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Pension Reform: An Assessment of Policy Implementation in Kaduna and Niger States Public Service, Nigeria

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Abstract: The study assessed the pension reform policy in Kaduna and Niger states public service. Research design adopted for the study is descriptive-survey method which was used to carry out the study. The total population figure was estimated at about 170,000 including the 30 pension administrators/custodians. The sample-size for the study was 1700 representing 0.01% of the entire population. The sample-size was randomly selected to give each respondent a fair chance of being selected with purposive sampling technique. A structured questionnaire was used in data collection. The descriptive and inferential statistics such as mean scores, tables and content analysis were used. The mean range starts from 3 points and above. The research results lead to the clarity about the current contributory pension scheme in the public service for effective pension administration. Based on the results of findings of the study it was recommended that the banks and private financial institutions involved in Pension Fund Administration (PFA) should show ways to facilitate transparency and prudent accountability by publishing the rate of return, regular statements of contribution and interest for the various contributors to keep them abreast with their contributions.

Keywords: Assessment, Pension Reform Policy, Public Service

1. Background

1.1. Introduction

A pension is a promise of an employer which he grants to his employee after retirement. Gratuity, on the other hand is a lump sum of payment usually granted immediately upon the retirement of the officer. The first pension legislation in this country was enacted in 1951 referred to then as the Pension Ordinance. Although the ordinance was promulgated in 1951, it had a retrospective effect from 1st January 1946. Governments all over the world are designing programmes such as pension reform policy currently going on in Nigeria to improve the pension administration. The plight of public civil servants for example, teachers, lecturers, retired military men, railway workers, nurses is sad about the assessments of the management of public pension scheme. Most employees neither have any meaningful retirement benefits nor earn enough during their working life to cater for their retirement. The extended families and other traditional ways of supporting the old are already weakening under the pressure of urbanization, industrialization, and increased mobility. Indeed, the Pay As You Go defined benefit scheme in the public sector is burdened with many problems and has increasingly become unsustainable [13].

The government cannot watch with dismay the sufferings of the retired public servants. They suffer severely due to non-payment of their monthly pensions. It is evident then that pension canno longer remain as it is without some reforms to improve the situation. Therefore, the researchers are motivated to assess the strategies and policies adopted in pension administration in the Nigerian public service.

Although pension is significant to civil servants because of the need to survive after retirement from service, in spite of its importance, many civil servants suffer from irregular payment of a monthly pension. Until the enactment of the Pension Reform Act 2004, there was no comprehensive framework for the regulation and supervision of the pension funds. The framework was fragmented with different regulatory authorities such as the Joint Tax Board, Securities and Exchange Commission and the National Insurance Commission, all performing limited supervisory roles which in some cases were conflicting. The situation had encouraged regulatory arbitrage and also excluded many workers from coverage by any form of a retirement benefits scheme. Even for the mandatory scheme, there were widespread evasion and non-compliance.

When the Nigerian government set out to fashion a pension reform strategy, it was guided by many factors. Besides, addressing the problems of the pension funds, the government needed a system that would among others-is financially sustainable, simple and transparent, and less cumbersome among workers. The overriding principle was to have a system that would ensure that pensioners have adequate, affordable, and sustainable and diversified retirement benefits. It ensures that every person who had worked receives his/her retirement benefits as at and when due to prevent old-age poverty and secure a decent retirement. The system is intended to provide workers with the means to sustain themselves when they are no longer able or too old to work. The reform was also concerned with establishing a system that would ensure workers receive benefits generated by their savings and not dependent on government subsidies or future generations [13].

There are mostly two choices for a pension reform or adjustments to the existing public schemes. Adjustments may include changes to eligibility criteria for receiving pensions, the benefit structure and the administration of the scheme. These are usually referred to as parametric reforms. Unfortunately, such adjustments are not sufficient to address the underlying problems of the public pension scheme which includes the real shortcoming of the cash benefit for public servants. In particular the long delays in the payment of benefits and sometimes, as in the case of some state governments and parastatals, the unavailability of funds for making the payments. The frustration experienced by claimants in pursuing their claims up and down the place for many years without success has led to the untimely death of some. Whereas the scheme for civil servants is financed from government's general revenue on a Pay-As-You-Go basis, and not from a fund specially set up for the purpose, most parastatals operate a funded scheme whereby they are required to set aside each year for the purpose 25% of the total basic salaries of their staff in a special fund under the management of a board of trustees. Instead, the reform creates uncertain retirement benefits for the workers.

Due to the problems associated with the first approach, the government decided to adopt a significant reform strategy that entails substantial changes to the pension system by replacing the most massive defined benefit scheme with a defined contribution scheme that is fully funded. The intractable problems of irregular and sometimes non-payment of pension to public civil servants has been a subject of concern to both the pensioners and their families. The magnitude of these problems and implications for the entire society calls for an assessment of strategies and policies adopted in pension administration in the Nigerian public service. The study would guide the custodians of the pension fund to gain insight on the proper management and disbursement of pension funds [6].

1.2. Statement of the Problem

Although pension is very important to civil servants because of the need to survive after retirement from service, but in spite of its importance, many civil servants suffer from irregular payment of monthly pension. Until the enactment of the pension Reform Act 2004, there was no comprehensive framework for the regulation and supervision of the pension funds. The framework was fragmented with different regulatory authorities such as the Joint Tax Board, Securities and Exchange Commission and the National Insurance Commission, all performing limited supervisory roles which in some cases were conflicting. The situation had encouraged regulatory arbitrage and also excluded many workers from coverage by any form of retirement benefit scheme. Even for the mandatory scheme, there were widespread evasion and non-compliance. When the Nigerian government set out to fashion a pension reform strategy, it was guided by many factors. Apart from addressing the problems of the pensions funds, the government needed a system that would among others be financially sustainable, simple and transparent, and less cumbersome among workers. The overriding principle was to have a system that would ensure that pensioners have adequate, affordable, sustainable and diversified retirement benefits. This is to ensure that every person who had worked receives his/her retirement benefits as at and when due to prevent old age poverty and secure decent retirement. The system is intended to provide workers with the means to sustain themselves when they are no longer able or too old to work. The reform was also concerned with establishing a system that would ensure workers receive benefits generated by their own savings and not dependent on government subsidies or future generations.

There are essentially two choices for a pension reform or adjustments to the existing public schemes. Adjustments may include changes to eligibility criteria for receiving pensions, the benefit structure and the administration of the scheme. These are usually referred to as parametric reforms. Unfortunately such adjustments are not sufficient to address the underlying problems of public pension scheme, which includes the real shortcoming of the cash benefit for public servants. In particular the long delays in the payment of benefits and sometimes, as in the case of some state governments and parastatals, the unavailability of funds for making the payments. The frustration experienced by claimants in pursuing their claims up and down the place for many years without success has led to the untimely death of some. Whereas the scheme for civil servants is financed from government's general revenue on a Pay-As-You-Go basis, and not from a fund specially set up for the purpose, most parastatals operate a funded scheme whereby they are required to set aside each year for the purpose, 25% of the total basic salaries of their staff in a special fund under the management of a board of trustees. Instead, the reform creates uncertain retirement benefits for the workers. In view of the problems associated with the first approach, the government decided to adopt a major reform strategy that entails substantial changes to the pension system by replacing the largely defined benefits scheme with a defined contribution scheme that is fully funded. The intractable problems of irregular and sometimes non-payment of pension to public civil servants has been a subject of concern to both the pensioners and their families. The magnitude of these problems and implications for the entire society calls for an assessment of strategies and policies adopted in pension administration in Nigerian public service.

The study would guide the Pension Fund Administrator on the manner of operation between them and the employee. The study would also equip the Pension Fund Administrators with adequate information on the problems and prospects of pension administration in Nigeria.

The study would also provide adequate knowledge on what the employee needs to do or know about the pension scheme. It would also help the employees to be conversant with the problems and the benefits of pension scheme as it affects them.

The study would guide the custodians of pension fund to gain insight on the proper management and disbursement of pension funds.

Fellow researchers wishing to carry out further research into the field of pension administration would be properly guided.

1.3. Objectives

1. Identify the Challenges and Business Opportunities for Pension Fund Administrators and custodians under the Pension Reform Act 2004.
2. Assess the adequacy of the retirement benefits system in terms of standardization, uniformity and efficiency.
3. Assess the adequacy of the current contributory pension scheme viz-a-viz its administration in Kaduna and Niger states.

1.4. Research Questions

What are the Challenges and Business Opportunities for Pension Fund Administrators and custodians under the Pension Reform Act 2004?

How adequate is the retirement benefits system in terms of standardization, uniformity and efficiency?

How adequate is the current contributory pension scheme viz-a-viz its administration in Kaduna and Niger states?

2. Literature Review

2.1. Conceptual Issues

Overview of the Nigerian Public Service

The roots of the Nigerian public service (Civil Service) can be traced to the colonial civil service established by the British colonial rules in Nigeria lasted for about one hundred years from 1861 - 1960. However, it was, not until 1914 that there was a unified governmental structure established for the whole territory called Nigeria, and that year marked the beginning of a Nigerian civil service, albeit with roots in colonial rule. The amalgamation of the northern and southern protectorates of Nigeria did not bring into immediate existence a unified civil service. This occurred much later in the 1920s. The 1954 constitution promulgated Nigeria as a federation with a federal government at the centre and regional government for each of the three regions. This resulted in the creation of federal civil service in the centre and regional civil service for each region and the corresponding establishment of public service commission for each tier of government.

2.2. Pension Fund Administrators

The new pension scheme requires pension funds to be privately managed by licensed Pension Fund Administrators. Pension Fund Administrators (PFAs) have been duly licensed to open Retirement Savings Accounts for employees, invest and manage the pension funds in a manner as the Commission may from time to time prescribe, maintain books of accounts of all transactions relating to the pension funds managed by it, provide regular information to the employees or beneficiaries and pay retirement benefits to employees under the provisions of the Pension Reform Act 2004.

[3]. Has identified that the roles of Pension Fund Administrators (PFAs) are to open Retirement Savings Account (RSA) for all employees registered with it with a Personal Identification Number (PIN); invest and manage the fund and assets; calculate annuities, and pay Retirement Benefits. It is glaring that the PFAs are the veritable operators that add value to the contributors' fund. It means that Nigerians will benefit from the Pension Reform Act 2004 as this frees the government of the struggle hold by pension liabilities, thereby making funds available for other social-economic activities. For instance, the banks will take it as a challenge for a business opportunity to go out looking for customers to invest their pension money with banks. The workers will also be encouraged to take an active part in the management of their retirement benefits and will have up to date information on the pension fund. The contributor will have the choice of choosing and changing his/her PFA at will but usually once in a year.

2.3. Historical Overview of Pension Reform Policy in Nigeria

The Pension Reform policy is a contributory programme, and the total mandatory contribution is 15% of salaries, in the proportion of 7.5% by the employee and 7.5% by the employer. The Act applies to employers of labour in the private sector and the Federal Civil Service, including the federal capital territory. It covers every worker in any company, organization, incorporated and registered bodies, institution and agency, which employs five (5) or more persons. The first Pension Scheme in Nigeria was introduced in 1946 and governed by a law known as the Pension Ordinance, which was enacted and promulgated in 1951, which came into operation on the 1st January 1946. The colonial pension was primarily designed for the United Kingdom officers, who were moved from post to post in the West British Empire. The intention was to ensure that they maintained a continuity of service wherever and whenever they were sent to serve. When the law became applicable to indigenous staff, it had limited application to the extent that it was granted at the pleasure of the Governor-General of Nigeria. Under the Ordinance therefore, the pension was not an automatic right of Nigerians. It could be withheld at the flimsiest excuse [8].

In February 1979, the federal government of Nigeria issued a circular directing each state government to establish, or set up its Pension Board. In September 1987, the circular with reference GHO/CGS/9251, the federal government issued yet another directive to all states of the federation as a follow up to the 1979 directive earlier issued, that each state must set up its state pension board where they have not yet done so within a maximum period of three (3) months from the date of the circular. As a result of an increasing pension burden on the government with the problem of inability to pay pension as and when due necessitated that the new Pension Reform Act 2004, with a commencement date on 25th June 2004. It was enacted by the National Assembly of the Federal Republic of Nigeria. The Act states:

(i) That there shall be established, for any employment in the Federal Republic of Nigeria, a contributory pension scheme (in this Act referred to as "the scheme") for payment of retirement benefits of employees to whom the scheme applies under this Act.

(ii) Subject to section 8 of this Act, the scheme shall apply to all employees in the public service of the federation, federal capital territory and the private sector.

(a) In the case of the public sector, who are in employment; and

(b) In the case of the private sector, who are in employment in an organisation in which there are five or more employees? [9].

2.4. Empirical Studies

[11] Defined pension as a series of payment made at regular intervals to someone who has come to the end of his working life. The intervals could be monthly, quarterly, half-yearly or yearly and the most critical factor is that the interval must be regular. There are many arguments for and against that should the scheme be contributory or non-contributory. [11] Stated that fundamentally, schemes were contributory in order reduce the cost to the employer or to provide better benefits at no higher cost to him, but if employees who have not contributed have to join a contributory scheme.

[15] On the contributory pension scheme as a tool of economic growth in Nigeria reveals that pension fund investments in domestic quoted equities amounted to N240.38 billion (2.36% of total market capitalization) in 2007, 3.17% in 2008, 4.42% in 2009 and 4.53% in 2010, also the value of total Pension Fund Assets stood at N2,029 billion as at 2010.

However, [14] in his assessments and contributions contends that the fundamental and primary objective of the contributory pension scheme is to ensure that every pensioner who worked either in the private or public sector receives his or her retirement benefits as at when due. This is concerned with establishing a system that would ensure that workers or pensioners receive benefits by their own savings and not to depend on the government subsidies. The Contributory Pension Scheme is remarkable for establishing sustainable, simple and transparent system. It also established effective, regulatory and supervisory framework. It is believed that the contributory pension scheme will not only eliminate the perennial problems of pension schemes but will enable government to borrow from the accumulated funds with interests.

3. Research Methodology

Research design adopted for the study is descriptive-survey method which was used to carry out the study. The total population figure was estimated at about 170,000 including the 30 pension administrators/custodians. The sample-size for the study was 1700 representing 0.01% of the entire population [10]. The sample-size was randomly selected to give each respondent a fair chance of being selected with purposive sampling technique. A structured questionnaire was used in data collection. This is because it is a formalized instrument for asking information directly from the respondents concerning behaviour, level of knowledge and other relevant data about them. The descriptive and inferential statistics such as mean scores, tables and content analysis were used. The mean range starts from 3 points and above. The study assessed the Pension Reform Policy in Kaduna and Niger states public service and was borne out of the realization that the plight of public civil servants and most parastatals are sad assessments on the management of public pension scheme in Nigeria. The study leads to the clarity about the current contributions pension scheme in the public service for effective pension administration; (for example, the loopholes of financial misappropriation and lack of clarity of the legal provisions in the current pension reform Act will encourage fraud and embezzlement of pension fund). The banks and private financial institutions involved in Pension Fund Administration (PFA) was shown ways to facilitate transparency and prudent accountability by publishing the rate of return, regular statements of contribution and interest for the various contributors to keep them abreast with their funds being contributed.

4. Results

Answer to the Research Questions

What are the Challenges and Business Opportunities for Pension Fund Administrators and custodians under the Pension Reform Act 2004?

Table 1. *Mean responses on the challenges and business opportunities for pension fund administrators and custodians under the pension reform act 2004.*

S/N	Statements	Mean	Decision	Remarks
1	Competition among the pension fund administrators is the most important challenge under the Pension Reform Act 2004	4.0	Agreed	Accepted
2	The financial requirement for the expense structure of pension business poses a major challenge under the Pension Reform Act 2004	4.0	Agreed	Accepted
3	Adequate investment and management of the pool of fund contributed by employees and employers has immensely contributed to the development of the economy, thereby creating opportunities in contributory Pension Scheme	4.0	Agreed	Accepted

Source: Questionnaire Administered, 2018

Table 1 shows that there are challenges and business opportunities for pension fund administrators and custodians under the Pension Reform Act 2004. Adequate investment and management of the pool of funds contributed by employees and employers has immensely contributed to the development of the economy, thereby creating opportunities in contributory Pension Scheme. The scheme has boasted the capital and money markets and this has brought a tremendous growth to the economy. As it stands, all PFAs have their funds invested in the capital market through equities and bonds. Also the banks and other money market operators have had their own share through fixed deposits. The PFAs and PFCs that were the offshoot of the new scheme have created employment opportunities and savings for employees among others.

How adequate is the retirement benefits system in terms of standardization, uniformity and efficiency?

Table 2. *Mean responses on the retirement benefits system in terms of standardization, uniformity and efficiency.*

S/N	Statements	Mean	Decision	Remarks
3	There is a standard retirement benefit system across the entire public service in Nigeria	3.4	Agreed	Accepted
4	Lack of uniformity of the retirement benefits system in the Nigerian public service is a minus for Pension Reform Act 2004	4.0	Agreed	Accepted
5	The inadequacy of the previous pension reforms in terms of uniformity and standards has been addressed under the current Pension Act 2004	3.3	Agreed	Accepted

Source: Questionnaire Administered, 2018

Table 2 shows that there is a lack of uniformity on the retirement benefits system in the Nigerian Public Service and the Retirement Savings Account (RSA) fund, financial statement and Retirement Savings Account (RSA) status report are not received promptly. For instance, it was discovered that in Niger state the amount being paid as a pension to retirees is less than what retirees receive as pension monthly in Kaduna state. The number of retirees in Niger state is also lower. The issue of complications in the handling of retirees in Niger state is less. Also, the payment of monthly pension in Niger state is not regular as it is in Kaduna state.

How adequate is the current contributory pension scheme viz-a-viz its administration in Kaduna and Niger states?

Table 3. *Mean responses on the current contributory pension scheme viz-a-viz its administration in Kaduna and Niger states.*

S/N	Statements	Mean	Decision	Remarks
	The current contributory pension scheme is popularly welcomed by the public servants	3.1	Agreed	Accepted
7	The contributory Pension scheme is another wasted effort in addressing problems of pension administration in Nigeria	2.1	Disagreed	Rejected
8	The contributory pension scheme is adequate in addressing pension administrations problems in Nigeria	3.4	Agreed	Accepted
9	The RSA Multi-Fund Structure comprises of four, Funds, which differ from one another based on the overall exposure of the Fund to variable income instruments such as quoted ordinary shares, mutual funds, private equity funds and infrastructure funds as amended.	2.1	Disagreed	Rejected
10	It is an improvement on the current two-fund structure comprising the RSA 'Active' and 'Retiree' Funds as amended.	2.4	Disagreed	Rejected
11	It also provides contributors with options on how their pension contributions are managed by licensed Pension Fund Administrators (PFAs) as amended.	2.2	Disagreed	Rejected

Source: Questionnaire Administered, 2018

The Table 3 shows that there is lack of clarity about the current contributory pension scheme in the public service effective pension administration and 45% of RSA holders do not receive their monthly Retirement Savings Account (RSA) status report. This status report is necessary because it is the major communication that enables the Retirement Savings Account (RSA) holders to assess the monthly contributions.

Also, [5] opined that the introduction of the new pension scheme in Nigeria marked a turning point in Nigeria economy because it made the incidence of Ghost Pensioner to disappear completely from payroll of pensioners nationwide. Since individuals own the contributions, the pensioner is no longer at the mercy of government or employer and is assured of regular payment. Conventionally, the reform is aimed at neglecting the needs to improve the retirement benefits of retirees. It also expresses and propagates the basis of neoliberal agenda of relieving the state through its agency the government, the responsibilities of catering for the elderly in the society. Importantly, it aimed adequately to benefit and empower the ruling capitalist class at the expenses of the proletariat, thereby making funds available for investment and stimulating the capital market at the detriment of workers [4] &[1]

Furthermore based on the results of the findings of the study, it was found that: there were challenges and business opportunities for pension fund administrators and custodians under the Pension Reform Act 2004. Though adequate investment and management of the pool of fund contributed by employees and employers has immensely contributed to development of the economy, there was lack of uniformity of the retirement benefit system in the Nigerian Public Service and the Retirement Savings Account (RSA) fund financial statement, and Retirement Savings Account (RSA) status report is not received promptly, there was lack of clarity about the current contributory pension scheme in the public service effective pension administration and most of the Retirement Savings Account (RSA) holders do not receive their monthly Retirement Savings Account (RSA) status report. This status report is necessary because it is a primary communication that enables the RSA holders to assess the monthly contributions, the loopholes of financial misappropriation and lack of clarity of legal provisions in the current Pension Reform Act will encourage fraud and embezzlement of pension funds, and there was convenience and acceptability of the Pay-As-You-Go system to public servants than contributory scheme [6].

[3] Identified that the roles of PFAs are to open RSA for all employees registered by it with a Personal Identification Number (PIN); invest and manage the Fund and assets; Calculate annuities; and pay Retirement Benefits. It is glaring that the PFAs are the veritable operators that add value to the contributors' fund. This means that Nigeria will benefit from the Pension Reform Act 2004 as this frees the government of the struggle hold by pension liabilities thereby making funds available for other social economic activities. For instance the banks will take it as a challenge for business opportunity to go out looking for customers to invest their pension money with banks. The workers will also be encouraged to take active part in the management of their retirement benefits and will have up to date information on the pension fund. The contributor will have the choice of choosing and changing his/her PFA at will but normally once in a year.

The findings showed that there was a lack of uniformity of the retirement benefits system in the Nigerian public service. This means that considering the findings to the lack of uniformity of the retirement benefits system in the Nigerian public service; there was a lack of clarity about the uniformity of the retirement benefit. Though there are expectations that the scheme will surmount significant problems of the old schemes. [7] Have tended to justify it based on the fact that some of the problems that contributed to the 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. The main concern of the new pension scheme is the safety of the fund and the maintenance of fair returns on the amount invested. The new pension scheme requires pension funds to be privately managed by licensed Pension Fund Administrators. Pension Fund Administrators (PFAs) have been duly licensed to open Retirement Savings Account (RSA) for employees, invest and manage the pension funds in a manner as the Commission may from time to time prescribe, maintain books of accounts on all transactions relating to the pension funds managed by it, provide regular information to the employees or beneficiaries and pay retirement benefits to employees in accordance with the provisions of the Pension Reform Act 2004.

5. Conclusion

Considering the findings to the challenges and business opportunities for pension Fund Administrators and custodians under the Pension Reform Act 2004, Nigeria will benefit as it frees the government of the struggle hold by pension liabilities thereby making funds available for other social, economic activities. For example, the banks will take it as a challenge for business opportunities to go out looking for customers to invest their pension money to the banks. The workers will also be encouraged to take an active part in the management of their retirement benefits and will have up to date information on their pension funds. The contributor will have the choice of choosing and changing his PFA at will but usually once in a year.

There was a lack of clarity about the current contributory pension scheme in the public service effective pension administration and most of RSA holders do not receive their monthly RSA status report. The loopholes of financial misappropriation and lack of clarity of the legal provision in the current Pension Reform Act will encourage fraud and embezzlement of pension funds, convenience and acceptability of the Pay-As-You-Go system to public servants than contributory pension scheme. The scheme imposes fiscal discipline on the nation and the employer, which is a firm foundation for economic development as it creates a vast pool of long-term funds for investment and encourages accountability. It also introduces clear legal and administrative sanctions in the case of pension funds mismanagement and fraud. It gives room for separation of investments, administration and custodian of assets; it facilitates transparency and prudent accountability by the requirement for the public the rate of return, regular statement of contribution and interest. It establishes a pre-funding of retirement benefits which remove the doubt associated with the Pay-As-You-Go system.

6. Recommendations

Based on the findings of the study, the following recommendations were made:

1. The banks and private financial institutions should utilize the contributory scheme as a challenge for business opportunity by scouting for customers for investment purposes.
2. he contributors should be given adequate and precise information on their retirement benefits to make them aware of their retirement entitlements.
3. There should be enforcement of the laid down guidelines issued in 2004 as regards compliance enabling the Reform Act to operate. The bank and private financial institutions, involved in pension fund administration. (PFA) should facilitate transparency and prudent accountability by publishing the rate of return, regular statements of contribution and interest for the various contributors to keep them abreast with their funds being contributed.

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