The 2014 Pension Reform Act: Shaping the Future of Pension Management and Administration in Nigeria

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Abstract

A great importance has been given to pension and gratuity by employers of labour because of the belief that if employees' future needs are guaranteed, their fears ameliorated and properly taken care of, they will be more motivated to contribute positively to organizations output. Similarly, various government organizations as well as labour unions have emphasized the need for sound, good and workable pension scheme. In 2004, Nigerian government introduced a funded system based upon personal accounts. The scheme lasted for ten (10) years and within this period; the contributory pension scheme has been characterized by pension scams, low level of coverage, irregular and erratic remittance of deductions by the employers of labour among others. To stem this tide, the Nigerian government passed into law the Pension Reform Act 2014 to repeal the Pension Reform Act 2004. The new Act was designed to bring more certainty to the future management and administration of pension schemes aim at ensuring that Nigerian workers have more security in retirement. This paper seeks to example the salient features, prospects and beauty of the Pension Reform Act 2014, the future of the pension management and administration in Nigeria within the context of the new Act as an important aspect of retirement planning. Also, the paper recommend among others the need for an appropriate implementation and enforcement culture which involve prompt prosecution of defaulters and enforcement of penalties without fear or favour.

Keywords: Pension, Reforms, Retirement Benefits, PenCom, Nigeria.

1. Introduction

Originally, pensions were based on a reward philosophy, which viewed pensions primarily as a way to retain personnel by rewarding them for staying with the organization until they retired. Because of the vesting requirements required by law, pensions are now based on an earnings philosophy. This philosophy regards a pension as deferred income that employees accumulate during their working lives and that belongs to them after a specified number of years of service, whether or not they remain with the employer until retirement. Employee benefits are elements of remuneration given in addition to the various forms of cash pay. Pension is one indispensable form of employees' solid benefits which has positive impact on employee discipline, loyalty and willingness to remain in the service of an employer, commitment to the attainment of job goals and concern for the survival of the organization (Armstrong, 2009). A great importance has been given to pension and gratuity by employers of labour because of the belief that if employees' future needs are guaranteed, their fears ameliorated and properly taken care of, they will be more motivated to contribute positively to organization's output. Similarly, various government organizations as well as labour unions have emphasized the need for sound, good and workable pension scheme.

It is obvious that the Pension Reform Act 2014 is a key component of the general economic reform implemented by the federal government under the president Goodluck jonathan administration. The Act was designed to bring more certainty to the future by ensuring that Nigerian workers have more security in retirement. As such, the pension Reform Act 2014 made provisions to improve efficiency and accountability in pension administration in the polity by placing further emphasis on protecting pension contributions (Eme, Uche, & Uche, 2014). The present state of the pension market has reflected the extent of government political will and commitment of the scheme. This is perhaps the major determinant of how successful the takeoff of the scheme will be. Therefore, this will encourage more and more Nigerians to believe and look forward to a comfortable retirement. We are confident that the stores of pain and sudden death associated with payment of pension and/or gratuity to retirees will be a thing of the past.

It is worthy to note that the Pension Reform Act 2004 ushered in a Contributory Pension Scheme that is fully funded, privately managed and based on individual retirement savings accounts for both the public and private sector employees in Nigeria (Pensions Commission, 2005). The Act also established the National Pension Commission (PenCom) as the sole regulator and supervisor of all pension matters in the country. The scheme lasted for ten years and within this epoch, the contributory pension scheme has been characterized by pension scams low level of coverage, irregular and/or erratic remittance of deduictions by the employers of labour, remittances from employers without list of contributors/employees, low return on the invested contributed funds, inadequate sanction for defaulting private sector employers of labour and host of other challenges. This led to the tinkering of the scheme. This paper examines the features, prospects and beauty of the Pension Reform Act 2014, the future of the pension management and administration in Nigeria within the new Act as an important aspect of retirement planning. Finally, the paper recommend among others that there is need for an appropriate implementation and enforcement culture which involves prompt prosecution of defaulters and enforcement of penalties without fear of favour.

2. Literature Review

2.1 The Concept of Pension

The Oxford Dictionary (1995) defines pension as income consisting of a periodic payment made in consideration of past service or on retirement or widowhood etc. pension is simply a periodic payments made to a person who retires from employment because of age, disability, or the completion of an agreed span of service. The payments generally continue for the remainder of the natural life of the recipient, and sometimes to a widow or other survivor. Robelo (2002) sees pension as a method whereby a person pays into pension scheme a proportion of his/her earnings during his/her working life. The contributions provide an income (or pension) on retirement that is treated as earned income. Armstrong (2009) remarks that pension provide an income to employees when they retire and to their surviving dependent on the death of the employee, and deferred benefits to employees who leave. This supports the assertion of Ahmad (2006) who posits that 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.

Ozor (2006) posits that pension consists of lump sum payment paid to an employee upon his disengagement from active service. He posits further that pension plans may be contributory or non contributory; fixed or variable benefits; group or individual; insured or trustee; private or public and single or multi-employer. Similarly, Toye (2006) views pension as the amount set aside either by an employer or an employee or both to ensure that at retirement there is something for employees to fall back on as a guaranteed income for them or their dependants. Pensions and gratuities are schemes which provide finances for the upkeep of the retired employees throughout the rest of their lives after work. It ensures that at old age workers will not be stranded financially. Fapohunda (2013) affirms that pension is aimed at providing workers with security by building up plans that are capable of providing guaranteed income to them when they retire or to their dependants when death occurs.

The reason for pension scheme stems from the fact that first an organization has a moral obligation to provide a reasonable degree of social security for workers especially those who have served for a long period. Second the organization has to demonstrate that it has the interest of its employees at heart through pension schemes. In Nigeria, payment of pension benefits to workers in the public service is the sole responsibility of the government. So that, at old age, a retiring worker will not be stranded financially. This practice assists the retirees to adjust properly to the society after leaving employment. Table 1. In the appendix shows the fomula for pension and gratuity calculations in Nigeria based on pencentage of final salary in respect of retirement since 1992. This formula is currently in use even today. The most popular way to determine the amount of an employee’s pension is to base payment upon a percentage of the employee’s earnings (computed at an average over a three to five years) multiplied by the number of years the employee has served the organization.

2.2 *Pension Plans*

A pension plan created by an employer for the benefit of employees is commonly referred to as an occupational or employer pension. Occupational pension are a form of deferred compensation, usually advantageous to employee and employer for tax treasons. Many pension plan also contain an additional insurance aspect, since they often will pay benefits to survivors or disabled beneficiaries. There are different ways to categorize pension plans. In Nigeria, four major classifications of pension plans are identified in the literature (Adebayo, 2006; Ozor, 2006; Ugwu, 2006; Amujiri, 2009; Nafisat, 2015). There are:

i. 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 practiced in Nigeria between 30-35 years or on attaining the age of 60-56 years for the public ser4vice and 70 years of age for professors and judges.

ii. *Compensatory Pension:* This type of pension is granted to a worker whose permanent post is abolished and government is unable to provide him/her with suitable alternative employment.

iii. *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.

iv. *Compassionate Allowance:* This occurs when a pension scheme is not admissible or allowed on account of a public servants removal from service for misconducts, insolvency or incompetence or inefficiency.

Pension plans can also be categorize into four major plans. There are:

a. ***Defined-benefit plan:*** This is the amount an employee is to receive on retirement which is specifically set forth. This amount is usually based on the employee's years of service, average earnings during a specific period of time, and age at time of retirement. However, under defined-benefit plan, retirees may not receive the benefits promised them if the plan is not adequately funded.

b. ***Defined-Contributory Plan:*** A defined-contribution plan establishes the basis on which employer will contribute to the pension fund. The contributions may be made through profit sharing, thrift plans, matches of employee contributions, employer-sponsored individual retirement accounts (IRAS). The amount of benefits employees receive on retirement is determined by the funds accumulated in their account at the time of retirement.

c. ***Contributory Plan:*** In a contributory plan, contributions to the pension plan are made jointly by employees and employers.

d. ***Noncontributory Plan:*** In a noncontributory plan, the contributions are made solely by the employer.

From the foregoing, it is obvious that a pension is a contract for a fixed sum to be paid regularly to a person, typically following retirement form service either based on ill-health, having reached the retirement age or decided to disengage from service before his/her retirement age.

2.3 *Importance of Pension*

In modern times, with improvement in life expectancy rate and available labour supply, most countries have evolved systems that now define standard retirement age and provide pensions in retirement. Pension is a tool used to mange employment. It can be applied in an organization to attain and retain certain levels of labour productivity (Fapohunda, 2013). Armstrong (2009) affirms that pension helps employees to readjust themselves properly into the society after leaving employment. It constitutes an important tool in the hands of management for boosting employee morale which may lead to efficiency and increased productivity of employees in particular and the organization as a whole. Besides, pension is a device which employers use to meet their social responsibilities and thereby attract goodwill. Good pension schemes help to attract and retain high-quality people. Therefore, pensions are the most significant benefit and a valuable part of the total reward package, but are they perhaps the most complex part.

Furthermore, pension now plays an increasingly important role in the economic of any country because the money earmarked for pension could be used for the establishment of small enterprises. It can also relieve pressure on the company for individual assistance by instilling in employees a sense of confidence at challenging responsibilities for their future (Fapohunda, 2013). Jonathan (2014) affirms that pension is globally recognized and occupies a strategic place in national socio-economic development. It is not only a vital component of social security; it is also a veritable vehicle for nation building. Indeed, investment in pension has profound impact on the well-being of pensioners, society and the economy at large. Sterns (2006) holds that pensions could discourage labour turnover. If both the employees and employers contribute to the scheme, then it serves as a general area of joint interest and cooperation and therefore helps to foster better employment relations. However, employer and employee relationship in the provision of pension as a form of employee benefits is often affected by factors including: pensionable and gratuity age; the amount or the percentage of the proposed pension; the method of financing; administration of pension and psychological pressure.
Dhameji and Dhameji (2009) stressed that commitment is tied to how well an employee is motivated. Motivation here entails the process of influencing employee's behaviour towards the attainment of organization goals. Motivation include meeting the psychological, financial and emotional needs of workers, because it creates an impression in them that there is life after retirement. In the words of Sule and Ezugwu (2009), a good pension guarantees employee's confort and commitment to the organization during his/her active years.

2.4 *Pension Scheme in Nigeria*
In Nigeria, attempts have been made to institute various pension schemes with a view to addressing the challenges of pension administration. Balogun (2006) affirms that Nigeria's first ever legislative instrument on pension matters was the pension ordinance of 1951 which took effect retroactively from 1st January, 1946. Bassey, Etim and Asinya (2008) have identified four schemes in existence prior to 2004 when a new pension regime was institute:

1. The pension Ordinance of 1949 enacted in 1951 but with retroactive effect from January 1st, 1946.
2. The national provident found of 1961.
3. The pension Decree 102 of 1979 with retroactive effect from April 1st, 1974.
4. Decree No. 73 of 1993, which established the Nigerian Social Insurance Trust Fund Scheme.

Edogbanya (2013) also identified the police and other Government Agencies' pension scheme enacted under Pension Act No. 75 of 1987 and then the Local Government Pension Edict, which gave rise to the Local Government Staff Pension Board of 1987. Fapohunda (2013) further identified the Civil Service Pension Scheme enacted under the basic Pension Decree 102 of 1979. In the same 1979, the Armed Forces Pension Scheme was created through Decree 103 of 1979 with retroactive effect from April 1st, 1974. Similarly, in the same year the Armed Forces Pension Act no. 103 was enacted. Commenting on the provisions of the Decree No. 102 of 1979, Uzoma (1993) notes that in the special case of the public scheme, the office of Establishment and Pensions Acts as the trustee and constitutes the rules of the scheme. The scheme was for all public servants except those who were on temporary or contract employment. The compulsory retirement age for such workers was 60 years for both male and female workers except for High Court judges that was 65 years and 70 years for Justices of the court of Appeal and the Supreme Court. However, the earliest retirement age was put at 45 years provided the worker had put in 15 years of service or more. In the private sector, the first pension scheme in Nigeria was set up for the employees of the Nigerian Breweries Limited in 1954. This was followed by the United African Company Limited (UAC) scheme in 1957.

Following from the observed deficiencies in the various schemes, the Federal Government introduced the Pension Reform Act 2004, which provided for a regulatory and supervisory body called the National Pension Commission (PENCOM) responsible for providing the regulatory framework and guidelines for efficient management of pension funds in Nigeria. The Nigeria government, therefore, has fashioned out a major pension reform strategy, which is guided by many factors such as:

i. Need to address the fundamental problems in the pension industry.

ii. Evolving a system that would among other things be financially stable, sustainable, simple,
transparent, less cumbersome and cost effective.

iii. Evolving a system that would ensure that pensioners have adequate, affordable, sustainable
and diversified retirement benefits (Iyortsuun & Akpusugh, 2013).

Hence, the Federal Government promulgated the Pension Reform Act 2014 to serve as the legal framework for retirement planning in both the public and private sectors. Kunle and Iyefu (2004); Toye (2006); Hassan (2008); Fapohunda (2013); Nafissat (2015) highlighted the following as the challenges bedeviling the existing pension schemes prior to 2004:

1. Dependence on budgetary allocations for funding.
2. Under funded of pension schemes owing to inadequate budgetary allocation.
3. A weak, inefficient and non-transparent pension administration system.
4. The private sector schemes were characterized by very low compliance ratio due to lack of effective regulation and supervision of the system.
5. Problems, discomfort and death associated with pension processing/collection by pensioners.
6. Poor documentation and filing in the pension office and disbursement flaws.
7. Accumulated arrears of pensioners.
8. Arbitrary increase in salaries and pensions.
9. Lack of comprehensive legal framework for the regulation and supervision of the pension industry.
10. Pension payment default by state governments.
11. Political control of the public sector pension scheme.
12. Inability to determine the appropriate investment portfolio.
13. Most pension schemes were designed as resignation schemes rather than retirement schemes.
14. Limited in coverage and lack of uniformity.

15. The sharp practices in the management of pension funds exaggerated the problem of pension liabilities to the extent that pensioners were dying on verification queues for payments.

These challenges was further compounded by the negative economic and social effects of the policies of structural Adjustment programme (SAP), hikes in fuel price, devaluation of the naira, and the global economic recession among others which made the pension scheme inconsequential. The aftermath of this development led retirees to become more or less beggars or destitute.

2.5 *The Pension Reform Act 2004*

Following from the observed myriad of problems that plagued the old Pension Schemes, the Federal Government of Nigeria revolutionized pension management and administration in the country with the enactment of the Pension Reform Act 2004. The Act assigned the administration, management and custody of pension funds to private sector companies, the Pension Fund Administrators (PFA) and the Pension Fund Custodians (PFC). The Act further mandated the Nigeria Social Insurance Trust Fund (NSITF) to set up its own pension fund Administrator (PFA) to compete with other PFAs in the emerging pensions industry, and also to manage the accumulated pension funds of NSITF contributors for a transitional period of five years (Pension reform Act, 2004).

The Act in section 1 establishes a contributory pension scheme for any employment in the federal republic of Nigeria. The scheme ensure that every person who has worked in either the public or private sector receives his/her retirement benefits as an when due, assist improvident individuals by ensuring that they save to cater for their livelihood during old age; establish a uniform set of rules and regulations for the administration and payment of retirement benefits in both the public and private sectors; and stem the growth of outstanding pension liabilities. The Act applies to persons in the permanent employment of the public sector as well as private sector employees who are in the permanent employment of organizations in which there are five or more employees subject to the provision of section eight (8) of the Pension Reform Act 2004.

The Contributory Pension Scheme (CPS) is contributory, fully funded, mandatory and based on individual Retirement Savings Account (RSAs) that are privately managed by Pension Fund Administrators (PFAs), while pension funds and assets are kept by Pension Fund Custodians (PFCs). The Act constituted the National Pension Commission (PENCOM) as a regulatory authority to oversee and check the activities of the Pension Fund Administrators and Pension Fund Custodians. It may interest you to know that the introduction of the contributory Pension Scheme (CPS) in Nigeria in 2004 has its origin from Chile and it Latin American neighbours that personalized pension to the contributor and managed by licensed private sector entities. So far, Nigeria is the first Africa country to introduce a variant of the Chilean system with flavours of African Peculiarities (Musibau, 2012). The move from the defined-benefit schemes to defined-contributory schemes is now a global phenomenon following success stores like that of the Chilean Pension Reform of 1981. There seems to be a paradigm shift from the defined-benefit schemes to funded schemes in developed and developing countries resulting from factors like increasing pressure on the central budget to cover deficits, lack of long-term sustainability due to internal demographic shifts, failure to provide promised benefits etc. The funded pension scheme enhances long-term national savings and capital accumulation, which, if well invested can provide resources for both domestic and foreign investment (Fapohunda, 2013).

2.6 Challenges of the Contributory Pension

Fapohunda (2013); Eme, Uche and Uche (2014); Nafisat (2015) affirms that the contributory pension scheme has been characterized by several challenges such as:

i. Pension scams, low level of courage and non-remittance of pension deductions.
ii. Lack of adequate capacity building in the pension industry with the personnel in the emerging pension fund industry showing a high degree of overlap with other business interests.
iii. Corruption and embezzlement of pension funds.
iv. Lack of confidence in the scheme by potential contributors, arising from failures of previous similar government policies. Added to this is the fear of continuity and sustainability by successive governments, since change in governments sometimes leads to the jettison of previous programmes.
v. Limited investment opportunities and higher administrative costs.
vi. The policies of pension reform and pension funds mismanagement.
vii. Another major challenge is that the scheme continues to exclude the poor and workers in the informal sector.
viii. Several years after the take-off, the scheme was characterized by general misconception and knowledge gap.
ix. Risk management. There is the transfer of risks to employees, whereby the employee determines who manages his/her retirement savings account and therefore assumes full responsibilities for the risks involved.
x. The scheme was borrowed from Chile but there are significant differences in the two countries. For instance, while in Chile life expectancy is 76, in Nigeria it is about 43 and so majority of the workers tend to need their pensions at earlier stages of their lives to take care of their financial needs and other essential social services previously taken care of by government.

Added to the foregoing, is the fact that inflation in the country has for over two decades remained in double digits, a situation which has undermined and made nonsense of not only the pension, but also the minimum wage. Therefore, aside from the fact that pensions were not paid promptly, when they were eventually paid, their real valued had been gulped by inflation. All these challenges led to the tinkering of the scheme.

2.7 *Why Pension Schemes Fail in Nigeria Prior to 2014*

In the old Pension system of Pay as You Go operated in the public sector and other forms of pension systems like occupational schemes, mixture of funded and defined benefits schemes that operated in the private sector and given the arbitrary increase in salaries and wages, government could no longer fund pension payment from its general revenues. This supports the assertion of Gbitse (2006) who posits that the scheme in the public sector became unsustainable and was further compounded by increase in salaries and pension payments. In addition, Gbitse adds that the pension fund administrators (PFAs) were largely weak, inefficient and cumbersome and lacked transparency in their activities. Added to these was poor supervision of pension fund administrators in the effective collection, management and disbursement of pension funds.

Kpesse (2011) affirms that between 1998 and 2001, for instance, pension entitlement in creased to about 75% with outstanding pension liabilities of 50% of the total budget of the federal government for 1999, 2000 and 2001 put together meaning that total pension liabilities exceeded the federal government budget in those years. Commenting on the old pension scheme, Toye (2006) alludes to poor record management and documentation process by the pension board as well as the inability of pension fund administrators to effectively carryout their duties in providing for the expected pension allowances as at when due. According to Bassey, Etim and Asinya (2008), the failures of previous pension schemes in Nigeria have been attributed to poor pension fund administration, high-level of corruption and embezzlement of pension funds by those responsible for its administration, inadequate build-up of funds, and poor supervision among others. Similarly, Kpesse (2011) alludes to corporate fraud, lack of competence and technical knowhow in understanding the principles of prudent management of the pension funds and political manipulations in the investment practices of those responsible for the administration of the funds.
Scholars have argued strongly against the rational of implementing a wholly foreign pension policy in Nigeria given the different economic fundamentals obtainable in Nigeria as compared to what was obtainable in Chile from where the present pension scheme was copied (Casey, 2011; Fapohunda, 2013; Nafisat, 2015). This is perhaps the most strongly evidence that support the argument why pension systems fail in Nigeria even with the new pension system introduced in the country; that is, implementing wholly foreign ideas without any consideration of adopting the ideas considering Nigeria's unique situation. Odia and Okoye (2012) on their part identify the following reasons for the failure of pension schemes in Nigeria as weak institutional framework, mismanagement of pension funds, the merging of services (i.e institutions of government in Nigeria) for the purpose of computing retirement benefits, wrong investment decision, wrong assessment of pension liabilities, artibrary increase in pension without corresponding funding arrangements, non-preservation of benefits and serious structural and regulation problems.
Commenting on the pension scheme, Adulogu and Akintayo 92013) affirms that the failures of previous pension schemes in Nigeria have been attributed to unfunded and inadequate budgetary allocation, bankrupt parastatals scheme, an estimated N2 trillion pension liabilities owed to public servants between 1951 and 1999, lack of uniformity and poor administrative structure. Added to the foregoing, Fapohunda (2013) alludes to inadequate funding, inadequate subventions and grants, poor documentation and filing in pension offices, directed release of pension funds to under writers, accumulated arrears to pensioners, inability to determine appropriate investment portfolios, lack of accountability, corruption and embezzlement of funds, cumbersome clearance procedures, incompetence and inexperience of pension staff added to poor human relations, lack of etiquette and simple curtesy. Added to these, is the fact that over the years there was no authentic list or data base for pensioners, and several documents were required to file pension claims.

2.8 *The Pension Reform Act 2014*

This act repealed the pension reform act No 2, of 2004 and was signed into law on the 1st of July, 2014 by president Goodluck Jonathan and provides that, it shall continue to govern and regulate the administration of the uniform contributory pension scheme for both the public and private sectors in Nigeria. It has as its objectives the following:

i. to ensure that every person who worked in either the public service of the Federation, Federal Capital Territory states and local government or private sector receives his or her retirement benefits as an when due.

ii. to assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age.

iii. 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, public service of the federal capital territory, the public service of the states and local government and the private sector.

The pension Reform Act 2014 has consolidated earlier amendments to the 2004 Act, which were passed by the national Assembly on the 23rd March, 2004. These include the Pension Reform (Amendment) Act 2011 which exempts the personnel of the Military and the security Agencies from the contributory pension scheme as well as the University (Miscellaneous) Provision Act 2012, which reviewed the retirement age and benefits of university professors. Moreso, the 2014 Act has incorporated the Third Alteration Act, which amended the 1999 Constitution by vesting jurisdiction on pension matters in the National Industrial Court (Federal Government of Nigeria, 2014). The Act makes provisions for the repositioning of the pension transition Arrangement Directorate (PTAD), to ensure greater efficiency and accountability in the administration of the contributory Pension Scheme (CPS) in the federal public service such that payment of pensions would be made directly into pensioners' bank accounts in line with the current policy of the Federal Government. It also makes provisions that will enable the creation of additional permissible investment instruments to accommodate initiatives for national development, such as investment in the real sector, including infrastructure and real estate development. This is provided without compromising the paramount principle of ensuring the safety of pension fund assets (Eme, Uche & uche, 2014).

It is obvious that the Pension Reform Act 2014 is a key component of the general economic reform implemented by the federal government. The present state of the pension market has reflected the extent of government political will and commitment to ensure the successful implementation of the scheme. Added to these, is the fact that the stories of pain and death associated with payment of pension to retirees will be a thing of the past because the Pension Reform Act prescribed a 10-year jail term for anyone who misappropriates pension fund apart from refunding three times, the amount embezzled by him or her. It also stipulates that whoever that attempts to misappropriate the fund on conviction will be liable to the same punishment as it is prescribed for the full offence in the Act (Federal Government of Nigeria, 2014). From the foregoing, there is no doubt that the New Pension Act 2014 is a new dawn and an eye opener of the obvious benefits in the contributory scheme.

2.8.1 *Provisions for the Pension Reform Act 2014*

i. in the case of the private, sector, the scheme shall apply to employees who are in the employment of an organization in which there are 15 or more employees.

ii. employees of organizations with less than 3 employees as well as self-employed persons shall be entitled to participate under the scheme in accordance with guidelines issued by the commission.
iii. the contribution for any employees to which the act applies shall be made in the following rates relating to their monthly emolument:

a. minimum of 10% by the employer; and
b. minimum of 8% by the employee.

iv. the rates of contribution may upon agreement between any employer and employee be revised upward from time to time with the commission being notified of such revision.
v. any employee to whom the act applies can also make voluntary contributions to his retirement saving account.
vi. the employer may agree on the payment of additional benefits to the employee upon retirement.
vii. the employer can elect to bear the full responsibility of the scheme provided that in such case, the employer’s contribution shall not be less than 20% of the monthly emolument of the employee.
viii every employer shall maintain a group life insurance policy in favour of each employee for a minimum of 3 times the annual emolument of the employee.
ix. where an employer failed, refused or omitted to make payment as an when due, the employer shall make arrangement to effect the payment of claims arising from the death of any staff in its employment during such period..
x. in the case of professors covered under the universities (miscellaneous provisions) (amendment) act 2012 and category of political appointees untitled, by virtue of their terms and conditions of employment to retire with full benefits, the commission shall issue guidelines to regulate the administration of their retirement benefits provided that any shortfall shall be funded from the budgetary allocations by the employer.
xi the retirement saving account of the employees are portable, they can be moved from one pension fund administrator or another or when the employee changes job, such employee only needs to inform the new employer of his retirement savings account details.
xii. it empowered the national pension commission to subject to the flat of the attorney general of the federation, to institute criminal proceedings against employers who persistently fail to deduct or remit pension contribution of their employees within the stipulated time.
xiii. the law reduced the waiting period for accessing benefits in the event of loss of job from six months to four months.
xiv. it exempted the personnel of the military and security agencies from the contributory pension scheme.
xv. it provided for an employer to be compelled to open a temporary retirement savings account on behalf of an employee who fails to open a retirement savings account within three months of assumption of duty.

2.8.2 *Retirement Benefits*

The act also provide that

A holder of a retirement savings account shall, upon retirement or attaining age 50 years whichever is later, utilize the account credited to his retirement savings account for the following benefits:

i. withdrawal of a lump sum from the total amount credited to his retirement savings account provided that the amount left after the lump sum withdrawal shall be sufficient to procure a programmed fund withdrawals or annuity for life in accordance with guidelines issued by the commission.

ii. programmed monthly or quarterly withdrawals calculated on the basis of an expected life span.

iii. Annuity for life purchased from a life insurance company that is licensed by national insurance commission.

iv. professors covered by the universities (miscellaneous provisions (amendment) act 2012 shall be according to the university act.

v. other categories of employees entitled, by virtue of their terms and conditions of employment, to retire with full retirement benefits shall still apply.

vi. where an employee voluntarily retires, disengages or is disengaged from employment. The employee may with the approval of the commission, withdraw an account not exceeding 25% of the total amount credited to his retirement savings account. Provided that such withdrawals shall only be made after 4 months of such retirement or cessation of employment and the employee does not secure another employment.

2.8.3 *Major Features of the 2014 Pension Reform*

The Pension Reform of 2014 has some peculiar features that can position it as a catalyst for a sustainable social welfare programme. Specifically, the following features of the new pension reform act 2014 can be identified as:

i. ***Coverage:*** The 2004 Pension Act accommodates workers in both public and private sector organizations with a minimum of five employees. The New Pension Act 2014 expanded the coverage of the contributory Pension Scheme (CPS), in the private sector organizations with three employees and above, in line with the drive towards informal sector participation.

ii. ***Contributory:*** The 2014 Pension Reform Act reviewed upwards, the minimum rate of pension contribution from 15 percent to 18 percent of monthly emolument, where 8 percent will be contributed by employee and 10 percent by the employer. Tobiloba (2014) affirms that this will provide additional benefits to workers' Retirement Savings Accounts and thereby enhance their monthly pension benefits at retirement.

iii. ***Remittance of Contributions:*** An employer is obliged to deduct and remit contributions to a custodian within 7 days from the day the employee is paid his/her salary while the custodian shall notify the Pension Fund Administrator (PFA) within 24 hours of the receipt of such contribution. Contributions and retirement benefits are tax-exempt. The 2014 Act empowers PenCom, subject to the fiat of the Attorney general of the Federation, to institute criminal proceedings against employers who persistently fail to deduct and/ or remit pension contributions of their employees within the stipulated time. This was not provided for by the 2004

Act. The 2014 Act empowers PenCom to take proactive corrective measures on licensed operators whose situations, actions or inactions jeopardize the safety of pension assets.

iv. ***Penalty for Defaulters:*** The 2014 Pension Reform Act stipulates that operators who mismanage pension fund will be liable on conviction to not less than10 years imprisonment or fine of an amount equal to three-times the amount so misappropriated or diverted or both imprisonment and fine.

v. ***Individual Accounts:*** An employee is required by law to open a 'Retirement Savings Account' in his/her name with a Pension Fund Administrator of his/her choice. This individual account belongs to the employee and remains with him/her for life even if he/she changes employer or Pension Fund Administrator. The employee may only withdraw from this account at the age of 50 or upon retirement thereafter. An employee can withdraw a lump Sum of 25% of the balance standing to the credit of his/her retirement savings account if he/she is less than 50 years at the time of retirement and he/she could not secure a new job after six months from leaving the last job. Similarly, a retiree can withdraw a lump sum if he/she is 50 years or above at the time of retirement and the amount remaining after the lump sum withdrawal shall be sufficient to fund programmed withdrawals

vi. ***Loss of Jobs:*** In the event of loss of jobs, the 2014 Act reduces the waiting period for accessing benefits from six months to four months. This is done in order to identify with the yearning of contributors. The Pension Reform Act 2014 makes provision that would compel an employer to open a Temporary Retirement Savings Account (TRSA), on behalf of an employee that failed to open a Retirement Savings Account (RSA) within three months of assumption of duty. This was not provided for by the 2004 Act.

vii. ***Retirement:*** While in the public sector, the statutory retirement age is fixed at sixty (60) years or thirty five (35) years of unbroken active working service before retirement. However, the Retirement Age Harmonization Act 2012 puts the retirement age of judicial officers and academic staff of tertiary institutions at 70 years because of the belief that the 'older, the wiser' in those sector. In the private sector, retirement age varies between 55 and 60 years of service and the factor of 35 years of service is not applicable. The 2014 Pension Reform Act has no clear provisions on minimum retirement age but provides in (section 3 (1)) that no person shall be entitled to make any withdrawal from the retirement savings account before attaining the age of 50 years. Section 3(2)(c) however permits withdrawal from the retirement savings account by an employee who retires before the age of 50 years thereby accepting that employees could retire before attaining the age of 50. This kind of ambiguity could result in confusion.

viii. ***Payment to Beneficiaries when the Retiree Dies:*** Whenever the retiree dies, the beneficiary under a will or letter of administration is paid en bloc the balance in the retirement savings account.

ix. ***Frequency of Payment*****:** Pension payment can either be monthly or quarterly, based on the retiree's choice.

x. ***Account Updates:*** retirees retirement savings account statements monthly or quarterly.

xi. ***Custody of Funds:*** Programmed withdrawal retirements assets are held by pension fund custodian thereby providing enhanced security.

xii. ***Change of Withdrawal Mode:*** A retiree on programmed withdrawal with a pension fund administrator can choose to terminate the programmed withdrawal and covert to annuity contract with an insurance company at any time.

Xiii. ***Growth of Funds:*** Retiree on investment belong to the retiree and credited to retirement savings accounting provides opportunity for enhanced payments.

2.9 *The future of Pension management and Administration under the New Act*

The attention of the global economy has been draw to Nigeria since the last 10 years following the coming on board of the Pension Reform Act 2014, with the vigour and commitment it has brought towards improving social security in Africa's most populous black nation. This development has continued in some other countries in Africa, which have either understudied the success story of Nigeria's contributory pension Scheme (CPS) or adopted similar programmes to boost their citizens social security welfare (Eme, Uche & Uche, 2014).

Ensuring greater protection of Pension Fund assets has been the core mandate for the National pension commission (PenCom) since its formation following the Pension Reform Act 2004. PenCom is the body saddled with regulation, supervision and ensuring effective administration of pension matters in Nigeria. Prior to the enactment of the Pension Reform Act 2004 and the subsequent formation of PenCom, pension schemes in the polity had been bedeviled by problems and challenges of underfunding and vulnerable budgetary allocation. It may interest you to know that within the 10 year period before the enactment of the Pension Reform Act 2014 to repeals the 2004 Act, the Pension industry in Nigeria has experienced extraordinary growth from a deficit of N 2 trillion in the form of pension liabilities in 2004 to an accumulation of pension fund assets of up to N4.1 trillion by the end of 2013. The huge pool of funds that the contributory pension scheme (CPS) has put together is a firm backing to the economy. This is a testimony to the hard work and diligent service of the regulator, the National Pension Commission (OpenCon) (Nkwezema, 2014).

Consequently, the Pension Perform Act 2014 has provided for stiff penalties that will serve as deterrence against mismanagement or diversion of pension funds assets under any guise. The 2014 also empowers National Pension Commission (PenCom), subject to the fiat of the Attorney General of the Federation, to institute criminal proceedings against employers who persistently fail to deduct and/or remit pension contributions of their employees within the stipulated time. There is no doubt that these provisions would boost the contributor's confidence. Put differently, the beauty of Nigeria's pension system is the efficacy that has been brought to supervision and regulation, building contributor's confidence and growing assurances for safety of the funds, a clear departure from what existed previously.

Furthermore, the controversial clause of the post qualification years of experience of the director general of Pension Commission was lowered to 15 years from the previous 20 years experience. Explaining further, Chairman Senate Committee on Pensions and Establishment, former Senator Alloysius Etuk said history was made with the passage of the law as it will lead to a better pension service. On why the committee decided to lower the post qualification years of the DG of PenCom, he said:

When the committee report got to the chamber on the first day of presentation of the report of the committee's recommendation of a fit and proper person was rejected 15 years of post qualification was adopted. So the post qualification experience for the one who would be DG of PENCOM is 15 years. In Nigeria professional pension administration would be about 10 years. And because we are talking about cognate experience not post qualification experience. Because if you are talking about post qualification experience what about somebody who has 30 years post qualification experience with two years cognate pension experience. Is he better than someone with 10 years cognate experience in pension administration? So having realized that we decided that if somebody have had 5 years somewhere else and then have additional 10 years cognate experience in professional pension management, that would be a fit and proper person to serve as DG. So, the current situation as contained and accepted is 15years post qualification experience for the post of DG PENCOM (Tobiloba, 2014).

With the new law in place, it is obvious that the National Pension Commission has not only been given enough room to improve it's activities but also to ensure that employers who fail to remit deductions are penalized and the amount owed duly paid. Prior to the new law, the commission reported that it had recovered a total of N13.33 billion from employers who defaulted in remitting pension deductions for their employees under the new Contributory Pension Scheme (CPS). The amount recovered includes interests calculated along with the principal sum (Abubakar, 2014; Nkwaezema, 2014). Commenting on the new Act, Usman (2014) affirms that the Head of Service and Heads of different Departments have now directed all the accounting departments to make sure that whatever is pension deduction should be treated as a sacred one and immediately transmitted to the receiving authority.

In addition, Hon Etuk adds that with the enactment and passage of 2014 Pension Reform Act, all the Penalties and all the prescriptions contained in the Act would be followed strictly by the various agencies. We have penalties ranging from 10 years imprisonment. For even failing to give proper information, you have to pay N500,000 daily by any agency and if your embezzle pension funds now you will pay not less than three times the amount of funds you embezzled. That is how serious this bill has treated pension funds. If you embezzle N10,000 you are bound to pay a minimum of N30,000 and in some circumstances the presiding judge has the right to make you refund and even go to prison (Tobiloba, 2014). Commenting on the New Pension Reform Act 2014, Jonathan (2014) affirms that pension is globally recognized and occupies a strategic place in national socio-economic development. It is not only a vital component of social security, it is also a veritable vehicle for nation building. Indeed, investment in pension has profound impact on the well-being of pensioners, society and the economy at large. As such, it is imperative that stakeholders in this life-shaping industry engage constantly in dialogue to bolster management frameworks and practices in their respective jurisdictions.

3. *Policy Recommendations*

Given the government political will and a comprehensive pension scheme which has brought about a radical transformation and paradigm shift in the pension system in Nigeria and arising from the foregoing we beg to make the following recommendations:

i. The Minimum rate of pension contribution should be increase to 25% of total emolument. This level of contribution will provide additional benefits to workers'

Retirement Savings Account and thereby enhance their monthly pension benefits at retirement.

ii. A comprehensive accounting standard for retirement benefits must be put in place to adequately protect pension funds.

iii. PenCon must provides an enabling environment which the new law seeks to regain to ensure smooth implementation of the pension scheme and put in place effective monitoring of PEAs and PFCs backed by adequate sanctions.

iv. The need for an appropriate implementation and enforcement culture which involve prompt prosecution of defaulters and enforcement of penalties without fear or favour.

v. There is need for continuous strengthening of the implementers of the act to have the courage, strong support and political will to interpret the sections of the law.

vi. There is still hardship due to the unkind and rigorous verification procedures and the unnecessary length of time it takes for PenCom to process pensioner's entitlements. PenCom should be strengthened by quality legislature to stream lime the documentations, prompt, regular and ease of payment of pension to retirees.

vii. There is need for intensified public education and enlightenment on the new reform to encourage more people from the informal sector to embrace the new reform and contribute to cater for their livelihood during old age.

viii. Government should provide the enabling environment to facilitate the creation of quality instrument through which pension assets could be invested to ensure prompt and regular payment of entitlements to retirees and pensioners.

ix. Government should put in place relevant legal framework to ensure necessary political and economic support for the new reform.

x. There must be strict regulation, supervision, transparent and efficient management of pension funds in order to prevent more pension scams in the country.

4 *Conclusion*

The essence of the new pension reform is to ensure that public and private sectors retirees receive their retirement benefits as at and when due and assisting improvident individuals by ensuring that they save to cater for their livelihood during old age. From the foregoing one can therefore say without fear of contradiction that the management and administration of pension in Nigeria has no doubt been enhanced with the passage of the Pension Reform Act 2014. Not only has the Act provide a platform for a more effective and efficient administration of pensions in the public and private sectors, but it has also generated a pool of long-term investment funds that already had positive impact on the growth of the nation's economy. The success and sustainability of the new pension reform largely depends on the collaboration, sincerity and commitment of all stakeholders like government that sets out regulatory framework; the regulator PenCom; financial institutions who manage and administer contributions; individuals who pay and employers who must also contribute for their employees. We hope that the new pension Act will continue to favour and assure Nigerian workers of a happy and comfortable retirement.

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Table 1: Formula for Pension and Gratuity Calculation Based on Percentage of Final Salary in Respect of Retirement in Nigeria Since 1992.

BEFORE 1992			**SINCE 1992 TO DATE**		
Years of Qualifying Service	Gratuity as % of Final Pay	Pension as % of Final Pay	Years of Qualifying Service	Gratuity as % of Final Total Emolument	Pension as % of Final Total Emolument
-	-	-	5	100	-
-	-	-	6	108	-
-	-	-	7	116	-
-	-	-	8	124	-
-	-	-	9	132	-
10	100	-	10	100	30
11	110	-	11	108	32
12	120	-	12	116	34
13	130	-	13	124	36
14	140	-	14	132	38
15	100	30	15	140	40
16	110	32	16	148	42

17	120	34	17	156	44
18	130	36	18	164	46
19	140	38	19	172	48
20	150	40	20	180	50
21	160	42	21	188	52
22	170	44	22	196	54
23	180	46	23	204	56
24	190	48	24	212	58
25	200	50	25	220	60
26	210	52	26	228	62
27	220	54	27	236	64
28	230	56	28	244	66
29	240	58	29	252	68
30	250	60	30	260	70
31	260	62	31	268	72
32	270	64	32	276	74
33	280	66	33	284	76
34	290	68	34	292	78
35	300	70	35	300	80

Source: Pension Reform Act 2004. Abuja, Federal Republic of Nigeria.