

Pension Crisis in Nigeria: Causes and Solutions.

¹Adesodun Isaac Adebayo and ²Raphael Dada

^{1,2}Department of Accounting, Faculty of Management Sciences, Ekiti State University, Ado-Ekiti, Nigeria.

Abstract: The aim of this study was to evaluate the management of pension in the country by analyzing the various pension reforms introduced by Gowon, Abacha and Babangida for the purpose of finding out to what extent these reforms have proved effective in tackling those problems that account for the delay in the payment of pension which has remained the bane of pension management in Nigeria. This formed the basis for critical evaluation of the new contributory pension scheme introduced during Obasanjo regime with a view to determining its ability to arrest the problem of irregular payment of pension. It is believed that the appraisal of the new reform will improve strategies needed to achieve more positive result in carrying out this study. The history of the Nigerian Pensions administration dates back to the 1950s. The Pension Reforms Act of 2004 brought into limelight the new pension scheme in Nigeria which is a defined contributory scheme unlike the old scheme which was largely defined benefits. Although the new scheme is being adjudged to be better than the old scheme in that, it is expected to correct the deficiencies and inadequacies prevalent in the old scheme, it advocated that only proper coordination, supervision and regulation of the pension Industry in Nigeria will make it to happen.

Keywords: Pension, pension scheme, retirement benefits, pension fund and administrators.

I. Introduction

The issue of pension has received much attention in many countries over the past Decades. In fact, in recent times, pension has increasingly attracted the attention of policy makers in many countries as a means of facilitating privately funded retirement income savings by an ageing workforce (World Bank, 1994). Many countries have opted for various forms of contributory pension scheme where 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. Besides pension funds are now among the most important institutional.

Pension Crisis In Nigeria

- Pension deficit of about N2.3 trillion in 2004.
- Pensioners not being paid entitlements regularly
- Existence of ghost pensioners in the public service.
- Pensioners dying on verification queues
- Unstructured and unfunded private sector schemes.
- Diversion and mismanagement of existing pension fund by BOT and Fund managers.

pension reform objectives

- Ensures every person who has worked receives retirement benefit (to reduce old age poverty)
- Assists improvident individuals to save towards old age (saving grows economy & deepens financial markets)
- Establishes a uniform set of rules, regulation and standards for administration and payments of pension.

Mechanism Of The Reform

- Mandatory minimum contribution of 7 ½% employees and 7 ½% employers of employees' salary, housing and transport allowance in to individual retirement savings accounts (RSA).
- Contribution is remitted monthly, to designated Pension Asset Custodians (PAC)
- PAC notifies the Pension Fund Administrator (PFA) appointed by the employee within 24 hours of remittance of contribution
- PFA issues a PIN (Personal Identification Number) to the employee, manages the contribution and credits the returns into the account (RSA).
- The PAC, PFA and Employers activities are regulated and supervised by National Pension Commission (Pen Com)

Pay-Off Of Benefits

- Retirement age is 60 years or 35 years of service

- After retirement the employee meets the PFA and agree on the mode of withdrawal based on the life expectancy
- Withdrawal could be lump sum, programmed withdrawals and purchase of annuity from the insurance company.

II. Statement Of The Problem

Major problem of the pension fund administration in Nigeria was the non-payment or delay in the payment of pension and gratuity by the Federal and State governments. For instance, the pension backlog was put at about N2.56 trillion as at December, 2005. In-fact, pension fund administration became a thorny issue with millions of retired Nigerian workers living in abject poverty and they were often neglected and not properly catered for after retirement (Orifowomo, 2006). Sadly, retirees went through tough times and rigorous processes before they were eventually paid their pensions, gratuity and other retirement benefits. At one time the money to pay their benefits is not available; and at another time, the Pension Fund Administrators were not there to meet the retirees' needs.

Basically, the old scheme has been beset with a lot of challenges and problems. Besides the aforementioned; other problems were: demographic challenges and funding of outstanding pensions and gratuities, merging of service for the purpose of computing retirement benefits. These problems coupled with the administrative bottlenecks, bureaucracies, corrupt tendencies and inefficiencies of the civil service, and the economic downturn have resulted in erratic and the non-payment of terminal benefits as at when due (Orifowomo, 2006; Ezeala, 2007, Abade, 2004). Other problems were: gross abuse of pensioners and pension fund benefits which were politically motivated in some cases.

III. Mechanism Of The Reform

- Data gathering and the administration (Pension Commission is required to maintain a National Data Bank for the country)
- Skills and competencies of PFA (pension fund administrator) are doubtful
- Credibility of Providers (PFA&PAC) in doubt.
- No transition period.

IV. Prospects To The Pension Crisis In Nigeria

Admad (2008) some of the prospects of the Pension crisis in Nigeria, in the defined contributory scheme include:

1. Intensified Public Education & Enlightenment
2. Strong Support from and collaboration with stakeholder's especially social sector.
3. Consistent support and strong political will from the executive and legislative arms of government.
4. Federal Government of Nigeria had consistently and religiously met her obligation to the pensions fund contribution.
5. Gradual adoption of the new scheme by other tier of government especially state government
6. Major corporations and institutions have bought idea of the new scheme
7. Consistent macroeconomic stability to downtrend in inflation
8. Relatively strong enforcement power of PENCOR.
9. PENCOR's effort to build capacity in the areas of risk management, supervision, corporate governance and information technology. However, Ahmad (2008b) argues that corporate governance in the pension industry in Nigeria is still being faced with a lot of challenges notwithstanding the efforts of the Commission.

These challenges include; history of bad corporate governance by people in many organizations, inappropriate and adequate sanction for breaches, the "tyranny and immunity" of management, re-defining the roles of the external auditor and self regulatory organizations (SROs) under the PRA of 2004 to make them culpable on concealing breaches, possible conflicts of interest arising from PFA participation in companies' boards following fears that they might become major investors and be elected to boards and disclosure of confidential information.

However, necessary economic, political and institutional framework must be put in place to support and enforce good corporate governance.

10. Development of comprehensive Accounting standards for retirement benefits.

V. Findings And Discussions

- Civil servant population alone is over 260,000. Military and paramilitary over 200,000
- Reform requires every employer with 5 employees and above to join the scheme
- Membership from formal and informal sector is not expected to be less than 25 million
- Pen Com presently constituted does not have the capacity to gather and managed the required data.

VI. Required Data And Facilities

- Stock taking of working and jobless population
- Number of ghost workers
- Number of those entitled to benefits, but not having them
- Value of unpaid pensions/ accrued rights
- Baseline for workforce (hiring criteria)
- Past service records
- Appropriate Information System
- NSITF has compliance problem and outstations not connected by WAN (wide area network)

VII. Recommendations

- Set up Independent Central Data Management Authority
- Pen Com. should only concentrate on regulatory function and ensure compliance of all stakeholders
- Set up Basic Registration System
- Revalidate Service Records in Federal and State Civil Services, military and paramilitary
- Validate membership records for other formal and private sector
- Carry out census of all informal employers and contributors
- Validate records of retirees and accrued right
- Develop appropriate information technology
- Connect PENCOM Central Data Authority, employers, PFA and PAC in a robust information system
- Allow at least 5 years transition period for all these to be in place
- Government should bear the contribution of low income earners, as 7 ½% of contribution from the present minimum wage of N 7,500 may send them to their early graves.

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