Continental J. Education Research
Bakare *et al*. (2018) 11 (1): 31 – 44 DOI: 10.5281/zenodo.2222252

Research Article

Prospects, Strategies and Challenges of Pension Policy Implementation in State Owned Institutions of South West Nigeria

Lawal A. Bakare[1], Saheed A. Tijani[2*], and OlatundeMisbaudeen Osuolale[1]
[1]Obafemi Awolowo University, Ile-Ife, Osun State, Nigeria
[2]Federal Polytechnic Ede
Correspondent: awalbakr1434@gmail.com

Abstract

Pension has been a cross issue in Nigeria. It has been so not because the right is not recognized, but rather, its recognition has been bogged down by the absence of the financial wherewithal to actualize the right. A new contributory pension scheme was introduced through the Pension Reform Act 2004 which was repealed in 2014 to reflect and accommodates the exigencies of grail areas that were not in the previous Act. However, a number of challenges still persist. Hence, this study assessed the challenges, prospects and strategies for proper implementation of pension policy in the selected state owned tertiary institutions in South Western Nigeria. Both primary and secondary data were utilized for the study. Primary date was collected through the administration of questionnaires to purposively selected active staff totaling 644 of state owned tertiary institutions in both Lagos and Osun State of Nigeria. The data collected were analysed using descriptive method of analysis. The study revealed that, while there was regular deduction from staff salary, the employers' contribution was not regular, and no regular remittance of pension deduction to the PFA. Also, concerning the prospect of the new pension policy include theencouragement of savings among the participants, motivation of workers to be more economical and watchful in their spending and management of their resources by making save for their livelihood during old age, guarantees retirees long term benefit after retirement, possible huge return on the investment made on behalf of the retirees

and saves the time and stress that retirees used to face in the old pension scheme. The strategies to ensure proper implementation include the provision of Information and Communication Technology (ICT) Centre for providing access to regular account balances, account statements and retirement plan advisory, provision of complaint centre at every institution, and proper enforcement of the relevant sanctions of the Pension Reform Acts on defaulting employers to improve on the existing compliance by the pension commission.
Keywords: Pension, Policy, Implementation, Welfare, Tertiary Institutions.

Received: 20 August 2018 Accepted: 24 November 2018

Introduction

In 2014, the operating Pension Reform Act(PRA) 2004 was repealed to reflect and accommodates the exigencies of grail areas that were not in the previous Act. This action warrants the amendments to essential areas of the Pension Reform Act 2004 to ensure total compliance with the new pension Reform Act 2014 that was signed into law in July, 2014.

The new scheme maintains a method of providing retirement income whereby the pension is financed by prior savings secured through periodic contributions made jointly by both the worker and the employer. The approach takes a fore-view perspective, anticipates assets to defray the liability when it eventually falls due. The new contributory pension scheme allows a civil servant in active service to make contributions while employers of labour are also to contribute, upon which a retired civil servant would have his contributions over the years in tact as his pension.

However, pension scheme management in Nigeria is flooded/ overwhelmed by a lot of diverse problems. One key problem is the abysmal level of compliance to the new scheme. Lack of adequate funding, because of inadequate budgetary allocations to government parastatals and institutions which have made them not to succeed in setting aside the recommended 25% for pension scheme from the total emoluments of their employees is equally additional challenge to the compliance of employers to the new scheme. Especially, looking at the down turn economic situation of the country which has the lead to the decrease in the available funds to the states and the potential corruption parading many states of the country, many states are found to act below expectation in the area of contributing their quota to the pension scheme.

A number of extant researches have been carried out on pension policies in the developed with fewer ones relating to the developing countries with no exception to

Nigeria. However, most of the researches pensions in Nigeria were in relation to the welfarism of the employees (Yusuff, 2017). The impact of the implementation of pension reform act 2004 on the pensioners' welfare: A study of NnamdiAzikiwe University, Awka from 2004 – 2012 by Nwafor (2013), and many others. However, gap exists in the area of finding the challenges, prospects and strategies to proper implementation of New Pension Policy among the state owned institutions in the South Western part of Nigeria, hence this study.

Conceptual Review

Concept of Pension

A pension is a contract for a fixed sum to be paid regularly to a pensioner, typically following retirement from service (Ayegba, James &Udoh, 2013). It is different from severance pay because the former is paid in regular instalments while the latter is paid in one lump sum. A pension plan created by an employer for the benefit of employees is commonly referred to as an occupational or employer pension. Labour unions, the government and other organizations also fund pensions. Occupational pensions are a form of deferred compensation, usually advantageous to employee and employer for tax reasons. Many pension plans also contain an additional insurance aspect, since they often will pay benefits to survivors or disabled beneficiaries.

The common use of the term pension is to describe the payments a person receives upon retirement, usually under pre-determined legal and/or contractual terms. According to Adams, Frank, and Perry (2011), pension is the amount paid by government or company to an employee after working for some specific period of time, considered too old or ill to work or have reached the statutory age of retirement. It is equally seen as the monthly sum paid to a retired officer until death because the officer has worked with the organization paying the sum. Adebayo and Dada (2011) and Robelo (2002) asserted that pension is also the method whereby a person pays into pension scheme a proportion of his/her earnings during his working life. The contributions provide an income (or pension) on retirement that is treated as earned income. This is taxed at the investors' marginal rate of income tax. On the other hand, gratuity is a lump sum of money payable to a retiring officer who has served for a minimum period of time.

Odia and Okoye (2012) in their work Pension Reform in Nigeria, a Comparison between the Old and the New Scheme viewed pension as an "amount paid by government or company to an employee after working for some specific period of time, considered too old or ill to work or have reached the statutory age for retirement. Thus, pension is the accrued right of the employee on retiring from the services of his employer and satisfying the conditions for payment of the said pension.

Types of Pension

Different scholars and different nations have come up with various types of social security systems with pension not exclusive. Therefore, pension as a system of social security has been divided into different types and by different scholars and governments. There are four main classifications of pension in Nigeria Uwgu (as cited in Ayegba, et al, 2013, p. 99). These are:

a) **Retiring Pension:** This type of pension is usually granted to a worker who is permitted to retire after completing a fixed period of quality service usually 30 to 35 years or on attaining the age of 60 to 65 years for the public service in Nigeria and 70 years of age for professors and judges.
b) **Compensatory Pension:** This type of pension is granted to a worker whose permanent post is abolished and government is unable to provide him with suitable alternative employment.
c) **Superannuating Pension:** This type of pension plan is given to a worker who retires at the prescribed age limit as stated in the condition of service.
d) **Compassionate Allowance:** This happens when pension is not admissible or allowed on account of a public servants removal from service for misconduct, insolvency or incompetence or inefficiency (Amujiri, 2009:140).

According to Ugwoke and Onyeanu (2013), Pension System can be broadly categorised by the benefits they promise and the way they finance that promise. The choice is often between two types of pension plans: defined-benefit (DB) and Defined-Contribution (DC)

Overview of the 2004 Pension Reform Scheme in Nigeria

The inadequacy of the Defined Benefit Pension Scheme also referred to as the Pay-As-You-Go (PAYG) Pension Scheme made the Federal Government of Nigeria to embark on a Contributory Pension Reform Scheme through the 2004 Pension Reform Act that tends to unify the features of the public service with those of the private sector in terms of rate of contribution to benefits, key players and regulation. Before the 2004 Pension Reform Act was passed into law, the pension liability of the Federal Government of Nigeria was put at about three trillion naira (ARM, 2004). This value constituted a huge proportion of the average annual budget of Nigeria in recent times.

The 2004 Pension Reform Scheme in Nigeria which has replaced the Defined Benefit Pension Scheme is well encapsulated in the 2004 Pension Reform Act (PRA, 2004). The objectives of the 2004 Pension Reform Scheme include the following:

(a) to ensure that every person who worked in either the Public Service of the Federation, Federal Capital Territory or private sector receives his retirement benefits as and when due;
(b) to assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age; and
(c) to establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the Public Service of the Federation, Federal Capital Territory and the private sector.

Empirical Review

Edogbanya (2013) carried out a study on the assessment of the impact of contributory pension scheme on Nigerian economic development for the period (2007-2010). The study used survey research design, and sample size of 30 and 70 for both staff and customers of Legacy Pension Ltd. It also adopted correlation analysis for testing secondary data and ANOVA for the primary data. The study revealed that risk prevalent has positive effect on pension fund management and that the contributory pension scheme has significant positive impact on the GDP.

Odia and Okoye (2012) compared the old pension scheme with the Pension Reform Act 2004. The study adopted comparative analysis method to compare and contrast the pre-2004 pension scheme with Pension Reform Act 2004. The study finds that the PRA 2004 is better than the pre-2004 pension scheme, and that the PRA 2004 is expected to help remedy the deficiencies and inadequacies prevalent in the old pension scheme. The study recommended more stringent coordination, supervision and regulation of the pension industry in Nigeria.

Akinbola (2017), examined the challenges and opportunities of the new pension reform Act facing the financial institutions in Nigeria. The study revealed that the new pension scheme would result in increased demand for term deposit and corporate finance services for banks, as well as increased demand for life insurance policies and annuities from insurance companies. The study further reported that the major challenge of the new pension system is its potential to create a yield problem in the money and capital markets, as pension funds bid up stock prices in Nigeria's shallow capital market and saturate the money market with liquidity at a time of declining public sector borrowing requirements. The concern of defined contribution (DC) as a new retirement scheme was based on concerns for both old age income security and broader developmental considerations for emerging economies.

Odia and Okoye (2012) compared the old pension scheme with the Pension Reform Act 2004. The study adopted comparative analysis method to compare and contrast the pre-2004 pension scheme with Pension Reform Act 2004. The study finds that the PRA 2004 is better than the pre-2004 pension scheme, and that the PRA 2004 is expected to help remedy the deficiencies and inadequacies prevalent in the old pension scheme. The study recommended more stringent coordination, supervision and regulation of the pension industry in Nigeria.

Gunu and Tsado (2012) studied contributory pension system as a tool for economic growth in Nigeria. The study used descriptive statistics, percentages and charts to analyze data collected. Their findings revealed that the contributory pension scheme has begun to contribute to increase in growth of the Nigerian capital market and economic growth.

Dostal (2010) studied pension reforms in Nigeria for the period 2006 to 2010. The study finds that the funded pension system has not had any significant impact on the development of financial market and that real sector investment was not boosted by savings from pension scheme. Also the macroeconomic credibility of the government has declined. The implication of the findings was that the regulatory environment failed to encourage interaction between pension reform and economic reform while problems of regulation within the system have also contributed to a lack of reform credibility.

Nyong and Duze (2011) carried out a study on the Pension Reform Act 2004 and retirement planning in Nigeria. The study used survey research design and a multi-stage random sampling technique to select the sample size of 3000 from the population of serving teachers and teacher pensioners in Federal and State Public Secondary Schools between the ages of 55 and 59 years. The results revealed that the objectives of PRA 2004 were yet to be achieved since retired persons still suffered trauma, pains and even death before they received their pension packages. The study recommended e-payment of pensions to ensure easy referencing, easy update and logistics of pension scheme system.

Methodology

This study adopts a survey research design and questionnaire was the main instruments for its data collection. The target population was the staff of state owned tertiary institutions in Osun and Lagos State. A total sample of six hundred and forty-four (644) responded were purposively selected for question administration across the tertiary institutions in the two selected states. The questionnaires were analyzed using descriptive analysis to determine the level of compliance to the new pension scheme in the selected institutions

Findings

The prospects of the proper implementation of pension system on the life of the employees

This also sought to investigate the respondents' opinion regarding the prospects of proper implementation of pension system on the life of the employees. The responses to this objective are contained in Table 1.

As revealed in the Table 1, 285 (44%) respondents strongly agreed to and 218 (34%) respondents agreed to the fact that the mandatory contributions of workers and their employers would force workers to save on a large scale thus leading to adequate funding of the new pension scheme while only 103 (16%) and 38 (5.9%) respondents respectively disagreed to and strongly disagreed to this fact. Altogether, a total of 503 representing 78% of the total respondents support the assertion that the new mandatory pension contributions would enhance savings among the participants.

In the same vein, as shown in the Table 1, 317 (49%) respondents strongly agreed to the assertion that the new pension scheme assists improvident individuals by ensuring that they save to cater for their livelihood during old age and 192 (30%) also agrees to this fact. This shows that majority of the respondents, 79% agreed to this assertion. It can therefore be established that the new contributory pension policy will encourage and motivate workers to be more economical and watchful in their spending and management of their resources by making save for their livelihood during old age.

Part of the rationale for initiating the new pension policy was the fall out of the previous system which was characterized with time wastage and stressful process before retirees could assess their benefit was to be changed by the new policy. As indicated in the table below, a total of 478 respondents representing 74% of the total respondents agreed to the assertion that the new contributory pension policy saves the time and stress that retirees used to face in the old pension scheme. This shows that it is well understood and accepted fact that the new pension policy actually addresses the fall out of the previous system. The same scenario is recorded in support of the fact that the new pension policy guarantees retirees long term benefit after retirement. This was well supported by the majority of the respondents totaling 477 (74%).

Table 1. The prospects of the proper implementation of pension system on the life of the employees

S/N	Statement	SA		A		D		SD	
		f	%	*f*	%	F	%	*f*	%
1	The mandatory contributions of workers and their employers would force workers to save on a large scale thus leading to adequate funding of the new pension scheme	285	44.3	218	33.8	103	16	38	5.9
2	Assist improvident individuals by ensuring that they save to cater for their livelihood during old age	317	49.2	192	29.8	107	16.6	28	4.3
3	It saves the time and stress that retirees used to face in the old pension scheme	270	41.9	208	32.3	115	17.9	51	7.9
4	It guarantees retirees long term benefit after retirement	241	36.2	237	38.0	108	16.8	58	9.0
5	It secures the benefit of the retirees	243	36.2	235	37.8	108	16.8	60	9.0
6	Possible use of the scheme as collateral security in any financial institution by the retirees	226	35.1	234	36.4	125	19.4	59	9.2
7	Possibility of huge return on the investment made on behalf of the retirees	227	35.2	213	33.1	138	21.4	66	10.2

Source: Survey, 2017
Note: SA = Strongly Agreed; A= Agreed, D = Disagreed; and SD = Strongly Disagreed

Table 2: Possible strategies that can be used to enhance proper implementation of pension policy in the study area

S/N	Statement	SA		A		N		D	
		F	%	*f*	%	*f*	%	*f*	%
1	Government should provide Information and Communication Technology (ICT) Centre for providing access to regular account balances, account statements and retirement plan advisory	258	40.0	199	30.9	117	18.2	70	10.9
2	There should be complaint centre at every institution	449	69.7	136	21.2	45	7.0	14	2.2
3	Social orientation, seminar/workshops, conferences, etc would go a long way to sensitizing the general public on the benefits of the new pension scheme.	471	73.1	138	21.4	24	4.5	6	0.9
4	PFA should be allowed to exercise their full powers to the best of interest of the beneficiaries	446	69.3	154	23.9	36	5.6	8	1.2
5	The regulator (National Pension Commission) should enforce the relevant sanctions of the Pension Reform Acts on defaulting employers to improve on the existing compliance	389	60.4	198	30.8	48	7.5	9	1.4
6	All employers should ensure that all deductions from employees' wages and contributions by employers should be promptly paid into the fund	418	64.9	166	25.7	53	8.2	7	1.1
7	Both pension and gratuity should be contributory and government contribution should be first charge in the consolidated revenue fund	450	69.9	142	22	43	6.7	8	1.2
8	Employers should prepare their employees for retirement through a programme of training and counselling on entrepreneurship and post retirement life	442	68.6	151	23.4	39	6.1	9	1.4
9	There should be Law/Act to mandate the use of extra fund from the federal government to the States for funding pension arrears	467	72.5	134	20.8	30	4.7	13	2.0

Source: Survey, 2017

ISSN: 2141 – 4181 **Science and Education Development Inst., Nigeria**

It the same vein, a total of 226 (35%) respondents strongly agreed to and 234 (36.4%) agreed to the assertion that the new pension policy facilitates possible use of the scheme as collateral security in any financial institution by the retirees. This shows that, apart from guaranteeing direct financial benefit to the workers, the certificate of participant in the new pension scheme can as well be used to secure loan from the bank. Equally, it is revealed that almost all the respondents believe that the new pension system guarantees possible huge return on the investment made on behalf of the retirees. This shows that the people actually believe in the supposed benefits of this new scheme and they are optimistic that the policy will bring good fortunes and better future performance for the participants.

Possible strategies that can be used to enhance proper implementation of pension policy in the study area

This study further explored the various possible strategies to enhance proper implementation of the new pension policy with a view to achieving the above identified goals and benefits.

As revealed in Table 2, a total of 457 representing 71% of the total respondents support the view that the government should provide Information and Communication Technology (ICT) Centre for providing access to regular account balances, account statements and retirement plan advisory. In the same vein, almost all the sampled respondents, 91%, support the view that there should be complaint centre at every institution. It is hoped that when this is in place, the workers will be to lodge their complaint and seek clarification on any matter relating to their pension fund and it will go a long way to address possible malpractices that may want to occur. As it has been established in previous section that part of the problem in the existing arrangement is the lack of regular update to the workers about their pension, having this complaint center in every institution will resolve this problem.

Also, the table revealed that 90% of the respondents support the view that social orientation, seminar/workshops, conferences, etc should be organized as these would go a long way to sensitizing the general public on the benefits of the new pension scheme. Inthe same vein, 93% of the sampled respondents agreed to the assertion that the PFA should be allowed to exercise their full powers to the best of interest of the beneficiaries. In the previous section, it was established that there were political interference in the administration and implementation of this pension policy and this is negatively affecting the performance of the PFA. Therefore,PFA should be given free hand to operate without any hindrance while the policy should be well equipped with necessary provisions that will guarantee customers' safety from possible subversion.

In the same vein, more than 90% of the respondents support the view that the regulator (National Pension Commission) should enforce the relevant sanctions of the Pension Reform Acts on defaulting employers to improve on the existing compliance. This will address the identified problem in the previous section on how some employers usually decline in paying their own part of the contribution to the PFA and those that usually manipulate their records in an attempt to reduce their own part of the contribution to the fund.

Almost all the sampled respondents, 90%, agreed to the assertion that all employers should ensure that all deductions from employees' wages and contributions by employers should be promptly paid into the fund. This can be achieved by amending the pension provision to make it compulsory for all employers to remit the deductions of their employees appropriately to the PFA and a punishable offence for whoever default in this act.

It was equally unanimously agreed by the respondents, 93%, that both pension and gratuity should be contributory and government contribution should be first charge in the consolidated revenue fund and that the employers should prepare their employees for retirement through a programme of training and counselling on entrepreneurship and post retirement life.

It was equally agreed by the majority of the respondents, that there should be Law/Act to mandate the use of extra fund from the federal government to the States for funding pension arrears. This is to cater for instances where economic challenges affect the financial capacity of the states, and in such circumstances, the federal government, while releasing extra fund to the states, should equally make it compulsory upon the state to cater for the retirees of their respective state with the fund.

Summary, Conclusion and Recommendation

This study was undertaken to appraise the Contributory Pension Scheme in State owned tertiary institutions in the South Western part of Nigeria by evaluating its implementation in the study area. The specific objectives are to examine the level of compliance with the policy by the employers in the study area; identify the experiences of the current serving staff and the retirees as regard the administration of pension system in the study area; identify the prospects of the proper implementation of pension system on the life of the employees; establish the challenges associated with the implementation of pension policy in the study area; compare the level of compliance to the pension policy among the employers in the south western states of Nigeria; and suggest possible strategies that can be used to enhance proper implementation of pension policy in the study area.

The study is premised on the assumption that since the federal government is the maker of the policy, then, it is apt to say that its proper compliance by all its agencies would be monitored and ensured by the federal government. Hence, the doubtfulness regarding the compliance level and its attendants problems are better examined within the state owned establishment and the private entities. Therefore, this study was delimited to the state owned institutions in the South Western part of Nigeria.
The study covered the periods from 2004 to 2016. This was based on the fact that 2004 marked the end of the Pay As You Go old method of pension administration and witnessed the entrance of the new contributory pension policy in Nigeria.

Concerning the potential and realizable benefit of the contributory pension policy, it was found that the mandatory contributions of workers and their employers would force workers to save on a large scale thus leading to adequate funding of the new pension scheme; assist improvident individuals by ensuring that they save to cater for their livelihood during old age; saves the time and stress that retirees used to face in the old pension scheme; it guarantees retirees long term benefit after retirement; secures the benefit of the retirees; possible use of the scheme as collateral security in any financial institution by the retirees; and possibility of huge return on the investment made on behalf of the retirees were all established.

Based on the aforementioned findings of this study, the followings are hereby recommended that government should provide Information and Communication Technology (ICT) Centre for providing access to regular account balances, account statements and retirement plan advisory and there should be complaint centre at every institution

References

Adams, B., Frank, M. M., & Perry, T. (2011). The potential for inflating earnings through the expected rate of return on defined benefit pension plan assets. *Accounting Horizons*, *25*(3), 443-464.

Adebayo, A. I., & Dada, R. (2012). Pension Crisis in Nigeria: Causes and Solutions. *IOSR Journal of Applied Chemistry (IOSR-JAC)*, *3*(2), 30-32.

Akinbola, O. A. (2017). *The Problems and Challenges of Nigeria Contributory Pension Scheme to Nigeria Civil Servants* (Doctoral dissertation).

Amujiri, B. A. (2009). The New Contributory Pension Scheme in Nigeria: A Critical Assessment. *Nigeria Journal of Public Administration and Local Government*, *14*(1), 22-34.

Ayegba, O., James, I., &Odoh, L. (2013). An Evaluation of Pension Administration in Nigeria. *British Journal of Arts and Social Sciences*, *15*(2), 72-93

Assets & Resources Management Company. (2004). Pension reforms in Nigeria—A solution in sight

Edogbanya, A. (2013). An assessment of the impact of contributory pension scheme to Nigerian economic development. *Global Journal of Management and Business Research* 1(2), 34-61

Dostal, J. M. (2010, March). Pension reform in Nigeria five years on: Great leap or inappropriate policy design?. In *Paper for the 60th Conference of the Political Studies Association (PSA) at the University of Edinburgh, Scotland* (Vol. 29).

Federal Republic of Nigeria (2004)

Gunu, U., &Tsado, E. (2012). Contributory pension system as a tool for economic growth in Nigeria. *International Journal of Business and Behavioral Sciences*, *2*(8), 6-13.

Nyong, B. C., &Duze, C. O. (2011). The Pension Reform Act (PRA) 2004 and retirement planning in Nigeria. *Journal of Economics and International Finance*, *3*(2), 109.

Nwafor, M. N. (2013). The impact of the implementation of pension reform act 2004 on the pensioners' welfare: a study of NnamdiAzikiwe University, Unpublished PhD Thesis.

Nkanga, G. (2005). Pension Reform is Good for Everybody. *Thisday Newspaper*, 16.

Odia, J. O., &Okoye, A. E. (2012). Pensions reform in Nigeria: A comparison between the old and new scheme. *Afro Asian Journal of Social Sciences*, *3*(3.1), 1-17.

Pension Reform Act (PRA, 2004)

Robelo, M. F. (2002). Comparative Regulation of Private Pension Plans, frabelo@ fgvsp. br.

Ugwoke, R. O., &Onyeanu, E. O. (2013). An Examination of the Unit Trust Scheme/Mutual Fund as a Veritable Vehicle of Investment in the Nigerian Stock Market. *Research Journal of Finance and Accounting*, *3*(6), 176-184.

Ugwu, D. S. (2006). Contributory Pension: A New Approach to Financing Pension Scheme in Nigeria,". In *A paper presented at Seminar Organized by Mokasha*

Yusuff, O. M. (2017). *Effects of Minimum Wage on Youth Employment and School Enrolment in Canada* (Doctoral dissertation, Lethbridge, Alta.: University of Lethbridge, Dept. of Economics).