EXPLORING THE NIGERIAN PENSION SCHEME:
Prospects, Present and Future

By:

Ibiene Mbano  LLM ACIS FCIA
MAP OF PRESENTATION

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DEFINITIONS OF PENSIONS

• An investment fund into which scheme members pay contributions for building up a lump sum to provide income on retirement.

• A fixed sum to be paid regularly to a person, following retirement from service either based on ill health, reaching retirement age or voluntary disengagement before retirement.

• A contract for a fixed sum to be paid regularly by instalments on retirement from service.
INTRODUCTION

• **The Evolution Of Nigerian Pension Scheme**
  
• Nigeria’s pension administration commenced in 1951 via the PENSION ORDINANCE OF 1951.

• It was mainly for the colonial administrators but granted partial rights at the discretion of the colonial Governor-General to civil service workers only.

• The private sector had no established Pension scheme except private arrangements such as: Nigerian Breweries in 1954, United African Company in 1957. They failed due to low compliance, ineffective regulation,

• In 1997, parastatals were allowed individual pension arrangements. They invested in insurance company through premiums and the sum insured is paid on retirement.

• Three regulators existed in the pension industry before the enactment of the PRA 2004, namely (SEC) for licensing pension managers, NAICOM for licensing and regulating insurance companies, and JTB which approved and monitored all private pension schemes.
• The PRA of 2004 introduced the contributory scheme, it was not a defined benefit scheme and captured public sector only

• After a long interlude came the PRA No.2, 2014 established by PenCom.

• The PenCom is currently the regulator of the uniform Contributory Pension Scheme for both Public and Private Sectors in Nigeria.
THE STATUS QUO

EXPLORING PENSION REFORM ACT, 2014

- **Increased Contribution Base:** improved contribution of 8% and 10% for the employee and employer respectively. 20% if the employer opts to bear the full responsibility.

- **Scope of Participation:** Only employers with a minimum of 15 employees are required to contribute to the new Scheme. Private organizations with less than 3 employees participation in the Scheme would be governed by guidelines issued by PenCom. However, the Act is silent on the applicability of the Scheme to private organizations with more than 3 but less than 15 employees.

- **Offences and Sanctions:** Attempts to commit a pension offence are placed on the same pedestal with actual commission. The act stipulates increased and stringent penalties eg pension fraud is a minimum of 10 years imprisonment, a fine of three (3) times the amount misappropriated and forfeiture of assets and funds to the Federal Government.

- A fine of at least N10 million on conviction, if a PFC fails to hold funds exclusively for the PFAs and PenCom. N50 million (previously N10 million) upon conviction, for a corporate entity that act as a PFA or PFC without licence
• **Dispute Resolution:** Any employee aggrieved with his PFA is obligated to approach the Commission for a redress before exploring arbitration or commencing an action at the National Industrial Court. The former Act provided arbitral tribunals and IST as dispute resolution mediums. 254c(1)(k)

• **Life Insurance Policy:**s 4(5) of the PRA 2014 stipulates that employers continue to maintain a group life insurance policy for a minimum of 3 times the annual emolument of each employee. PENCOM has declared this as a right of every employee in its guidelines and has ordered all employers of labour in January 2020 to submit their certificate of insurance to PENCOM
THE STATUS QUO

• an employee can access his RSA and withdraw from it if he disengages or is disengaged from employment before the age of 50 years and unable to secure employment within 4 months of disengagement. He is allowed to withdraw an amount not exceeding 25% of the total amount credited into it.

• PenCom, subject to the fiat of the Attorney-General of the Federation, can institute criminal proceedings against employers who fail to deduct and/or remit pension contributions of their employees within the stipulated time.
S.82 creates a Pension Protection Fund (PPF) to include an annual subvention of 1% of the total monthly wage bill payable to employees in the public sector, an annual pension protection levy, the percentage of which is to be determined by PenCom (3%) and income from investments of the PPF.

These funds are to guarantee a minimum benefit to contributors in the event of shortfalls in the investment of pension funds.
PENSION REFORM ACT, 2014: BENEFITS

• It facilitates prompt and regular payment of benefits since funding is made monthly and credited to individual RSAs immediately. Thus the investment is always **fully funded**.

• PENCOM is the central regulator who oversees all pension matters nationwide unlike the pre 2004 regime of three regulators: SEC, NAICOM and JTB..

• the portability of the scheme is convenient. individual RSA is maintained through out employees life irrespective of change in employment or PFA.

• its contributory nature reduces government responsibility as employees now share in it.

• Its privately managed thus less administrative cost to government, better management through competition. These costs are now borne by PFA and PFC.

• Choice of Pension Fund Administrator - Employees continue to have the right to choose their PFA. Where an employee fails to open a Retirement Savings Account (RSA) within 6 months after assumption of duty, his employer can now request a PFA to open a nominal RSA for such employee for the remittance of his pension contribution.
• According to the **Productivity theories** of demand and supply, pension schemes act as incentives and motivation to encourage workers to increase performance.

• The demand theory states that employees, especially the high income earners, prefer pension to cash payments because of a possible annuity (fixed regular payments) throughout their lives.

• The supply side of this theory posits that gains from pension tends to raise the level of workforce productivity
BENEFITS

• **Tax Exemption Benefits**: Interest, profits, and any other income accruable to PFs are not taxable in line with s.173(3) CFRN (as amended) which so provides.

• Possible reduction in wage bill: Workers to be transferred to the new scheme will need to be registered and validated ultimately resulting in identification of ghost workers and any other fraudulent schemes facilitating possible reduction of the State’s wage bill.

• Security of pension funds: The scheme entrenches the principle of transparency and accountability as reflected in the reporting requirements of the PFAs and PFCs to the contributors body.

• State & Local Government pension bureau earn a maximum of N40 as administration fee per state employee RSA on a monthly basis.
THE CRISES

1. Lack of confidence in the scheme caused by corruption, employers failure to contribute. Thus out of the Nigeria work force of 69 million only 8 million have pension accounts. This represents a meagre 12% of Nigeria’s entire working populace.

2. Lack of stern enforcement of the PENCOM guidelines in order to effectively penalise defaulters causing high level of impunity in both private and public sectors.

3. Sharp Practices by Employers, Untimely or nil release of funds by employers, causing delay or outright denial of pension rights.

4. Low return on investment, caused by inflation and sloth by PFA who invest mostly low yielding govt bonds.
THE CRISES

• LOW RSA BALANCES, A GROWING CONCERN

• media reports show that not less than 109,284 workers within the Nigerian labour force have quit the Scheme as at end of June 2019, causing approximately N27.1billion withdrawals upon their exit.
• The increment in employee contribution should translate to more funds to the scheme but this may lead to employers downsizing their staff strength because of the increase in the cost of employment.
• low monthly stipends by the PFAs as a result of low funds in their RSAs.
• irregular payment of salaries by both the private and public sector
• The requirement for the annual report by the pension fund operator in S. 67 of the PRA 2014 is applicable to only the PFA. Unlike section 57 of the PRA 2004 which makes this requirement applicable to both the PFA and PFC. Is this exemption of PFCs an honest error on the part of the legislators?
THE CRISES (COVID 19 PERSPECTIVE)

- The adverse effects of the COVID-19 pandemic has hit heavily on the labour and employment relations yet employers are still saddled with its required 10% monthly contribution to employees RSA.
- Employers are generating little or no revenue due to the lockdown, travel restriction, global recession etc.
- PRA can be used as a viable instrument in providing economic succour to employers and employees who have been negatively impacted by the COVID-19 pandemic.
The crises: COVID 19

Perspective

- Since Under Section 7 and 16 of the Act an employee can make 25% withdrawals from his pension account on attainment of 50 years or upon retirement, whichever one is later.

- The law can tinkered to allow an employee to withdraw more than 25% of the total amount in the RSA after 4 months of unemployment or on voluntarily retirement and disengagement on the advice from a medical practitioner.
SOLUTION (COVID 19)

• Suspension of the CPS during the period of the pandemic as an all-inclusive social welfare scheme by the government at for a stated period of time.

• Or reduce the pension contribution rate during the pandemic to at least half of the minimum of 10% and 8% to 5% and 4% respectively.

• Access to RSA after a month of disengagement from employment and inability to secure another employment. A maximum withdrawal of 15% of their retirement savings after a month of unemployment is recommended irrespective of age.

• Those temporarily laid off or on unpaid leave should be allowed to access to a maximum of 10% of their retirement savings.
LESSONS FROM OTHER JURISDICTION

• **Finland** has lowered its pension contribution rate for the remainder of 2020;

• **COLOMBIA** also lowered its pension contribution rate: measures to establish programmed withdrawals is in place.

• **ESTONIA**, suspends pension contribution from 1st July 2020 until 31st August 2021.

• **AUSTRALIA** passed the **Coronavirus Economic Response Package Omnibus Act 2020** for temporary early release of pension benefits. Eligible individuals affected by COVID-19 can access up to $20,000 of their pension till 2021.

• The Nigerian government can take a cue from the above so that while we protect the extant pension framework, it remains viable enough to cater for employees in their old age.
THE SOLUTION (COVID 19 PERSPECTIVE)

- A bill should be passed for access to employees adversely affected by the pandemic, of a certain per cent of their RSA funds after a month of disengagement or unpaid leave;
- Circulation of a detailed guideline for accessing pension funds during the pandemic. Such a procedure should be fast, easy and accessible;
- Temporary suspension of the pension contribution scheme or reduction of the pension contribution rate for a clearly defined period.
Healthy sustainable corporate organization depends on adherence to the principles and practice of corporate governance.

- responsibility, openness, Honesty, integrity, ethical conduct, transparency. These are core concepts that underlie best corporate governance practices.

- The Corporate Governance Circular for Pension Fund Operators (PFOs) has set out principles based on best practices to guide PFA and PFCs, on the processes for achieving optimal governance practices.

- The Circular is to be used in conjunction with Nigerian Code of Corporate Governance 2018 its requirements are consistent with the provisions of the PRA 2014.

- But To what extent have the government and its pension managers, adhered to governance principles in the administration of the Nigeria’s pension schemes?
even with the reforms some of the challenges that characterized the previous pension systems have persisted. These issues center around the adoption of poor governance procedures resulting in inadequate or haphazard implementation of pension administration.

**Examples**

- A government Pension Task Force uncovered the sum N12 billion in the personal account of a former Director of the Pension Department and N4 billion in the personal account of a Deputy-Director of the same department.

- **In 2015 Kaduna** State Government uncovered a pension racket, which allegedly siphoned N1.3 billion from the state annually. The discovery was revealed after the verification exercise of pensioners.
nine persons were charged by EFCC with theft of N5.6b pension fund for retired primary school teachers in Oyo State in 2014

stolen pension funds were usually lodged in fake bank accounts opened with the connivance of corrupt bank and government officials to serve as channels through which millions of pension funds were funnelled into private pockets.

a lady account officer in the trial of Dr. Maina in 2019 (a pension scam suspect) confessed to having operated five different bank accounts used to perpetrate N2 billion pension fraud in the Office of the Head of the Civil Service of the Federation. EFCC’s investigators found that withdrawals from the five accounts were usually channeled through a bureaux de change into an account in Dubai. These accounts were managed by a pension fraud syndicate.

Such cases have persisted even after the reforms owing to non-adoption of efficient governance procedures in the management of the country’s pension funds.
• One can conclude that the root of the abysmal performance of Nigeria’s pension administration is the country’s non-adherence to governance principles which new reforms alone cannot remedy.

• the primary areas of concern lies in the poor attitude of staff involved with pension administration(sometimes criminal in nature) the management of pension finance, pension records and the investment management function, which is central to pension fund operation.
• PenCom has instituted measures to facilitate sound governance, at least at policy level. For instance, PFAs that qualify for equity investments by pension funds must maintain high standards of transparency and governance.

• PFAs should take cognisance of sound Corporate Governance practices in their decisions to invest in entities or specialist investment funds, especially as the stake of the pension industry in governing the financial market continue to rise.

• PFOs as Institutional shareholders have a fiduciary duty to positively influence the standard of corporate governance in the companies in which they invest. This is because Investors expect substantial returns on their investment.
CORPORATE GOVERNANCE
HR PERSPECTIVE

• The role of Pension management in the creation and maintenance of an environment for optimum performance of employees cannot be over emphasized.

• If both the employees and employers contribute to the scheme it serves to foster better employment relations.

• Research has revealed that satisfactory pension provision serves as motivation that enhances employee performance and increases organizational productivity attracting and retaining competent employees.

• Regulators of the CPS should intermittently inspect the PFOs on prompt payment of retirement benefits to retirees to shield competency of the scheme.
THE SOLUTION

OTHER SOLUTIONS

• Develop appropriate IT by Connecting PENCOM Central Data Authority, employers, PFA and PFC in a robust information system

• Validate records of retirees and accrued rights in the formal and private sector and carry out a census of all informal employers and contributors

• Government should be mandated to bear the contribution of low income earners.

• Constant Review of pension records to recover outstanding balances and ensure disciplinary measures for non-compliance
• activate the use of recovery agents to review the pension records of employers to recover outstanding balances and ensure penalties are meted out.

• intensified public education and enlightenment to eradicate misinformation and ignorance

• Collaboration and commitment of all stakeholders; government, PENCOM; financial institutions, PFA AND PFC who manage and administer contributions; employees and employers.

• impose a strict obligations on these organisations to make pension contributions towards the retirement of their employees.

• Revision of the Rate of Contribution of in cases of sole contribution to 18% to encourage this aspect of sole contribution.
Solution contd

- **Creation of an independent federal govt agency to Fight Corruption**: by investigations and prosecution of stakeholders to ensure that best practices are upheld. Engage with EFCC and ICPC for further action.

- Register the salary account of employees with the PFCs and PFAs, to facilitate the deduction of the PFs at source as a standing order. This will reduce any mischief from the employer.

- **Autonomy of Local Government pension**: with a view to establishing an independent unit which will execute corresponding tasks pertaining to pension the micro pension scheme in the pipeline will give effect to this.

- **More funding** to PENCOM to facilitate hiring of more qualified personnel and to establish offices in each state of the federation to ensure efficient administration.
THE FUTURE/ CONCLUSIONS

• many Nigerians are culturally attuned to believe that their social safety net is in their family and children not pension schemes.

• Over 87% of Nigeria's population are yet to be covered despite the huge potential of pension schemes as a vehicle for national development. Indeed pension funds can make significant contributions towards reversing Nigeria's infrastructure deficit.

• Above points is an eye opener to stakeholders (particularly government and regulators) that more still needs to be done and we still have a long way to go in regaining Nigerians trust in the management and easy disbursement of their pension contribution.

• I imagine that a pension system that highly approximates the scheme that I have recommended in this presentation, will go along way in meeting our individual social protection expectations as well as collective aspirations.
CONCLUSION

THANK YOU FOR LISTENING!

Q/A