

A Review of the Promises and Challenges of the 2004 Pension Reform in Nigeria

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Abstract

This paper uses a descriptive historical method to assess the 2004 pension reform in Nigeria. It examines the promises of the reform vis-à-vis the pre-reform crisis-ridden pension administration in both public and private sectors. The paper underscores some prospects of the new scheme which are mainly in the areas of regulation, third party administration by professional institutions and funding but identifies other challenges such as spread and coverage, slow pace of acceptance by lower tiers of government and corruption. The authors point to the fact that most of the criticisms against the introduction of the scheme are based on economic projections which could be neither here nor there, and, which could be controlled by diversification in pension fund investments. It is underscored that a mandatory contributory pension scheme should be distinguished from poverty relief programme and universal social security benefits to avoid scheme overloading. Above all, there is need for enlightenment directed towards the employees understanding their rights and demanding it from the employers as concerning private sector coverage.

Keywords: 2004 pension reform; defined contributory scheme; funded; regulatory framework

1. Introduction

The contributory pension scheme has gradually become a world best practice in pension administration. Nigeria joined the reformist countries in 2004 to adopt the Direct Contributory scheme. Prior to this, the country had practiced the Direct Benefit Scheme in the public sector in which the government at all levels shouldered the full cost of pension and gratuity payment of workers. The private sector was hinged on the contributory scheme which at the time of the reform was the Nigeria Social Insurance Trust Fund, NSITF. The pension plans for both the public and private sectors were crisis-ridden before the introduction of the 2004 Pension Reform Act. As at then, it was estimated that over 2 trillion Naira pension liabilities were owed to retirees of the public sector in the country. But the entire budget of the country was not up to the value of pension liabilities of the Nigerian government in 2003. In addition to the bankruptcy faced, the public sector pension administration witnessed weak and inefficient pension administration, prevalence of arbitrary increase in salaries that affected pensions, poor administrative structures for pension schemes and lack of comprehensive regulatory framework for the pension industry (Demaki and Dedekuma, 2006).

The private sector was not better either. Dorstal (2010: 3) summarized major failings of the NSITF scheme as documented by others like ILO (2006) and Casey and Dorstal (2008) to include the scope of coverage, high administrative cost, low pension payouts, and high fragmentation of the scheme. Dorstal (2010) observed that only about 10 per cent of the Nigerian work force (app. 4.8 million out of app. 48 million) belonged to the formal employment sector out of which app. 3.7 million also belonged to a pension scheme. NSITF delivered a poverty pension and was too loose to cover many employees of the formal private sector despite the legal provision that all companies with at least ten persons should contribute to the scheme. Employees in the informal sector have no cover at all that some scholars (e.g. Elekwa, nd; Nwabueze, 1989) believe Nigeria had no formal state-supported social welfare system instead most people rely on the extended families in difficult times and old age. Nwabueze (1989) observes that the emphasis which ought to be paid to social security of Nigerians is rather paid to personal security of leaders. He declares that;

In this country...little or nothing is known, said or done about social security, about how to secure the individual against want, poverty, destitution, disease and idleness which may be thrust upon him by the varied hazards and vicissitudes of social life (Nwabueze, 1989:1)

The 2004 Pension Reform Act streamlines and unifies the two aspects of pensions and retirement policies that have dominated the two sectors. It also promises a radical change that would revolutionize pension administration in the country. It is a fully funded contributory scheme for both the public and private sector employees. Within the private sector, it covers employees of all organizations in which there are five or more employees (Part 1 Section 1 subsection 2). The general objective of the new pension reform is to 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 when due. It seeks to introduce a pension system that is 'financially sustainable, simple and transparent, less cumbersome and cost effective' (Demaki and Dedekuma, 2006:153).

Despite the promises of the reform, the nagging question has remained whether the contributory scheme has effectively removed the potentiality of failed pension plan in the country? To what extent has it addressed the key problems of the past plans which border on poor administration, bankruptcy, delivery a poverty pension and corrupt practices, to mention a few?. What are the shortcomings and challenges of the direct contributory plan as currently run in Nigeria? What policy measures are necessary to forestall failed pension administration in the country?

This paper provides a descriptive assessment of pension administration in Nigeria to underscore the shortcomings of the pre-2004 pension plans in both the public and private sectors in Nigeria. In the light of the historical review, assessment is made of the new pension plans vis-à-vis the provisions of the 2004 Pension Reform Act, major criticisms and the emerging problems observed so far in the implementation of the scheme.

2. Pre-2004 Pensions Plans in Nigeria

A pension is simply defined as the amount paid by government or company to an employee after working for some specific period of time, when the employee has left the employ as a result of old age, injury, and move to another job or any other defined reason. The methods of pension administration could be so varied that it is difficult to fully delineate them. Variation exists in the funding or provisioning approach and in the final disbursement approach. It is the funding approach however that is most important to discussion of pensions, since it is only when the source is available that we can discuss of manner of disbursement.

In the manner of funding or pension provisioning, variations are basically classified into two major systems, viz. the Defined Benefit (DB) and the Defined Contribution (DC) systems. Defined Benefit could be roughly defined as a system where the pensioner is not required to make any contribution during his/her working life, but, will on disengagement receive certain specified or defined amount provided by his employer, union or government. The Direct Contribution scheme also roughly refers to a situation where an employee and or his employer make series of defined contributions which is saved for the eventual payment of pensions. This classification is not clear-cut as a combination of both approaches are made in different manner, hence the remark by Idowu and Olanike (2009) that pension systems ought to be between Defined Benefit (DB) and Defined Contribution (DC) systems. For instance, Larry Willmore (2000) acknowledges a three pillar classification, which he describes as traditional. According to him, these traditional pillars exhaust all possibilities of the providers (funding) of pensions, even though each of the three pillars consist of many types of pensions referred to as tiers. The three pillars are Public pensions, Occupational pensions and Personal pensions. Willmore (2000) further presents a World Bank Report classificatory approach that uses the following concepts in lieu of the traditional pillars: (1) Non-contributory (basic pension), (2) Contributory (forced savings) and (3) Contributory (voluntary savings). He explains that

The first pillar is an anti-poverty pillar that is noncontributory and guarantees a minimum income in old age. The second is a forced savings pillar that provides benefits only to contributors, and, in general, provides the most benefits to those who contribute most. The two mandatory pillars differ only in whether benefits are flat, or related in some way to contributions....Pillar 3 is a voluntary savings pillar, available to anyone who cares to supplement the retirement income provided by the first two pillars (Willmore, 2000:4)

Basically, the three pillars still boil down to the DB and the DC systems. Other ways of bi-classification are: Funded and Unfunded and Actuarial and Non-Actuarial Schemes. Funded and Actuarial could closely relate to the Defined Contribution System while the Unfunded and Non-Actuarial could refer the Defined Benefit system.

The two fundamental pension systems have been popular in various countries but countries move from one regime of classification to another in a quest for a suitable and appropriate pension scheme for its workforce (Idowu and Olanike, 2009). In recent times, however most countries are opting for the various forms of contributory pension scheme in which employers and their employees are supposed to pay a certain percentage of the employee's monthly earnings to a

retirement savings accounts from which they would be drawing their pension benefits after retirement (Odia and Okoye, 2010). A major reason is that defined benefit scheme especially if unfunded puts the employee at risk as the employer could default on the promise (Exley, Mehta and Smith, 1997).

Retirement and pension policy became an issue in Nigeria like many other issues with the introduction of modern employment during the colonial era. The retirement policy in Nigeria during the colonial era was introduced in the public service as early as 1901 with the Pensions Proclamation No 14 of 1901 of the Protectorate of Northern Nigeria and Pensions Ordinance No 4 of 1902 of the Colony of Lagos (Uvieghara, 2001). There was however no properly defined Pensions law for the whole country until 1951. The 1901 and 1902 pension legislations were grossly deficient. Uvieghara (2001) remarks that there was no absolute right to pension and it (pension) ceased either upon conviction or bankruptcy. It was not assignable or transferable or liable to be withheld, attached, sequestrated or levied upon in respect of any debt. The 1901 and 1902 Pension legislations remained the crux of public sector pension laws in the country even though it contained some elements of colonial exploitative tendencies such as the factor that there was no absolute right to pension. The two varied both similar legislations continued to be enforced for the Northern and Southern sections of the country differently even long after the amalgamation in 1914.

It was in 1946 that a unified pension scheme for the country was introduced and was given a force of law by the 1951 Pension Ordinance. The Ordinance was more humane as it was part of the palliatives against increasing labour unionism and nationalism. It was an unfunded, defined benefit scheme. This entailed that retirees would be paid both pension and gratuity from the budgetary allocation of government and the value of what they received would vary according to established rules of participation - payment being based on the last salary of a would-be beneficiary. The scheme as operated under the colonial government has been hailed as having contributed immensely to inculcating a sense of high commitment and pride of service in the public servant (Yesufu, 2000).

The Pensions Act of 1963 was to indigenize the colonial Pension Ordinance and did not deviate in any noticeable way from the established scheme based on the 1951 Ordinance. Writing about the Pensions Act of 1963 and the nature of the scheme established under it, Akintola-Bello (2005:13) discloses that

There is the public pension scheme, which is non-contributory and places the entire financial burden on the government. In addition, a worker's total emolument is used as basis for computing pension benefits while the retirement age is fixed at 45 in contrast with 55 or 60 in the private sector. Moreover, there is no advance funding of the scheme. These conditions make public pension payments too generous and unaffordable and at best a recipe for financial default.

The 1963 Act was not a very significant legislation as it was highly ignored to be noticed as a pension policy. It was merely a change from Ordinance to an Act because of the new sovereign status of the country as an independent nation. Attention was not paid much to its provisions in implementing pensions neither was it updated in line with the changing times. The rates of pensions remained static for years while their real value was whittled away by inflation. Gratuities remained unpaid for years and pensioners were traumatized in most inhuman manner (Yesufu, 2000). Yesufu preferred to assume that there was rather no legislation regarding pensions.

The crux of pension practice during the colonial era which also was inherited at independence based on the content of the 1963 Pension Act was that "pensions were regarded and treated more or less as *ex-gratia* and, therefore, non-negotiable; there was no law to that effect – but it was the practice" (Yesufu, 2000:438). What this meant was that the provisions of the Act was not followed in pension administration except that it is taken from granted that those who worked for government and retired after ten years are due for pensions which was worked out based on the employee's last salary. It was also implied that pensions are paid not as right but when it is convenient for government and in consonance with what it pleased the budgeters to ear mark for pensioners. In the private sector, pension was not much an issue then because there were very few corporate firms. The few that existed were much more conservative than government in payment of gratuities and pension. Many chose to pay one off payment of gratuity rather than any periodic pensions.

From 1979, pension laws became decentralized in the country and various public sector organizations gradually broke away from the centralized pension scheme. There was for instance the Pensions Act 102 of 1979 for Civil servants, the Armed Forces Act No 103 of 1979, the Police and other Government Agencies Pensions Act 75 of 1987, the Local Government Pension Edict and many more. This brought some confusion which the 1990 Pensions Act however tried to remove by harmonizing public sector pension schemes again.

The 1990 Act has remained the most comprehensive Pension law in Nigeria as far as the public service pensions are concerned, even though it did not make any radical change from what had been the practice. It defined the conditions for payment of gratuity and pensions to all classes of public servants, the amount payable either as gratuity or pensions and other relevant provisions, how pensions and gratuities should be computed based on their final pay at retirement, sources of fund for pensions and gratuities of public employees which was charged on the revenue account of the

country etc. The key features of the scheme therefore were a defined benefit scheme, non-contributory, unfunded, charged on the consolidated revenue of government and is therefore subjected to budgetary politics.

This model of pension scheme was conceived with the assumption of continuous stable, growing and well-managed economy in mind. But unfortunately, this had not been the fate of the Nigerian economy. A lot of factors including the dwindling economic fortunes of the country, gross mismanagement of country's resources, inadequate budgetary allocation to pensions funds, bankrupt Parastatals, weak and inefficient pension administration, prevalence of arbitrary increase in salaries of various groups of workers, lack of identifiable administrative and regulatory structures definitely made the pension plan to fail. Thus, public pension obligations rose to outstrip the financial capability of governments resulting not only in long-delays in payments of pension benefits but in large-scale defaults in pension benefit payments (Akintola-Bello (2005). By the time the democratic government of Obasanjo embarked on pension reform public pensions payments in the country had become a crisis. Yesufu (2000) gave a summary of the pathetic agonies of pensioners in the period thus:

Persons who retired from service were virtually immediately deprived of their benefits. Gratuities remained unpaid for years; pensioners were usually required to report at state headquarters offices at their own expense to prove that they were still alive, and to receive their dues that were sometimes up to two years in arrears, but for which they had to call monthly in what usually ended up in frustrating disappointments, and directives to call again. The cost of traveling from their village homes of retirement to the state headquarters was often as high as, if not higher than the pension due. The poor old persons (men and women) were often pressurized to pay bribes, and cases were known where some collapsed and died from sheer hunger, exhaustion, exposure and broken heart (Yesufu, 2000: 438).

The private sector was not better off. A common scheme for the sector was established through the National Provident Fund NPF, Act No 20 of 1961. The scheme was a defined contribution (DC) system in which an employee and his/her employer contributed to an individual savings account on behalf of the employee. It was rather a funded scheme in which the contributions made and the investment returns on it were credited to the worker's individual account managed by the Fund. There were three types of benefits payable under the scheme, namely, the Main Benefit, Sickness Benefit and Withdrawal Benefit. Yesufu describes the three benefits as follows:

The main benefit was payable to a worker who had attained the age of 55 years (50 years for females) consisting of the total sum of his or her contributed entitlement with accrued interest. Equivalent sum was payable to the worker if permanently invalidated (invalidity benefit) or to his/her family in the event of death. The sickness benefit was payable if the worker had been a member of the fund for at least a year, and the benefit was payable from his own individual contribution to the Fund, subject to not receiving similar benefit from other sources and up to a set daily limit. The withdrawal benefit was payable to any worker member of the Fund who had attained 55 years and had been unemployed for two years, or to one who was emigrating from Nigeria permanently with no intention to return (Yesufu, 2000: 437).

Though the NPF was a funded scheme, the rate of contribution and the benefit receivable were so unrealistically low that the scheme became unsustainable (Akintola-Bello, 2005). Also, as a result of bureaucratic incompetence, dishonesty and corruption, large numbers of persons lost their contributions and failed to benefit (Yesufu, 2000). Records-keeping was manually based and it was difficult to properly keep and maintain such a large data by one institution. Apart from the problem of paltry contribution, mismanagement and corruption, certain provisions of the scheme were found distasteful. For instance, the provision that a contributor who became unemployed could not be paid until after two years of unemployment has been described as unethical, callous, uneconomic and exploitative (Yesufu, 2000). Also, many people were left out of the scheme. While it provided that all companies with at least ten persons should contribute to the scheme, there was poor regulation and monitoring to ensure compliance.

In the final analysis, the scheme became unpopular as many contributors were not paid. Many companies that cared for the welfare of their employees had no alternative than to establish private complementary schemes for their workers. These complementary schemes were either self-managed (managed scheme) or managed by an insurance company (insured schemes), (Akintola-Bello, 2005). As a result of the numerous problems of the Fund, it was abolished in 1992 with the proclamation of decree 73 of 1992 which established another pensions and social security scheme, Nigeria Social Insurance Trust Fund (NSITF) for the private sector employees. The NSITF was a defined benefit scheme (DB) and also contributory. Unlike the NPF, which paid contributors in relation to their personal contribution, it was a solidarity scheme that sought to provide minimum protection to the less fortunate contributors i.e. those with little contributions. The scheme can be described briefly thus:

The contribution rate of the NSITF is currently 10% (6.5% employer and 3.5% employee). Contributions are calculated on the basic salary, housing and transport allowance subject to the maximum of N576,000 per annum or N48,000 per month. Benefits paid to claimants are a minimum of N4,400 per month (i.e. 80% of National Minimum Wage regardless of contributions being below the minimum wage) and a maximum of N22,000 per month (i.e. 46% of ceiled

pre-retirement income) (Akintola-Bello, 2005: 14).

The NSITF contribution applied to all companies incorporated under the Companies and Allied Matters Act 1990 and any other company where the number of persons employed was not less than five. Unlike the NPF three benefits scheme, NSITF recognized six types of benefits, namely, old age or retirement pension benefit, retirement grant; survivor's benefit, death grant, invalidity benefit, and such benefit as may be approved from time to time by the Management of the Fund (Yesufu, 2000). Without going into the technicality of how each of these benefits was calculated and paid to eligible contributors, suffice it to say that the NSITF had not equally performed optimally. Some of the factors that affected other schemes both in the public scheme and the NPF also affected it. Dorstal (2010: 3) summarized major failings of the NSITF scheme as documented by others like ILO (2006) and Casey and Dorstal (2008) to include the scope of coverage, high administrative cost, low pension payouts, and highly fragmentation of the scheme. He observed that only about 10 per cent of the Nigerian work force belonged to a pension scheme.

From the above brief historical expose of the pension schemes operated in Nigeria in the public and private sectors, it is seen that pensions and retirement benefits were marred by gross inadequacies which led to untold hardship of retirees. There seems to be some optimism that the 2004 Pension Reform Act, PRA has brought radical changes that promises healthy pension administration. The fundamental question that still needs to be addressed is whether the provisions of the 2004 pension reform Act has integrated adequate safety nets against the observed inadequacies of previous pension schemes and what are the challenges that are negatively affecting the scheme?

3. Key Provisions of the 2004 Pension Reform Act

The major features of the 2004 pension plan is that it is contributory, fully funded, managed by third parties with some kind of control and checks and balances. The scheme covers employees of the federal government, Federal Capital Territory and private sector organizations employing five persons and above. In the spirit of federalism which Nigeria practices, the state and local government are expected to adopt their own legislations to establish the contributory scheme, but at present most states have remained in the old defined benefit scheme. The 2004 reform is rather a systematic one, that is, it involves complete shift in the pension systems from the defined benefit system to the defined contributory system. Some key provisions of the Pension Reform Act, PRA 2004 include:

- ❖ Provisions of an Apex regulatory body, the National Pension Commission. The body will formulate, direct and oversee the overall policy on pension matters in Nigeria; maintain national data bank on pension matters, receive and investigate complaints against Pension Assets Custodians (PAC), employers or Pension Fund Administrators (PFA).
- ❖ Establishment of a contributory pension scheme in which the employee contributes 7.5% at least of his monthly salary while the employer contributes 7.5% of the employee's salary to the scheme. In the military service, the employee contributes a minimum of 2.5% while the employer (federal government) 12.5%. However, such contributions may be borne solely by the employer, i.e. 15% minimum being paid by the employer (section 9 (1)).
- ❖ Deduction of the monthly contributions by the employer, and remittance to the PAC within seven days of pay day and the PAC in turn to notify the PFA where the employee Retirement Savings Account is domiciled within 24 hours.
- ❖ Contributions of public servants to be made by the government as the employer and should be a first charge on the Consolidated Revenue Fund of the Federation.
- ❖ The employer is also expected to maintain life insurance policy in favour of the employee for a minimum of three times the annual emolument of the employee (Section 9 (3))
- ❖ Individuals not covered under the scheme as stipulated in section 1 of the Act are free to make voluntary contribution under the scheme
- ❖ Individuals who are covered can in addition to the minimum specified contribution, make additional contributions to their Retirement Savings Account
- ❖ Each employee is required by the Act to open a Retirement Savings Account in his/her own name with a licensed Pension Fund Administrator (PFA) of his/her choice, (a good number of these firms have been licensed under the new Act with specified conditions for participation).
- ❖ The Act acknowledges 50 years as the new age for retirement from which the contributor can be allowed to make withdrawal from his Pension account. Withdrawals can be in form of
 - i. A programmed periodic withdrawal (monthly or quarterly) calculated on the basis of an expected life span
 - ii. A lump sum withdrawal which must not exceed a remaining balance that will be sufficient to procure an

annuity or fund programmed withdrawals that will produce an amount not less than 50 % of his monthly remuneration as at the date of his/her retirement

- iii. A lump withdrawal for the purchase of annuity for life through a licensed insurance company with monthly or quarterly payments (PRA, 2004, Section 4(1) a-c).

Because of space, we cannot address all these key provisions. However, it is important to briefly touch on the major issues which scholars have identified as reasons for the crisis in the old scheme. These include issues of funding, regulation, lack of comprehensive regulatory framework for the pension industry, poor administrative structures for pension schemes and weak and inefficient pension administration, deliverance of poverty pensions and corrupt practices.

Three institutions are significant in the management of the new scheme. These are the National Pensions Commission (NPC), the Pension Asset Custodian (PAC) and the Pension Fund Administrator (PFA). They perform separately interrelated functions all geared towards the success of the programme.

The National Pensions Commission NPC: the Act (Part II, section 14, 2) defines the Commission as a body corporate with perpetual succession and a common seal, which may sue or be sued in its corporate name. The functions of the Commission include to:

- ❖ Formulate, direct and oversee the overall policy on pension matters in Nigeria;
- ❖ Regulate and supervise pension scheme
- ❖ Approve, license and supervise PFAs, PACs and other relevant institutions
- ❖ Maintain national data bank on pension matters
- ❖ Receive, investigate complaints against the PAC, PFA and employers
- ❖ Issue guidelines for the investment of pension funds
- ❖ Establish standards, rules and guidelines for the management of the pension funds
- ❖ Carry out public awareness and education on the establishment and management of the scheme
- ❖ Promote capacity building and institutional strengthening of pension fund administrators and custodians, and
- ❖ Perform other functions necessary or expedient for the discharge of its other functions (Part III, 20).

Pointless emphasizing that the success of the new scheme will to a large extent depend on the regulatory and supervisory capacity of the Commission as part of the major reasons for the failure of previous schemes in both public and private sectors was lack of a comprehensive regulatory framework for the pension industry (Demaki and Dedekuma, 2006; (Urhoghide and Ogiedu, 2008;).

Pension Assets Custodians (PACs): The functions of the PACs include to: receive the total contributions remitted by the employer on behalf of the PFAs and notify the PFAs within twenty-four hours of the receipt of contributions from any employer, hold pension and assets in safe custody on trust for the employee and beneficiaries of the retirement savings account, settle transactions and undertake activities relating to the administration of pension fund investments such as collection of dividends, on behalf of the PFAs, report to the Commission on matters relating to the assets being held by it on behalf of any PFA at such intervals as may be determined from time to time by the Commission and undertake statistical analysis on the investments and returns on investments with respect to pension funds in its custody and provide data and information to the PFA or the Commission, (PRA 2004, 47 (a-f)

The Pension Fund Administrators: these are public liability companies licensed by the Commission to undertake the functions of managing the pension funds. The stipulated functions to: open retirement savings account for all employees with a personal identity number (PIN) attached, invest and manage pension funds and assets, maintain books of account on all transactions relating to pension funds managed by it, provide regular information on investment strategy, market returns and other indicators to the Commission and employees or beneficiaries of the retirement savings account, provide customer service support to employees including access to employees account balances and statements on demand, pay retirement benefits to the employees as provided (PRA, 2004, Part VIII, 45). The provision of both the PFCs and PFAs is to ensure some level of control, specialization and expertise in managing the pension funds and provide some checks and balances. The PAC and the PFA must be of exclusive dedication (that is not engaged in any business other than the custody or management of pension funds), (Akintola-Bello, 2005).

It to be remarked that the provision of these three institutions and their respective functions, and, the overriding contributory nature of the new scheme are the basis of the great promises that have been hoped for the scheme. But assuming the issue of funding, management and regulation has been taken care of, which of course does not seem likely, what are other challenges that threaten the success of the Pension Reform. True to fact that 2004 Act is already facing a reform by Nigeria's National assembly less than ten years in existence. We now turn to some of these challenges.

4. The Promises and Challenges of the 2004 Pension Reform

As shown in the objectives and machinery set for the new pension administration, there are expectations that the scheme will surmount major problems of the old schemes. Nigerian policy makers and those who are in support of the model (Demaki and Dedekuma, 2006) have tended to justify it based on the fact that some of the problems that contributed to ineffectiveness of previous schemes have been addressed by the new scheme and on the relative success which the new scheme has had in Chile from where it was adapted from. The main concern of the new pension scheme is safety of the fund and the maintenance of fair returns on the amount invested (Section 72). For Odia and Okoye (2012), a two-tier system of the PFA and PFC in the management of pension asset was adopted to safeguard the fund, and their function interlock to act as a grid against financial impropriety. They further argue that since the two institutions assume joint trust positions, an incidence of financial impudence is reduced though cannot be totally rule out. Other checks and balance measures that are anticipated for enhanced fund safety are the guarantee and insurance by the Pension Fund Custodians for the individual employees, the strict intense supervision by the Commission, the rigorous licensing procedures to ensure that participating institutions are credible and the requirement that the Auditor reports on the financial activities of these administering institutions be submitted to the Commission (Odia and Okoye, 2012).

We appreciate the expectations of the optimists that the establishment of various institutions under some guaranteed control and regulations to handle pension management are strong reasons that the scheme holds some positive promises. The issue of regulation and supervision has indeed given some credibility to the scheme since inception. The National Pension Commission has been fully committed in its regulatory and supervisory roles. For instance, the Commission has issued guidelines to further guide the operations in the pension industry so as to entrench sound corporate governance in the activities of pension fund operators. The guidelines and regulations issues in 2009 include: Risk Management Framework for Licensed Pension Operators; Guidelines for the Operation of Pension Transitional Arrangement Departments; Regulations for Auditing of Pensions Funds; Regulations for Compliance Officers as well as Regulation on Annuity which was jointly issued with National Insurance Commission (NAICOM) and the Framework for Supervision of State and Local Government Pension (NPC, 2009:10). It has also marched the issuance of guidelines with effective regulation and enforcement. In 2009, it reduced the service charges of the pension fund operators from 3 to 2.25 per cent to ensure that the operating cost does not swallow up the gains of savings and investment of participants. It has engaged in consistent surveillance of licensed operators and supervision of investment of pension assets in accordance with issued guidelines (National Pension Commission, NPC, 2009).

The issue of funding which was the greatest problem of the old public scheme is another plus underscored by optimists. However, it is important to note that the previous private sector pension schemes (NPF and NSITF) had been contributory and thus funded. Being a contributory scheme is not sufficient reason to hope for success. Indeed critics believe that contributory schemes may as a result of poor investment climate, economic downturn and inflation deliver poverty pension and may also negatively affect overall economic development as result of surplus investible fund (Dorstal, 2010; ILO, 2006). The Nigerian 2004 pension reform was inspired by the Chilean model and Nigerian policy-makers have continued to refer to Chile's experience with funded pensions as one of the grounds to justify its promises. Describing the Chilean model, Akintola-Bello (2005, p.9) writes:

Chile replaced the public defined benefit model (DB) which had existed for over 50 years with a fully-funded privately managed defined contribution (DC) model to ensure that the workers accumulated pension wealth was fully funded. It also guaranteed a minimum pension for those that had contributed for at least 20 years

The presumed success of the Chilean model seems to derive from the rate with which it was copied and replicated under the influence of the International Financial Institutions like World Bank that have punished neoliberal reforms since the late 1970s. The privatization promoted by the World Bank favours defined contribution schemes and individual accounts (Willmore, 2000). Indeed, the model has not actually been too successful in Chile as believed by optimists. Dorstal (2010: 1) reveals that

The Chilean case proved to be much less successful than was originally assumed. Although the Chilean system succeeded in making a large share of workers formally subscribe to individual funded pension accounts, the level and length of contributions and subsequent expected pension payments remained on average quite low. In fact, the system delivered poverty pensions rather than old age security to most contributors.

Whether successful or not in Chile, it is important to remark that the final pension delivered by a funded pension scheme is a function of various economic factors that include rate or amount of contribution, investment climate and management, inflation and many other future economic determinants. The Chilean and Nigerian socio-economic environment may vary widely offering different testing grounds for the success of the scheme. The weakness evident in the Chilean model may also serve a good opportunity for modification and fortification of the Nigerian model. The model

is not an inflexible blueprint, and, Dorstal (2010:13) a frontline critic of the model has well realised this by observing that the Nigerian government and the Pension Commission (PenCom) have made some adjustments to the Chilean model.

Other fears of critics of the contributory scheme are that

- ❖ it will deliver 'a poverty pension rather than old age security to contributors' (Dorstal, 2010, p.3);
- ❖ claims about the contribution of pension funds to macroeconomic growth contrary to the quality of the regulatory environment have limited significance over time (Barr and Diamond 2008; Iglésians; 2009);
- ❖ there is high transition costs in paying for the winding down of the previous Direct Benefit Scheme, thus constituting a double pension costs on government
- ❖ the presumed "fairness" of a funded pension system – directly linking contributions with benefits – ignores insurance and redistributive goals that tend to re-emerge on the policy-making agenda once the extreme inequalities of "fairness" become salient (Dorstal,2010).

These are worthwhile fears. However, they are more or less based on economic projections which are neither here nor there because of uncertainties of the future. For instance, the issue of delivering a poverty pension is rather an economic issue that is based on a number of uncertain future outcomes. Pension funds accumulate over the years leading to consistent expansion of investment assets. It also constitutes long term liability since it may not be paid out all at once (Barr and Diamond, 2009). Pension is not a function of only the amount contributed. It depends on the returns on investment over the years and the number of years for which contributions are made. These of course are futuristic economic issues for which conclusions are not simple and exact.

Dorstal (2010) also argues that the presumed "fairness" of a funded pension system – directly linking contributions with benefits – ignores insurance and redistributive goals that tend to re-emerge on the policy-making agenda once the extreme inequalities of "fairness" become salient. We dare say that inequality of income will necessarily result in inequality in pension contribution. A defined contribution scheme should be distinguished from a poverty relief programme since there are workers that receive low salary whose contributions over the years may result to low future pensions. A mandatory contributory pension scheme should not be distorted by combining it with a universal social security programme since the contributions as in the case of the Nigerian model is a deferred individual savings except where contributions are flat. The view of scholars like Akintola-Bello (2005) that the objective of an efficient pension scheme must include guaranteeing the entire population a secure income during old age, long term illness and disability therefore is distortive of the particular merits of the scheme to those for whom it is directed. It cannot be evaluated as a basic safety net that is inclusive of every old person including those that have not been fortunate to be employed or work sufficiently to be guaranteed a minimum pension. We consider this as an attempt to combine two pension pillars with different objectives into one. While not disparaging the implication of lack of a universal pension or social security cover for Nigerians, especially the old, one cannot ignore the idea that anti-poverty pension belongs to the first pillar which according to Willmore (2000) should be non-contributory and guarantees a minimum income in old age; and if it has to be contributory, it has to be flat. This should be distinguished from the second pillar which " is a forced savings pillar that provides benefits only to contributors, and, in general, provides the most benefits to those who contribute most" (Willmore, 2000:1).

Critics also talk about the high cost of transition because the government pays those in the accumulated old pension scheme and still make contributions for the new scheme. This is necessarily so. But if the government is continuing with the old scheme, it also accumulates more pension liabilities as more people are due for retirement. But no amount of winding down cost will be more than what will be the situation if the entire pension payment is still a direct benefit scheme.

More serious criticism borders on the effect of inflation, charges and other depletions that will arise in the course of management and investment of the pension funds over the years. Dorstal (2010, p. 18) strongly argues that

The macroeconomic credibility of the Nigerian federal state has declined. This was due to developments not causally related to pension reform such as the parceling off of oil income into special funds with unclear accountability, an unsound monetary and banking system, the world economic crisis and other factors.

There is no doubt that these may have affected returns in the investment of pension reforms. It is quite unfortunate that the crisis in the Nigerian security and financial markets and the general down turn of the economy coincided with the start of the contributory scheme. But these are not permanent issues. There must be ups and down in the economy as have been revealed by history. The world has suffered numerous depressions even by countries that are considered developed by all standards. The current economic down turn that started in 2008 and has spread to most countries today started from the highly developed countries like the U.S.A. Investment of pension funds is a continuous process, and poor returns today could be offset tomorrow by better economic prospects. Diversification in investment portfolios are encouraged in investing pension funds so that decline in value in some assets may be offset by increase in the value of

some others (Akintol-Bello, 2005). Investment of pension assets in Nigeria currently cover money market instruments, government bonds, capital markets stocks, real estates, life annuity and so on. The utility of this diversification as a buffer against the envisaged future economic effects cannot be dismissed.

Corruption and sharp practices also constitute a big challenge to the success of the pension administration in Nigeria. In recent years, huge losses through corrupt practices have been revealed in the pension sector.

Finally the issue of coverage must be mentioned. The 2004 pension scheme according to the legislation covers the employees of the federal public service, Federal Capital Territory and the private sector organizations having up to five employees. States and local governments are expected to enact laws to introduce similar contributory schemes. However, most states, local governments and private sector organizations are still in the process of considering the introduction of the new scheme and taking their time to adopt the scheme in ten years. The delay in adopting the scheme by the lower tiers of government is informed by the potential increase in wage bills and what critics regard as transition costs. This is not too good for their employees who have continued to be affected by the rot in the DB system especially in terms of lack of fund to pay retirees.

Most private sector organizations also have not registered their employees with the scheme. As contained in the 2009 Annual Report of the National Pension Commission, the private sector employees that have opened Retired Savings Accounts (RSA) were 1,649,045 (41.1 per cent). The reported 41.1 percent cannot be properly placed as the report did not explain how the figures of private sector employees were collected and which organization was part of the survey. The inclusion of the private sector organizations with small number of workers (the scheme requires the participation of firms that have at least five employees) remains one of the most difficult aspect of the new scheme. There is currently little or no documentation of these establishments most of which operate in the informal sector. Most employers with five employees do not have a registered or incorporated business. They do not even comply to rules of employment including the minimum wage. Asking them to make further contributions for their employees will likely meet deaf ears. More importantly, it is difficult to police these employers as many operate in the informal sector.

Yet, it is the private sector that holds key to the level of coverage that the scheme can reach. While civil servant population is about 260,000 and military and paramilitary about 200,000, membership from formal and informal sector is not expected to be less than 25 million (Tongola, Tedunjaiye, Balogun and Ogah, nd). These scholars also observe that the Commission does not presently have the capacity to gather and manage the required data in this regard. Though the Pension Commission has adopted some mobilization strategies that include on-site inspection of employers, collaboration with other regulatory and professional bodies, dispatching compliance letters to non-compliant organizations and engaging in public enlightenment and application of regimes of sanctions (NPC, 2009), it does not seem that these efforts have captured firms in the informal sector. In 2009 the Commission reported that compliance-demand letters were sent to 5,088 private sector organizations that were yet to comply with the contributory Pension Scheme. Out of these about 2,910 organizations complied within the deadline given and the remaining 2,178 others were immediately sanctioned in accordance with the procedures laid down in the Regime of Sanctions (National Pensions Commission, 2009, p. 6). It is not so much the pursuit of prominent firms that is the problem than the pursuit of the small non-visible ones that operate without much contact with government. The issue of coverage especially for firms with lesser number of employees remains a major challenge of the pension administration as it is currently operated in Nigeria.

5. Concluding Remarks

This paper has examined the promises which the 2004 contributory pension scheme holds for a healthy pension administration in Nigeria and some of the challenges which it faces. The reform has introduced some measures that could be considered an improvement to the way pension schemes were run in the country prior to 2004 such as a regulatory body, funding and bi-institutional private sector managers of the fund, its investment and overall administration of the scheme that seem capable of ensuring a sustainable pension scheme in the country.

There are however challenges regarding coverage of the scheme as lower tiers of government are slow in switching to it, difficulty of reaching small firms especially those in the informal private sector that have the potential of employing more workers and the issue of corruption that has been critical to effective and efficient management in the country. The inclusion of private organizations with at least five employees does not seem very practicable. In this regard, we are poised to suggest that limiting coverage of the private sector to incorporated firms will make more sense since most incorporated firms are registered with the Corporate Affairs Commission (CAC) and can be reached through their registered addresses. Anticipating that firms with five persons should register with the scheme is like using the scheme to provide a universal pensions scheme that could reach to as many persons as possible. But certainly, this is an overload of the scheme that could be relieved by articulation of a more universal social security programme that should cover old

persons in self employment and other less privileged citizens that are not working class. The government must realize that a contributory scheme does not exonerate it from certain social responsibility.

Efforts should be made by the federal government to ensure acceptability of the scheme by lower tiers of government by providing some incentives and grants that could facilitate their migration to the new scheme. Such efforts could be in providing consultancy and advisory role which the Commission is already doing. It could also be in the way of setting some migration costs such as paying part of the pension accumulations in the old scheme. While the federal government may not have the power to enforce such adoption of the scheme through force majeure in view of the federal arrangement and distribution of governmental powers, increased intergovernmental relationship and effective enlightenment of the workers in the country to demand compliance from their employers may help to quicken responses.

On the economic consequences of the funded scheme, we want to remark that no amount of economic prediction will show that the scheme will succeed or fail as the future remains uncertain especially where due diligence is taken in the management and investment of pension funds. A funded programme is naturally better than one that is not funded. At worse, there will be poor yield as a result of poor economic environment. This could be buoyed up if organizations including government continue to pay gratuity to their retirees in appreciation of their long service. The gratuity option increases the total liability of employers. Nevertheless, its weight as a direct benefit scheme does not amount to such continuous accumulations, which the pre 2004 public sector scheme suffered. It is a once and for all expenditure that can be determined as part of a yearly budget of an organization and does not accumulate over the years as pension would. But diversification of investment options will also serve as a buffer against investment failure.

In the final analysis, we must underscore the importance of enlightenment concerning the scheme. Employees should be educated to know their rights and demand it from their employers. Labour unions that also seem to discountenance the scheme should also be enlightened on the advantages and superiority of the scheme to the ones being replaced.

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