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Full Length Research Paper

The Pension Reform Act (PRA) 2004 and retirement planning in Nigeria

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The surest way most old people who have retired from active service solve their financial and other problems in Nigeria is mostly through their pension packets. It is however sadly observed that these monies are usually unreachable to them as at when due because of the manner in which government and other employers handle pension issues. Because of this, some persons who are due for retirement manipulate and lower age records to prolong retirement date and remain in service even when they are no longer productive thereby constituting wastages in the economic system. Thus, the need to provide adequate and effective financial security for old age in Nigeria has become extremely necessary. The systems for providing financial security for old age in Nigeria have been stressful, strenuous, and uncertain. Currently the Retirement Savings Account (RSA) under the Pension Reform Act (PRA) 2004 is adopted. This paper therefore examined the PRA 2004 and its significance on retirement planning in Nigeria. It investigated the current status of the PRA 2004 in attaining the objectives for which it was promulgated as perceived by 3,000 serving teachers and teacher pensioners. Results revealed that the objectives were yet to be achieved since retired persons still suffered trauma, pains, and even death before they received their pension packages in Nigeria while its sustainability was questioned.

Key words: Pension, retirement, financial security, planning.

INTRODUCTION

The concept of pension could be said to be as old as man and his working environment. Even in primitive time, man was inclined to put aside something, in cash or kind, but mostly in kind to take care of the rainy day. The rainy day also included old age. In modern times it is generally conceived as the sum of money paid regularly by employers to former employees who have retired from their service usually as a result of attaining a fixed age limit in service or due to other reasons like sickness, widowhood or disabled people, or by former employers or financial institutions to retired people. Pension fund or pension plan or pension scheme is a system in which people receive a pension according to how much they have contributed to the pension fund.

Longman (1995) defines pension as an amount of money paid regularly by government or company to someone who can no longer earn money by working for government or employer especially because of old age or sickness. Raji (2006) defined pension as a post-employment benefit paid to a pensioner to make that person financially independent at old age. From these definitions, the general notion about pension is that it is an arrangement made in the present (now) in order to secure an income in the future (later), which involves both the employer and the employee.

On the concept of retirement, Raji (2006) sees it as post employment; Longman (1995) as stop working at one's job usually because of age, while Oxford Advanced Learner's Dictionary explains it as the event or state in which one stops doing one's regular work/job especially because one has reached a particular age. The particular age for retirement is different in different countries and for different jobs in certain cases. The United States of America (USA) for instance, through its Social Security Act (1935), designated the people aged 65 and over as aged. There is no such Act in Nigeria and no such clear cut designation in retirement age. While the official retirement age in the USA is 65 years irrespective of which sector of the economy (public or private) one

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works, various chronological ages at which one retires is the case in Nigeria. Judges retire at 70, university academics used to be 65 but now 70, state civil services 55, federal civil servants, 60, and private sector, 60 and 65 depending on the company. However, due to retrenchment in Nigeria, people are forced to retire before they reached the stipulated retirement age. In Nigeria, the systems of providing financial security for old age has been under strains, transforming from the National Provident Fund (NPF) to National Insurance Trust Fund (NSITF), and to the Retirement Savings Account (RSA) under the Pension Reform Act (PRA) 2004.

As a result of the global changes and challenges of the modern population dynamics evidenced in the pressures of urbanization, industrialization, demographic mobility, and information and communication technology, the traditional ways of supporting the old in Nigeria appears to have come to a near-collapse (Demaki, 2006). For example, the extended family ties of togetherness, closeness and physical presence of loved ones and family members seem to be losing ground as a result of the GSM technology. Children, grandchildren and other relatives now call parents and old ones on phone without physically being there to see and solve their financial, psychological and other security problems.

The surest way through which the elderly who have retired from active work life can solve their financial and other problems in Nigeria could have been through their pension pay packets but unfortunately, these are usually not made available to them as at when due because of the way and manner government and other employers of labour handle pension issues. They subject pensioners to all sorts of strenuous and stressful conditions associated with the multiple screening exercises to qualify to draw pensions. In Nigeria, it has been observed that it takes years to process pension papers and to make available the money to the pensioners, some of whom would have died while waiting for the maturity of their pension claims.

This ugly scenario is worse for retired teachers than for other classes of pensioners because of their large numbers and the fact that teachers are usually the last to be attended to in Nigeria in everything. This is so because government and the general polity despise teachers and see them as underdogs of the economy and socio-political system.

For instance, Mezieobi and Mezieobi (2006) report that retired teachers wait for as long as fifteen years before they are paid their gratuity and even longer for their pension entitlements. According to them, it would be miraculous to get the teacher-retirees paid their retirement benefits and pensions without subjecting their leaders to un-ending fruitless dialogues with former employers. It is known that a major motivator to productivity is the improved working conditions which include retirement benefits. If the productivity of teachers must be high and sustained, then their pension needs must be well catered for especially these days that the falling standard in education is partly blamed on the non-commitment of teachers (Duze, 2005; Orok, 2005; Undie and Usen, 2007).

The experienced teachers are the ones approaching retirement and if nothing concrete is planned towards their retirement in form of appropriate and reliable pension schemes, the school system may begin to lose their wise inputs since they may begin to get distracted trying to find means of making ends meet at retirement. There is therefore urgent need to povide adequate and effective financial security for retired teachers in Nigeria in the form of a well-planned and packaged pension scheme. It is in this light that this paper examines the Pension Reform Act (PRA) 2004 and retirement planning in Nigeria focusing on the following:

1. The historical background of the PRA 2004.
2. The nature of retirement planning in Nigeria under the PRA 2004.
3. The significance of PRA 2004 and retirement planning in Nigeria.
4. The current status of the PRA 2004 in attaining its objectives in Nigeria.

The x-ray of these will throw light on the state of affairs in caring for retired Nigerians, including teachers (some of whom would still contribute to the nation's economic growth in their private ventures), through the PRA 2004.

BRIEF HISTORICAL BACKGROUND OF THE PRA 2004

The antecedent of pension schemes in Nigeria together with arguments and criticisms about them and the problems associated with them that eventually culminated in the promulgation of the Pension Reform Act (PRA) 2004 are highlighted here.

The historical background locates Nigeria on the West Coast of Africa with a population of about 130 million. The team members are Justo Eseko Tongola –Tanzania, Julius Tedunjaiye – Nigeria, Adesina Balogun – Nigeria, and Danatus Ogah – Nigeria. Hitherto the PRA 2004, Nigeria operated Defined Benefit (DB) scheme between January 1, 1946 and June 30, 2004. The Pension Reform Act 2004 was enacted on 25th June and came into effect on 1st July 2004. This reform established a Defined Contributory (DC) scheme as against the erstwhile DB scheme wherein pension crisis were evident in:

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

The pension reform objectives are as follows

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

The mechanics of the reform indicate

(i) Mandatory minimum contribution of 7½% employee and 7½% employer of employees salary, housing and transport allowances in to individual retirement savings accounts (RSA).
(ii) Contribution is remitted monthly, to designated Pension Asset Custodians (PAC).
(iii) PAC notifies the Pension Fund Administrator (PFA) appointed by the employee within 24 h 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).
(iv) The PAC, PFA and employers activities are regulated and supervised by National Pension Commission (PenCom).

Pay offs of benefits are placed as follows:

(i) Retirement age is 60 years or 35 years of service.
(ii) After retirement the employee meets the PFA and agree on the mode of withdrawal based on the life expectancy.
(iii) Withdrawal could be lump sum, programmed withdrawals and purchase of annuity from the insurance company.

The major challenges of the Reform include:

(i) Data gathering and the administration (PenCom is required to maintain a National Data Bank for the country).
(ii) Skills and competencies of PFA are doubt.
(iii) Credibility of providers (PFA and PAC) in doubt.
(iv) No transition period.

The anticipated data problems bother on:

(i) Civil servant population alone is over 260,000. Military and paramilitary over 200,000.
(ii) Reform requires every employer with 5 employees and above to join the scheme.
(iii) Membership from formal and informal sector is not expected to be less than 25 million.
(iv) PenCom as presently constituted does not have the capacity to gather and manage the required data.

The required data and facilities will be in the area of:

(i) Stock taking of working and jobless population.
(ii) Number of ghost workers.
(iii) Number of those entitled to benefits, but not having them.
(iv) Value of unpaid pensions/ accrued rights.
(v) Baseline for workforce (hiring criteria).
(vi) Past service records.
(vii) Appropriate information system.
(viii) NSITF has compliance problem and outstations not connected by WAN (wide area network).

The policy options include:

(i) Set up Independent central data management authority.
(ii) PenCom should only concentrate on regulatory function and ensure compliance of all stakeholders.
(iii) Set up basic registration system.
(iv) Revalidate service records in federal and state civil services, military and paramilitary.
(v) Validate membership records for other formal and private sector.
(vi) Carry out census of all informal employers and contributors.
(vii) Validate records of retirees and accrued rights.
(viii) Develop appropriate information technology.
(ix) Connect PenCom, central data authority, employers, PFA and PAC in a robust information system.
(x) Allow at least 5 years transition period for all these to be in place.
(xi)Government should bear the contribution of low income earners, as 7½% of contribution from the present minimum wage of N 7,500 may send them to their early graves.

The other pension schemes that have been tried were:

(i) Public sector scheme for government employees governed by the pension act 1990.
(ii) Private sector occupational pension scheme set up voluntarily by employees and approved by the Joint Tax Board mainly for tax purposes as provided by the personal.
(iii) Income Act 1993 and Income Management Act 1970.
(iv) National Social Insurance Trust Fund (NSITF) which provides for mandatory contributory social security scheme for the private sector employees and employees under the NSITF Act 1993.
(v) Personal pension scheme purchased voluntarily by

individuals from mainly insurance companies.

The arguments for pension scheme before the PRA 2004 was promulgated include:

(i) The extended family and other traditional ways of supporting the old were already weakened because of the pressures of urbanization, industrialization, and increasing demographic mobility. These make it imperative for pension schemes to be introduced or to plan a pension reform scheme.
(ii) Pension schemes guarantee pensioners adequate standard of living that was enjoyed during their active production life.
(iii) Pension schemes guarantee useful retirement life after years of active work, business or professional practice.
(iv) Pension schemes are management strategy to attract and retain the services of competent and loyal employees.
(v) The pension schemes are reward for long-service and loyalty to employees by employers. Pension is considered as deferred remuneration.

However, certain criticisms have been leveled against pension schemes as regards the doctrine of "no work no pay" (Duze, 2005; Okpaise, 2005; Orok, 2005). This doctrine considers pension schemes as contradictions to the clear understanding of labour as a factor of production that is engaged solely to contribute to the maximization of profit for the organization. In return for labour offered, wages and salaries are paid, therefore, there is no justification for post-employment benefits. Also, problems related to the pension schemes before the PRA 2004 have been highlighted (Demaki, 2006). They include:

(i) Poor funding and inadequate budget allocation to existing pension schemes.
(ii) Bankrupt parastatal schemes.
(iii) An estimated N2 trillion pension liabilities to public servants in Nigeria owed by the federal government.
(iv) Weak and inefficient pension administration.
(v) Discomfort and death were associated with pension collection.
(vi) There has been prevalence of arbitrary increase in salaries and pension.
(vii) The administrative structures of pension schemes were poor and relatively unplanned.
(viii) A comprehensive regulatory framework for the pension industry was lacking.

These arguments, criticism and problems of the pension industry required that the systems for providing financial security for the old age without much strain and stress on the part of the elderly be properly planned in Nigeria. It was based on these that retirement planning under the latest Pension Reform Act (PRA) 2004 came into effect. The PRA 2004 was therefore meant to address the foregoing issues in the pension industry. The PRA 2004 has been presented by Federal Government of Nigeria as a pension system that will be financially sustainable, simple, transparent, less cumbersome and cost effective (Demaki, 2006; Raji, 2006; Onuoha and Iwunze, 2007). The question is: Has this been so since inception? The answer to this question is a major task of this study.

The logistics of the PRA 2004 pension scheme include the issuance of licenses to firms and companies who will act as the Pension Fund Administrators (PFA), Pension Fund Custodians (PFC) and the Pension Fund Administration Authority which will act as back-up security or indemnify failed or closed PFAs. The selected firms and companies are listed as follows:

The Pension Fund Administrators (PFA): This involves twelve firms and companies and they are to manage and administer pension fund.

1. IBTE Pension Managers Ltd.
2. Premium Pension Ltd.
3. Pension PFA Ltd.
4. Sigma Vaughan Sterling Pension Ltd.
5. Pension Alliance Ltd.
6. ARM Pension Managers Ltd.
7. First Alliance Pension and Benefits Ltd.
8. Trust Fund Pension Plc.
9. First Guarantee Ltd.
10. Legacy Pension Managers Ltd.
11. NLPC Pension Fund Administrators.
12. Crusaders Pension Ltd.

The Pension Fund Custodians (PFC): This involves four firms and companies. They ensure that the instruments of investments are within their custody.

a. Diamond Pension Fund Custodian Ltd.
b. First Custodian Ltd.
c. UBA Pension Custodian Ltd.
d. Zenith Pension Custodian Ltd.

The Closed Pension Fund Administrator (CPFA): Shell Nigeria Closed Pension Fund Administrator (CPFA) Ltd. is chosen in Nigeria to indemnify any failed or closed Pension Fund Administrator (PFA).

THE NATURE OF RETIREMENT PLANNING IN NIGERIA UNDER THE PRA 2004

Retirement planning under the PRA 2004 involves a number of issues bothering on who is involved, what is required, what is expected, how the money is disbursed and when beneficiaries are entitled to the money. In this retirement planning, every employee in the Public Service, Federal Capital Territory, and the Private Sector is involved. Each employee is required to open a Retirement Savings Account (RSA) with any of the twelve Pension Fund Administrators (PFA) mentioned above. It is into these RSA accounts that the employees' contribution to the pension scheme together with that of the employers will be paid within seven days of payment of salary. The total amount to be contributed must not be less than 15% of the employees' emolument. The employer is expected to provide half of this 15% which is 7.5%. In the Armed Forces, there is a little difference – while the employee contributes 2.5%, the employer which is the Federal Government contributes the remaining 12.5%

This RSA account is personal to the employee in whatever job place in Nigeria or in which ever Pension Fund Administrator (PFA) chosen at any time. However, withdrawals are prohibited until the employee retires at the minimum age of 50 years. Withdrawals can be made before the age of 50 years on the following grounds:

1. Retirement on medical grounds.
2. Retirement in accordance with the terms and conditions of employment.

However, at the death of an employee at any time during service, the entitlements under the Life Assurance Policy will be paid into his or her RSA, and subsequently paid to designated beneficiaries.

To ensure regular and adequate funding of the scheme and thus secure the promise of a post-employment income at retirement, Section 11(8) and 69 of the PRA 2004 state respectively that government contribution on employee for the Public Service of the Federation and Federal Capital Territory shall be charged on the Consolidated Revenue Fund of the Federation, and that every PFA shall maintain a statutory reserve fund which shall credit annually with 12.5% of the net profit after tax or such other percentage of the net profit as the commission may from time to time stipulate as contingency fund to meet claims for which it may be liable as determined by the commission. Furthermore, the PRA 2004 further assures the security of the pension scheme in Nigeria by specifying that 70% of the pension fund should go into government security while 30% goes into commercial papers.

THE SIGNIFICANCE OF THE PENSION REFORM ACT (PRA) 2004 AND RETIREMENT PLANNING IN NIGERIA

The PRA 2004 is a major component of the general economic reform of the Federal Government. Before the PRA 2004, pension schemes in Nigeria had remained localized issues for different tiers of government and not compulsory for the private sector and even some government parastatals like the Delta Steel Company, Ovwian-Aladja. This is the first time in Nigeria a pension scheme is all-encompassing with adequate security measures incorporated, like the choice of PFAs, PFCs, and CPFA put in place to ensure workability, sustainability and accountability, as well as transparency in handling all issues pertaining to retirement and pension packages.

It is also the first pension scheme and retirement planning that seems to have captured the faith of Nigerians as they sincerely believe that the time has come to forget the fears, pains, rigours, and failures that are associated with retirement and pension. Some researchers and scholars noted that with the establishment of the Pension Commission, the various Pension Fund Administrators and Custodians, and the choice of Shell Nigeria as the Closed Pension Fund Administrator, retirement planning might be better in the years ahead (Orok, 2005; Demaki, 2006; Onuoha and Iwunze, 2006; Raji, 2006; Undie and Usen, 2007).

However, it is not known how far this has become successful in alleviating the plights of retired teachers in Nigeria. Teachers constitute the largest number of civil servants retiring from civil service and private schools every year in Nigeria. It would be interesting to carry out a survey comparing the perceptions of serving teachers and teacher pensioners on the PRA 2004, six years after inception.

EMPIRICAL EVIDENCE ABOUT THE CURRENT STATUS TO THE PRA 2004 IN ATTAINING ITS SET OBJECTIVES

It was based on this discourse that this paper conducted a field survey of 3,000 respondents made up of 1,500 serving teachers and 1,500 teacher pensioners to seek the status of the PRA 2004 in accomplishing its set objectives and thereby raising the hopes of employees, especially teachers, and providing adequate and sustained financial security for the old age.

METHODS

A survey using a structured questionnaire was carried out by the researchers to find out:

1. Whether the trauma, pains and death associated with the past is being eliminated with the introduction of the PRA 2004.
2. Whether there will be sustained and adequate funding of the PRA 2004 that will secure happiness for Nigerian workers at retirement.

The target population comprised all serving Federal and State public secondary school teachers between the ages of 55 and 59 and all Federal and State public secondary school teacher pensioners of all ages in Nigeria. The choice of this age bracket for serving teachers is that they would be more focused and interested in the pension scheme and retirement planning issues as it would soon affect them because they would soon retire at 60. They would therefore be better positioned to give more accurate and honest responses. The twenty-item questionnaire had two response

Table 1. Distribution of responses to objectives 1 and 2 (N = 3,000).

Study objectives	Serving Teachers (n = 1,500)				Teacher Pensioners (n = 1,500)				Total (N = 3,000)			
	Yes		No		Yes		No		Yes		No	
	F	%	F	%	F	%	F	%	F	%	F	%
Objective 1	706	47.07	794	52.93	529	35.27	971	64.73	1235	41.17	1765	58.83
Objective 2	504	33.60	996	66.40	502	33.47	998	66.53	1006	33.53	1994	66.47

options of “Yes or No”. Ten questions addressed the first objective while ten addressed the second objective. The instrument was found valid in measuring what it intends to measure by a team of pilot jurors and reliable in being consistent in measuring what it intends to measure with a computed reliability coefficient of r = 0.93. A sample size of 3,000 was selected through multi-stage random sampling technique, made up of equal numbers of serving teachers and teacher pensioners. Each category was also made up of equal numbers of males and females. These responded to the instrument administered by the researchers with the help of well-briefed assistants. This lasted for a period of eleven weeks. Frequencies and the simple percentage were used for data analysis and the results presented in Table 1.

RESULTS AND DISCUSSION

Result in Table 1 showed that 41.17% of all respondents indicated that the introduction of the PRA 2004 had helped to reduce the trauma and pains that pensioners pass through as well as reduced the number of deaths that occurred while waiting to be paid the pension wages. However, the teacher pensioners indicated a lower percentage of positivity (35.27) than the serving teachers who recorded 47.07%. This is probably due to the fact that the former are the ones wearing the shoe for now and they know where it pinches most. In both groups, those who were negatively disposed to the issue investigated were more than those who were positive with an average negative disposition of 58.83%. This meant that the first objective was perceived as not being achieved yet by the introduction of the PRA 2004. It meant also that retired persons were still passing through some trauma and pains while some of them were still dying before receiving any pension scheme package. This has far reaching implication for the education sector in the sense that Nigerian teachers (serving and retired) were still not satisfied or comfortable with the PRA 2004 to adequately cater for them when they retire and throughout old age.

On the second objective of whether there will be sustained adequate funding of the PRA 2004, that will secure happiness for Nigerian workers at retirement, their responses were more skeptical than in the first objective of the study. While there was very close but rather low positive responses of serving teachers (33.60%) and teacher pensioners (33.47%), both indicated a total average positive response of 33.53%. Again, those negatively disposed were more in number, recording an average of 66.47%. What could be responsible for the observed low percentages could be the fear that corruption and bad leadership which usually erode the principles of good practices that should uphold honesty, transparency, accountability, integrity and due process might take a toll on the proceedings of the PRA 2004.

Conclusion

The Pension Reform Act (2004) is a major component of the general economic reform of the Federal Government of Nigeria aimed at eliminating the trauma, pains, and death associated with past policies on pension schemes. The retirement planning exhibited is a robust one aimed at sustainable adequate funding that will secure happiness for Nigerian workers at retirement. So far, serving teachers and teacher pensioners are skeptical about the PRA 2004 in effectively attaining the objectives for which it was promulgated but agreed that the achievement of these objectives could happen and could be sustained if doors were shut to corruption, bad leadership and bad practices. This way, the systems of providing financial security for retired persons and the old age will be put in place and sustained for national development.

RECOMMENDATIONS

From the foregoing discourse, it was recommended that the Federal Government of Nigeria should not relent in pursuing her nascent democracy that entrenches good leadership and good practices to make the citizens have faith in policies like the Pension Reform Act (PRA) 2004. Also, E-payment of pensions should be adopted for easy reference, easy update and logistics of the pension scheme system.

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