested can provide resources for both domestic and foreign investment.

2.5.1 Features of the 2004 Pension Reform

The Pension Reform of 2004 has some peculiar features that can position it as a catalyst for a sustainable social welfare programme. The scheme is fully funded ensuring that overall retirement income is maintained from the onset of the scheme and also that retirement benefits are paid on sustainable basis because funds are always available to defray any pension obligation that falls due. More specifically the following features of can be identified:

(i) Coverage and Exemption

The scheme accommodates workers in both public and private sector organisations with a minimum of five employees. Only those who were already pensioners and those with 3 years to retirement as from 2004 were exempted from the scheme. The new scheme applies only to the workers from 2008. It is however not uniform to all categories of workers. For instance Section 8 (2) of the 2004 Pension Reform Act exempts judiciary workers from the new scheme entirely.

(ii) Retirement

While in the public sector, the statutory retirement age is either 60 years or 35 years of service, whichever comes first, in the private sector, retirement age varies between 55 and 60 years and the factor of 35 years of service is not applicable. The Pension Reform Act 2004 has no clear provisions on minimum retirement age but provides in [Section 3(1)] that no person shall be entitled to make any withdrawal from their retirement savings account before attaining the age of 50 years. Section 3(2) (c) however permits withdrawal from the retirement savings account by an employee who retires before the age of 50 years thereby accepting that employees could retire before attaining the age of 50. This kind of ambiguity could result in confusion.

(iii) Gratuity

In the Pension Reform Act, 2004 the right to a gratuity has been abolished. So retirees no longer receive single lump sum payment as gratuity in addition to pension which is a periodic payment, normally on monthly basis, for the remainder of the pensioner's life. This is seen as being unfavourable to employees and discriminatory against poorer paid employees.

(iv) Contributory

This privatised and decentralised new pension scheme adopts the Chilean-style of pension scheme. The scheme provides for a compulsory contribution of 7.5% of workers' basic salary and 7.5% of same from employers as pension for workers after retirement. However, while public sector workers contribute a minimum of 7.5% of their monthly emoluments, the Military contribute 2.5%. The public sector contributes 7.5% on behalf its workers and 12.5% in the case of the Military. Employers and employees in the private sector contribute a minimum of 7.5% each. An employer may elect to contribute on behalf of the employees such that the total contribution shall not be less than 15% of the monthly emolument of the employees. This implies that the level of contribution is not uniform.

(v) Level and Remittance of Contributions

An Employer is obliged to deduct and remit contributions to a Custodian within 7 days from the day the employee is paid his salary while the Custodian shall notify the PFA within 24 hours of the receipt of such contribution. There are already complaints by PFAs of non-remittance of pension deductions on the part of some employers. Contribution and retirement benefits are tax-exempt. Again, Ahmed (2001) in the Summary of Proceedings of the National Workshop on Pension Reform reports that the studies which the Federal Government had commissioned to determine the level of contribution that could meet anticipated pension benefits report that 25% of gross emolument of all government employees needed to be set aside annually to meet existing and maturing gratuity and pension liabilities, for adequate funding of the public service scheme. However, the Pension Reform Act stipulates a total contribution rate of 15% of total emoluments. This level of contribution is seems low and inadequate.

(iii) Voluntary Contributions

Section 9 (4) of the Pension Reform Act 2004 allows for voluntary contributions which gives opportunity for the self-employed and those working in informal sector organizations with less than 5 employees to open retirement savings accounts (RSA) with pension funds administrators (PFA) of their choice and make contributions. However, for voluntary contributions, the tax relief is only applicable if the amount contributed or part thereof is not withdrawn before five years after the first voluntary contribution is made.

(iv) Individual Accounts

An employee is required by law to open a 'Retirement Savings Account' in his/her name with a Pension Fund Administrator of his/her choice. This individual account belongs to the employee and remains with him/her for life even if he/she changes employer or Pension Fund Administrator. The employee may only withdraw from this account at the age of 50 or upon retirement thereafter. An employee can withdraw a lump sum of 25% of the balance standing to the credit of his retirement savings account if he/she is less than 50 years at the time of retirement and he could not secure a new

job after six months from leaving the last job. Similarly, a retiree can withdraw a lump sum if he/she is 50 years or above at the time of retirement and the amount remaining after the lump sum withdrawal shall be sufficient to fund programmed withdrawals.

2.5.2 Merits of the Contributory Pension Scheme

The Contributory Pension Scheme (CPS) has several merits. 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.

With the new scheme there is now a central regulator the Pensions Commission (PENCOM) who oversees all pension matters nationwide. Dalang (2006) notes that there were three regulators in the pension industry prior to the enactment of the pension Reform Act 2004. 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.

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.

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.

2.5.3 Challenges of the Contributory Pension Scheme (CPS)

In spite of the seemingly laudable framework of the CPS, it has been characterized by several challenges.

There was an initial reluctance and scepticism by workers to register with PFAs. While this has reduced and there is a widening coverage especially in the informal businesses in the private sector, after almost a decade of inception, the scheme is still characterised by general misconceptions and knowledge gap.

There is a significant lack of adequate capacity building in the new pension industry with the personnel in the emerging pension fund industry showing a high degree of overlap with other business interests. Also insurance companies have scored low on their performance role in the pension scheme.

Next, there is the transfer of risks to employees. The employee decides who manages his/her pension contributions and therefore assumes full responsibilities for the risks involved.

Furthermore, the new scheme was borrowed from Chile but there are significant differences in the two countries. For instance while in Chile life expectancy is 76, in Nigeria it is about 43 and so majority of the people tend to need their pensions at earlier stages of their lives to take care of their financial needs and other essential social services previously taken care of by government.

Moreover, there is lack of confidence on the part of the employees arising from failures of previous similar government policies. Added to this is the fear of continuity and sustainability by successive governments since new governments in the country have been known to jettison previous programmes midway. Another is the challenge of embezzlement and mismanagement of the contributions. Recently there have been revelations of multi-billion Naira pension fund scandals pervading many strata of the Nigerian society like the Pensions Unit of the Office of the Head of Civil Service of the Federation, PENCOM and the Nigeria Police Pensions. A recent National Assembly public hearing on pensions revealed that six civil servants stole =N=24 billion from the Police Pension Funds. The same persons were alleged accomplices in the illegal diversion of another =N=32.8 billion from the same Nigeria Police Pension Funds. Similarly =N=151 billion and another £6 million were recovered after the conduct of Biometric Data Capture exercise on pensioners since 2010. Furthermore, it was revealed that whereas =N=5 billion was paid to the Office of the Head of Service monthly for pension payment, the actual figure was =N=1.9billion, a staggering =N=3.1billion difference.

Corruption in the system has become so pervasive. The embezzlement and corruption manifests in different shades and colours. Of the 141, 790 pensioners listed on the government's payroll, only 70,657 were said to be genuine, while the Police Pensions Office also allegedly collected =N=5 billion monthly as pensioners' claims instead of the actual requirement of =N=500 million. Millions of pensioners who have served the country have their latter years enmeshed in suffering due to the greed and avarice of some uncultured public office holders. Arising from the foregoing, it is questionable whether issuing of shares to absorb pension savings and the transfer of pension management to private companies, has solved governance problems and uprooted corruption. Pension Fund fraudsters must be appropriately sanctioned to serve as a deterrent to others. It is worrisome that rather than steep sanctions for pension fraudsters there are controversial court judgments which are more like slaps on the wrists for offenders.

Another challenge is that of regulation. The role of the regulator is bringing in international best practices into pension administration. The regulator is backed by regulatory authority, which is the power that the legislation gives it to enforce statutes, to develop regulations that have the force of law, and to assist the public in ensuring that regulated entities comply with laws and regulations. However, as confirmed by Herskovits (2007) there seems to be a pattern of general lack of regulatory autonomy of Nigerian institutions. With the level of corruption in the country, it is doubtful that one regulatory body like PENCON could check fraud by PFAs. Pension funds must neither be embezzled nor mismanaged by fraudulent or incompetent fund administrator due to bad investment decisions otherwise the major purpose of the scheme will be defeated. In developed financial and capital markets all intermediaries such as banks, insurance companies and pension funds are well regulated.

In addition, global financial system is unstable and in a country ravaged by corruption and system collapse, one can only be optimistic in expecting PFAs to perform wonders. The current situation in Nigeria is such that businesses are dying as a result of collapsed infrastructures making it difficult for PFAs to invest these monies. They may subsequently run into overhead costs arising from administrative and other costs, which may eventually collapse the scheme. Under the present capitalist economy, recession and financial disaster are inevitable. More so, bank scandals and rising fiscal deficits do not breed confidence in the system or the government's ability to deliver meaningful benefits in old age. Internationally several big banks have been declaring huge losses due to financial speculations and they are seeking state assistance. In addition, PFAs have been complaining of non-remittance of 7.5% employers' portion to them.

Again, there is now limited pension payment to new entrants who might not have contributed much before retirement and as such will only take the little contributions so far made. The new scheme is not as generous as the old and consequently, it allows limited redistribution of wealth between age and income groups.

Other challenges include the fact that the CPS seems more complex to administer because its administration involves monthly computations throughout the life of employment. There are now higher administrative costs. On the whole, it costs more to administer than the old system. Also there is no cash flow advantage to the employer because contribution cannot be deferred by him. The scheme is less flexible for employers who do not control funds contributed and cannot use it to their advantage whenever there is a need to do so.

Another major challenge is that the new system continues to exclude the poor and workers in the informal sector. There are serious challenges to implementing the new scheme in the informal sector arising from the absence of a coherent structure and the unwieldy composition of the informal sector. Integrating the informal sector into the new scheme is quite herculean and difficult. There is an all-encompassing need to address the effective and efficient participation of the informal sector in the Contributory Pension Scheme.

2.6 The Social Pension Alternative

Considering the challenges inherent in both the old and new pension schemes as highlighted above, possible alternatives to provide for retirees may be imperative. Some have suggested social pension which involves cash transfer to old people with eligibility based on residence and financing not from contributions but general tax revenues.

Holzmann and Hinz (2005) and Palacios and Sluchynsky (2006) emphasize that the contribution of social pensions to relieving poverty in developing countries has been long advocated by the ILO; and more recently, the World Bank. Social pensions have been credited with positive developments in those countries that have introduced them. Johnson and Williamson (2006) note that social pensions have contributed to improving women's health, fighting rural poverty, heightening the status of older people in the family and increasing school enrolment.

However, social pensions may not be without disadvantages. In traditional settings like Nigeria, it weakens traditional systems of informal family care for the elderly. Again it relies on the same revenue base as the old, unfunded,

pension scheme consequently there is instability of the revenue source, and thus the likelihood of payments falling into arrears, would remain.

3. The Way Forward

Arising from the foregoing this paper recommends that a comprehensive accounting standard for retirement benefits must be put in place to adequately protect pension funds. Government must provide a relatively safe and less volatile area in the Nigerian economy where the funds can be invested with commensurate returns assured to the beneficiaries. There is need for continuous regulation and strengthening of the institutional structure of the new scheme. PENCOS must ensure an enabling environment for smooth implementation of the pension scheme and put in place effective monitoring of all players backed by adequate sanctions for erring operators. To ensure transparency and prompt payment there must be prompt reconciliation and statements of account given to members of PFAs regularly. Pension fund investment needs to be carefully monitored and investment instruments where they can be invested must be rated to ensure asset quality. This implies that PFAs must be competent and proven institutions in financial management and investment. There is need for viable investment of pension fund to ensure prompt and regular payment of entitlements of retirees and pensioners. Numerous scandals that have trailed the pension scheme, in recent times implying that greater need for effective management of the pension scheme. Concerted efforts must be made to prevent more pension scams in the country.

Furthermore, there must be intensified public education and enlightenment on the new reform since almost a decade after its inception there is still a lot of misinformation and ignorance about it. Government needs to demonstrate strong support and political will. Relevant legal framework should be put in place by government to ensure necessary political and economic support for the scheme. An appropriate implementation and enforcement culture is needed which involves prompt prosecution of defaulters and enforcement of penalties.

Bearing in mind the singular importance of pension in the life of retired workers pension reforms must be continuous and regularly reviewed to adjust to environmental changes. There is still hardship due to the unkind and rigorous verification procedures and the unnecessary length of time it takes for PENCOS to process pensioner's entitlements. PENCOS must improve on its services and be open to all enquiries. There is need for more automation to make the scheme highly mobile and sustainable. There must be a uniform pension scheme for both the public and the private sectors, and retirement benefits should be funded by both the employer and the employee. Also, there must be strict regulation, supervision and effective administration of all pension matters in the country.

4. Conclusion

The importance of pension provision will continue to grow as individuals begin to place less reliance on family to look after them in old age and begin to face the reality that they need to look after themselves by building a nest egg for the future. The success of the pension reforms largely depends on the sincerity, collaboration and commitment of all stake holders like government that sets out the regulatory framework; the regulator PENCOS; financial institutions who manage and administer contributions; individuals who pay and employers who must also contribute for their employees. Pension schemes aim at ensuring that public or the private sector retirees receive their retirement benefits as at and when due and assisting improvident individuals by ensuring that they save to cater for their livelihood during old age. Almost a decade after the reform scheme became effective; there is not much evidence to show that the scheme is leading the country in the desired direction.

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