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PENSION SYSTEMS IN NIGERIA: ISSUES AND CHALLENGES

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Abstract
Globally, pension schemes are bedeviled with lots of challenges. Pension scheme was introduced in Nigeria in 1951 by the colonialists. Since then, successive Governments have embarked on numerous pension reforms in order to improve the welfare of retirees. Pension is a major welfare scheme put in place by the Government to take care of the aged in the society. Introducing a pension scheme that is efficient, effective and sustainable has a positive impact on the performance of workers. The knowledge that an employer cares for a worker by going ahead to plan for the worker's future will encourage a worker to give his/her all, to ensure that organizational or governmental goals are met. This, will ultimately lead to attainment of overall economic growth and development. This paper has set some goals for itself, one, it will undertake an overview of pension systems in Nigeria. Two, it will interrogate the features and challenges of past pension schemes. Three, to evaluate the benefits of Contributory Pension Scheme. Four, to determine the challenges of the present pension scheme. The secondary means of data collection was employed. The paper recommends that Government should make provision for the review of retiree's pension; this is because of very high inflation which the country has persistently experienced. Government should ensure that every worker, including all workers in the private organizations are enlisted in the Contributory Pension scheme. This will ensure that every retiree's welfare is taken care of.
Keywords: Economic Development, Social Security, Pensioners, Government, Pension Reform

Introduction

Pension issues have generated a lot of interests in recent decades in both developed and developing countries. It has equally attracted the attention of policy makers as a way of alleviating poverty and enhancing the welfare of the citizens. Pension is a form of security approved by the International Labour Organization (ILO) Convention No 102 since 1919. Sadly, the modalities of the operation of pension systems in many countries including Nigeria is fraught with different types of challenges. These challenges have lingered for too long especially in developing countries, including Nigeria, and have attracted the attention of various Nigerian Governments.

The demeaning and humiliating situation that the pensioners are made to pass through have been reported in the print and electronic media and also through the operations of the Ombudsman and public opinion programmes. The pensioners are made to stand on long queues for long hours and even for days to receive their stipends. Some of them are reported to have died or collapsed while on queues. Some who served the country meritoriously waited for years, without receiving their gratuity and died due to lack of money to take care of their health (Adebayo, 2023). Other problems include bureaucratic bottlenecks, bribery and corruption by the civil servants, embezzlement of pension funds, poor pension fund management and poor supervision. These problems have demotivated Nigerian workers and affected their productivity because their future is not secured when they retire from active service. Fapohunda (2013) rightly pin points that

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pension has positive impact on employee's productivity, discipline, loyalty, willingness to contribute towards attainment of organizational goals and willingness to remain in service. Arising from this, this paper has set some goals for itself, one, it will undertake an overview of pension systems in Nigeria. Two, it will interrogate the features and challenges of past pension schemes. Three, to evaluate the benefits of Contributory Pension Scheme. Four, to determine the challenges of the present pension scheme. The secondary means of data collection was employed.

Literature Review

Pension is money withheld during active service and returned with interests when the person stops working (at retirement). Pension is the money paid by the Government or organization that one has worked for after attaining a statutory age or having worked for a specific period of time. Pension is periodic payment which is received by a person who has retired from employment or active service which continues till death. Pension is a periodic payment made by the Government, to Government workers who have retired from active service. It could also be support from the Government in the form of benefit, assistance or welfare given to people who have retired from active service. According to Cambridge dictionary, pension is a regular payment paid by employers to workers who are old or suffering from ill health or disability. Pension is a support, usually in form of money which are paid regularly to retired workers or their dependents by their employers. Adam (2005) submits that pension is a monthly sum that a retired officer receives till death from an organization he has worked for. It is the process whereby one contributes into pension scheme a percentage of one's earning during the period that one is engaged in service. Through the contribution, an income (pension) is obtained at retirement. The first corporate pension plan was initiated in the United States in 1875 by the American Express Company (Phipps, 2021). To be eligible to obtain the retirement benefits, some conditions were attached by the company. The conditions include, the worker must have reached sixty years, have worked for the company for at least twenty years, had been endorsed by a manager and had been supported by a Committee together with the Board of Directors. According to Bureau of Labour Statistics, employees who met these conditions were paid half of their annual salary in retirement, which is up to $500 a year. By 1940s, Pension plans begin to receive much attention by labour unions and they begin to push for better offers from employers. The need for pension arises because organizations have the moral duty to make social security provisions especially for those who served them for a long period of time. The organization must also show that they have the interest of their workers at heart. This can serve as a form of motivation to the workers who will want to reciprocate by giving their all, to ensure that the organization attains its goals and objectives. Pension schemes in Nigeria is replete with problems such as inadequate funding, poor documentation, embezzlement of funds, build up of arrears of pension and lack of accountability. Other problems include inexperienced pension staff, burdensome clearance procedure and inability to choose appropriate investment portfolios. Obiagwu (2020) maintains that for a long period of time, with holding and outright refusal to pay pension benefits became a normal occurrence. Bassey (2005) alludes to this, he argues that in some organizations, workers were not paid their gratuities before 6 – 10 years after they must have retired from service. Also, arguing in the same vein, Okon, Ngaji and Bassey (2015) contend that in the past, the notice of retirement, unsettles a Nigerian worker because of the fear of the unknown or anticipated bleak future. The worker is uncertain whether he/she will collect the gratuity in his/her lifetime. This is because it is very common to see the Government owing retirees two or three years pension arrears (Vanguard, June 8th). Pensioners in Oyo State were owed N62.5 billion unpaid arrears and gratuities. The Secretary of Retired Primary School Teachers, Comrade Tunji Ogunwale and the Secretary of Nigerian Union of Pensioners Comrade Segun Abatan lamented that this has made life very miserable for retirees (PensionNigeria , 2019).

Describing the situation of retired workers in Nigeria, Okafor (2001) affirms that retired workers in Nigeria are subjected to inhuman and degrading plight after spending their active years working for the country;

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they are left to suffer without any form of social security. Today, pension is considered as a right of every worker. Nwajagu (2007) submits that there are three ways in which civil or public servants can retire from office and they include through voluntary retirement, statutory retirement and compulsory retirement.
Voluntary retirement is when an employee decides to stop working due to personal reasons without consideration for age, experience or length of service. Compulsory retirement is when one is mandated or pressurized to retire against one's wish or plan. The person is usually not prepared for it and it might be due to inefficiency, ill health, decision to down size or due to gross misconduct. Mandatory retirement is the type that people involved have reached stipulated age or has been in service for stipulated period of time. There are two categories of pension schemes in Nigeria. They are the Contributory Pension Scheme (CPS) and the Defined Benefits Scheme (DBS). Under the CPS, the employer and the employee contribute a percentage of the employee's salary into a fund, managed by Pension managers and released during retirement. The DBS was designed for employees of the public sector and it secures fixed pension benefits based on salary and years of service.

Theoretical Underpinning

This study will explore The Social Contract Theory. The best-known proponents of this theory are Thomas Hobbes, John Locke and Jean – Jacques Rousseau. The main thrust of this theory is that the State came into existence as a result of an agreement entered by men who, in the beginning do not have any form of governmental organization or law. The people lived in a '" State of Nature" where life was nasty, solitary and brutish. In order to escape a state of nature, men signed the social contract theory. The social contract theory was an agreement where men decided to give up their freedom and come under a government that will protect them, provide social amenities and make laws that will guide them. Therefore, the most important function of any government is protection of lives and property and provision of welfare services to the people. Security, be it economic or social security is very important to every man. Pension system is one way of securing people's welfare. Every worker will retire one day. Providing an efficient, effective and sustainable pension system is a very essential function of any government. If workers are sure that good provisions have been made for their future or towards their retirement, they will give their best to ensure that the organizational or governmental goals are attained. This, will definitely propel the economy and the society at large and will encourage all round development of the country.

Overview of Pension Schemes in Nigeria

The Pension Ordinance of 1951 which took effect retroactively from 1st January 1946 was the first ever legislative law on pension in Nigeria (Balogun, 2006). It was patterned after the British structure and applied to only Britons working in Nigeria. The type of pension introduced then, was not a right and could be reduced or withheld if the Governor General was convinced that the person was guilty of gross misconduct or negligence. This pension scheme did not accommodate or make any provision for people working in private establishments. In 1961, through an Act of Parliament, The National Provident Fund (NPF) was established to provide income protection for people in the private sector. The monthly contribution was 6% of basic salary and a maximum of N8.00 which was to be contributed equally between the employer and the employee. The Pension Decree No. 42, of 1975 accommodated Nigerian workers. Parastatals were given the opportunity to undertake a private pension arrangement for their staff and also to nominate the Board of Trustees that will manage their pension plans (Odia and Okoye, 2012). Another new Pension Act was enacted in 1979 known as the Pension Act No. 102 of 1979, with retroactive effect from April 1974 (Okontini and Akeredolu, 2009). This Act integrated all the legislations on pension and gratuity premeditated by the Udoji Public service Review Commission of 1974. This Pension Act introduced the Armed Forces Pension Act No. 103 (1974), Pension Rights of Judges of Decree No. 5 (1985) and the Amendment Acts of 1988, No. 29 of 1991, No. 62 (1991). In 1993, the NPF was changed to Nigeria Social Insurance Fund (NSIF) through Decree No. 73 of 1993. The NSIF operated a Defined Benefit Scheme

(DBS) which undertakes employees working in the private sector. These pension schemes confronted many challenges that made them unsustainable or unworkable. The public service pension schemes operated a defined benefit contribution which were unfunded but rather relied on funds from budgetary allocations which were never enough. Even the limited money that was allocated in the budget for pensioners are most times delayed and it led to accumulation of pension arrears. The pension costs at the public sector were exaggerated by inserting names that never existed as names of retirees. In the private sector, only very few people were covered by these pension schemes and many of them were not funded. Even where the scheme was funded, the administrators were corrupt and fraudulent. Adebayo and Dada (2021) point out that before the Pension Reform Act PRA (2014), the pension deficit stood at N2.3 trillion, there were ghost pensioners, retirees were dying on queues during verification exercise and there was diversion of pension funds by pension fund managers. These series of developments necessitated another pension reform known as the Pension Reform Act 2004, which was introduced by the administration of former President Olusegun Obasanjo. This pension scheme aims to protect the welfare of the retirees so as to ensure that they have enough financial resources that can sustain them when they retire. It introduced a Contributory Pension Scheme, were employees and employers contribute a percentage of the salary earned. The accumulated funds are managed by the Pension Fund Administrators. According to the provision of section 1 (1) of the Pension Reform Act 2004, employers in the Federal Republic of Nigeria, shall utilize a Contributory Pension Scheme (CPS) for disbursement of retirement benefits to those who are entitled to benefit from the scheme. The scope includes employees of Governments and that of the private sectors, where they have up to 5 or more employees (Pension Reform Act, 2004). The National Pension Commission (PenCom) was established through the Act to regulate and supervise pension related matters. This Pension Act, no doubt, introduced transparency, efficiency and effectiveness in the way pension matters were administered. The scheme also provoked the saving of long-term investible funds that contributed to high economic growth. The need for further improvement in pension schemes necessitated the enactment of Pension Reform Act (2014) 10 years later. The Pension Reform Act (PRA) (2014) was enacted to solve the implementation challenges faced by Pension Reform Act (2004). The Act established uniform rules and regulations for the management and payment of retirement benefits of Government workers and those at the private sector. It also stipulates that pension contribution rate should be increased from 15% to 18 percent, 10% will be contributed by the employer while the employee contributes 8%. The Act also prescribed very stiff penalties for pension related offences. It also ensures that retired workers received their retirement benefits timely, without any form of delay. In the private sector, the scheme applies to organizations that have up to 15 workers and more. Organizations with about 3 or less employees can however participate based on guidelines issued by PenCom. The PRA 2014 discussed about the pensions of political office holders and professors and also made provisions for contributors to use a part of the balances in their retirement savings accounts to make contributions towards acquiring a residential property.

Features and Problems of the Past Pension Schemes

- Workers do not bear responsibility or contribute to their pension rather it was fully funded through budgetary allocation that was kept in the Consolidated Revenue Fund. However, the amount released through budget is usually not enough to settle retirees or pay impending pension arrears. Thus, pension arrears rose to 2 trillion before the enactment of 2004 Pension Reform Act.
- There was also insincerity on the part of the politicians. They were eager to gain popularity and win votes, they therefore promised stupendous pension increase which they know they cannot be able to pay or they would have left office when it is time to pay such money. They are also fond of misappropriating money meant for pension payments. The State Government in most cases are reluctant to contribute their own part of funding if the worker had worked for both the Federal Government and State Government

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- Lack of proper documentation was another problem faced by these schemes. In some organizations, they did not have the actual record of their retirees and this encouraged corruption. Pension cost was inflated and they presented ghost retirees that did not exist. Huge amount of money was expended on constant verification that brought untold hardship to retirees without achieving the desired result. Toye (2006) affirms that the Pension Board was not able to properly manage their records and this affected the efficiency of the scheme.
- The retirees were treated in a very dehumanizing way. They were made to physically travel long distances to undergo verification exercise without minding the state of their health. They were also made to stand on long queues for many days before receiving their stipends.
- Successive Governments or officials of Government embezzled funds meant for pensioners. For instance, Abdulrasheed Maina, who was Chairperson Pension Reform Task Team (PRTT) stole over N2 billion belonging to pensioners, some of who died awaiting their stipends (Ejekwonyilo, 2021). Many State Governors left office leaving high debts through pension and gratuity. These debts became heavy burdens for incoming Governments (The Vanguard, June 8th). Oluwole (2022) argues that Dr Fayemi, who was former Governor of Ekiti State, inherited N57 billion pension arrears from his predecessor which, according to him, he would have love to pay but he cannot pay it due to paucity of funds. In Edo State, the Government of Obaseki started paying pension arrears from 1984 – 2021 to Local Council Pensioners (Edo State Government 2023).

Benefits of Contributory Pension Benefits (CPS)

- Employees can change pension fund administrators any time they like but cannot change twice within a year
- When an employee loses his/her job and is not able to get another job within 4 months, the employee can have access to his/her benefit
- A beneficiary of a Retirement Savings Account (RSA) can petition to PenCom office any decision relating to his/her account that he/she is not satisfied with for review by PenCom
- Employees can initiate criminal proceedings against an employer for continuous refusal to remit pension contribution
- Employers are mandated to open Retirement Savings Account (RSA) on behalf of the employees if they didn't do so, within three months of assumption of duty
- Employees are entitled to social security under the Nigeria Social Insurance Trust Fund (NSITF)
- The contribution and the dividends, interest and profits from investment in the CPS are not taxable.
- The pension funds can be invested, the scope of investment include specialist investment funds other financial instruments that might be approved by PenCom
- There is also the provision of Pension Protection Fund. The fund was created to guarantee a minimum benefit to employees as a result of short fall from investment of pension funds.

Challenges of the Present Pension Scheme: Pension Reform Act PRA (2014)

- Minimal participation of workers: the PRA 2014, stipulates that employers with at least 15 employees should participate in the scheme. This has ensured that many Nigerian workers are not enlisted in the scheme. Therefore, they are exposed to social insecurity at old age. Oyedele (2014) rightly pin points that out of 60 million of Nigerians that are of working age, only 2.4 million contributes to pension scheme
- Late Payment of Benefits: Retirees have to wait for more than one year before accessing their funds. This is contrary to the provisions of the Act. The Act stipulates that retirees will begin to receive their pension three months after their retirement. The Chairman, Contributory Pensioners, Eleyele Branch, Ibadan, Matthew Shittu, cited in Popoola (2023), alludes to this fact, he laments that the implementation

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of CPS is very bad. Arguing further, he posits that it took him almost two years before he started receiving his monthly pension. The pension companies, according to him, complain that Government delays a lot before they release the accrued benefits and this has affected their service delivery.

- Lack of Periodic Review of Monthly Stipends: The former pension system known as the Direct Benefit System (DBS) made provision for review or increment of the monthly pension. Whereas the PRA (2014), does not make provision for review of the pension benefit. A retiree under the PRA (2014) lamented that he did not receive the 15% pension rise by former President Obasanjo's regime for federal retirees. He did not also benefit from the 33% increase in 2010.
- Governments Intrusion on Pension Funds: The Government borrows money from the pension funds. This is contrary to the provisions of this Act. The Act stipulates that all pension fund should be kept until workers retire. The Act also stipulates the type of investment that the funds can be used for. A Federal Government retiree affirms that the Government still owes them the accrued interests on their entitlements which were kept as bonds with the Central Bank of Nigeria. Akpan (2023) reports that a House of Representatives member, Mr Aliyu Misau representing Bauchi State, moved a motion, that Federal Government should refund the N10 trillion pension fund that was borrowed. He argues that many pensioners who have met all the requirements needed for them to access their monthly pension are unable to do so. This, he notes has exposed the retirees to unnecessary volatility. In 2022, the Federal Government borrowed N9.2 trn from N14.5trn pension fund (Ripples Nigeria, December 18th 2022). On 14th May, 2024, the Federal Government through the Minister of Finance announced that the Federal Government will borrow N20 trillion from the pension fund, to be used to fund infrastructural projects. This move was condemned by Nigerians including a former Vice President, Atiku Abubakar, he maintained that the Government will go contrary to the provisions of the PRA which the Government enacted. He further argued that this will bring untold hardship to people who have given their all to serve their fatherland (Adamelokun, 2024)
- Ridiculous Low Pension: Some retirees under the PRA (2014) are collecting very low pension because they used up the money in their Retirement Savings Account (RSA). The regulators had to come to their rescue by instructing the pension companies to continue their payment through provision made for Pension Protection Levy. Some of them receive N10,000 monthly as pension (Popoola, 2023)
- Lack of Enough Savings: Many retirees are not able to save enough money for their pension before their retirement. About 149, 375 workers could not earn up to N10,000 as monthly pension (The Punch, December 26th)
- Lack of Commitment by the Employers: Many employers have failed to remit their workers pension. This has negatively affected the well being of these retirees. PenCom through their agents has been able to recover some of these funds with penalties for the employers. For instance, between June 2012 – 30th June 2023, they were able to recover N24.8bn which constitute N12.52bn as principal contribution and penalties N12.28bn (Popoola, 2023)
- Uncooperative Attitude of Many States: Out of 36 States and the Federal Capital Territory (FCT), only six States and FCT are fully implementing the CPS. The States include Ekiti, Lagos, Edo, Osun, Ondo and Kaduna States. Many of the States have backlog payment. For instance, the Oyo State Chairman of Nigeria Labour Congress (NLC), Kayode Martins, submits that pensions and gratuities were last paid in the State in 2015 (The Vanguard, June 8th 2023). The Governor of Ogun State owes workers as at June 2023, 18 months salary deductions including CPS pension deduction. Governor Adeleke is also battling N76bn pension arrears inherited from his predecessor.
- Encouragement of Pullout: Some Government workers pulled out from the scheme. For instance the National Assembly workers through the National Assembly Service Pension Board bill which was signed by former President Muhammadu Buhari pulled out from the scheme. In 2011, the military personnel and State Security Agencies were exempted from the CPS. Their argument was that their

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salary is meager and that members under CPS are lacking in many other benefits. Many other sectors might decide to pull out which might lead to the eventual collapse of the scheme

- Transfer of Risk: the employee decides who manages his/her funds thereby bearing the risk that is involved

Conclusion

Economic security has for long remained of high importance to man. Economic security includes access to basic infrastructures, food, housing, health care facilities and clothing's. Many people at one point or the other have faced uncertainties as a result of loss of jobs, ill health, disability or death. This is a threat to a man's security and one of man's greatest fear. Social security is majorly associated with income maintenance and protection against low and declining income. Pension scheme is one way of protecting citizens income and ensuring that their standard of living does not decline. Developing a pension scheme that is efficient and sustainable will ultimately encourage economic growth and enthrone an egalitarian society.

Recommendation

- Government should reaccredit service records of all government workers
- Government should develop the political will to punish those who misappropriate or embezzle funds that are meant for the retirees
- Government should abide by the provisions of the Act by not "borrowing" money from the fund
- Government should make provision for the review of retiree's pension; this is because of very high inflation which the country has persistently experienced
- Government should ensure that retiree's pension is paid on time
- Government should ensure that every worker, including all workers in the private organizations are enlisted in the Contributory Pension scheme. This will ensure that every retiree's welfare is taken care of.

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