Pension Reforms

The Problem

The public service operated an unfunded Defined Benefits Scheme and the payment of retirement benefits was budgeted annually. In the light of resource constraints, the annual budgetary allocation for pension is often one of the budgetary items most vulnerable to cuts. Even where budgetary provisions are made, inadequate and untimely releases of funds result in delays in payment and the accumulation of arrears. The accumulation of pension arrears was only a symptom of a much deeper crisis. Because the old pension scheme was unfunded, there was no opportunity for the accumulation of investible funds. Even in rare cases where funds were accumulated under some parastatal schemes, restrictive investment policies and practices sometimes limited the capacity of such funds to grow.

Political instability and unstable labour policies in the past had engendered massive premature retirements, thus creating an unstable pensioner-to-active worker ratio. In addition, poor administrative systems, inadequate delivery structures for payment, lack of a database of pensioners, and adverse publicity in the media had portrayed government as uncaring to the plight of senior citizens. This gave rise to insecurity and also encouraged corruption in the active workforce.

By 2003, it was estimated that the outstanding pension liabilities nation-wide was ₦2 trillion, and it became obvious that the Defined Benefits Pension scheme could not be sustained. The Nigerian Railway Corporation was a classic case of the unsustainable relationship between the income generating and non-income generating salary earners. The Corporation generates ₦30 million every month, but paid ₦250 million to pensioners and ₦200 million to its regular workers.

The pension situation in the country was clearly unsustainable and had been described by some as a 'ticking time-bomb'. It was therefore necessary to rethink pension administration in Nigeria.

Reform Actions

In order to address and eliminate the problems associated with the pension scheme in the country, government undertook an exhaustive review of all the existing laws relating to pension in Nigeria. It found that the applicable laws were inadequate and inconsistent with modern pension administration arrangements in other countries.

Pension Reform Act, 2004

On 25 June 2004, the federal government enacted the Pension Reform Act and it came into effect on 1 July 2004. The objectives of the Pension Reform Act are to:

1. Ensure that every person who has worked in either the public or private sector receives his or her retirement benefits as and when due.
2. Assist to improve individuals by ensuring that they save to cater for their livelihood during old age and thereby reducing old age poverty.
3. Ensure that pensioners are not subjected to untold suffering due to inefficient and cumbersome process of pension payment.

4. Establish a set of standard rules and regulations for the administration and payment of retirement benefits in the public and private sectors.
5. Stem the growth of outstanding pension liabilities.

The reform introduced by the Act is governed by the key principles of sustainability, safety and security of benefits, transparency, accountability, equity, flexibility, uniformity, and predictability.

The Act provided for a contributory and mandatory pension scheme with contributions from both employees and employers. It has 100% asset backing and is privately managed by Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs). The scheme contains life assurance cover and is strictly regulated and supervised.

Establishment of the National Pension Commission (PENCOM)

The Pension Reform Act 2004 established the National Pension Commission (PENCOM) as the body to regulate, supervise, and ensure the effective administration of pension matters in Nigeria. The functions of the Commission include:

1. Regulating and supervising the Scheme established under the Act.
2. Issuing guidelines for the investment of pension funds.
3. Approving, licensing, regulating, and supervising pension fund administrators, custodians and other institutions relating to pension matters as the Commission may, from time to time, determine.
4. Establishing standards, rules, and guidelines for the management of the pension funds under the Act.
5. Ensuring the maintenance of a National Data Bank on all pension matters.

The new Pension Scheme is implemented side by side with the old Pension Scheme, i.e. the 'Pay-As-Go' Scheme that covers employees who retired on or before 30 June 2007, and the new Scheme, i.e. the Contributory Pension Scheme for those who retired from the public service after 1 July 2007. While the Pay-As-Go Scheme is a defined benefit scheme fully funded by government, the present scheme is based on contributions between the employer and employee.

Transitional Provisions for the Public Sector

The Act made provision for the establishment of Pension Departments under the scheme to administer the affairs of existing pensioners. The National Pension Commission supervises these departments. The responsibilities, funds, and assets of relevant existing pension boards or offices were transferred and vested in the respective departments. It is anticipated that these departments shall cease to exist after the death of the last pensioner.

Also the Act provides for retirement benefit bond. Because the schemes were unfunded for the public service of the Federation and the Federal Capital Territory, this bond is issued to those current staff who worked for a specified number of years, but are exempted from the new scheme. In acknowledgement of their accrued rights under the defunct pension scheme, this bond addresses government indebtedness to them. However, this bond is only due and payable when they retire.

The Retirement Benefits Bond Redemption Fund was also established and is maintained by the Central Bank of Nigeria. The Federal Government pays 5% of the total monthly wage bill payable to employees in the public service of the Federation and Federal Capital Territory into this fund. Payments for retirement benefit bonds issued are made from this fund. Payment into this fund will cease when all retirement benefit bonds have been redeemed.

Pension Transitional Arrangement Department (PTAD)

The Pension Reform Act (PRA), 2004, Section 30 subsection (2) (a) provides for the establishment of a Pension Transitional Arrangement Department (PTAD), which consists of the following departments:

1. The Civil Service Pension Department
2. The Military Pension Department
3. The Police Pension Department
4. The Customs, Immigration and Prison Pension Department
5. The Security Agencies Pension Department

However, separate Acts of the National Assembly have exempted the Military Pension Department and Security Agency Pension Department from this arrangement. PTAD is therefore only responsible for the management of three of the offices presently running the old pension scheme: the Civil Service Pension Department, the Police Pension Office, and the Customs, Immigration and Prisons Pension Office (CIPPO).

PTAD is expected to evolve from three offices into a single pension administration and management organisation under the supervision of the National Pension Commission.

Pension Reform Act, 2014

In line with relevant provision of the section 173 (3) of the 1999 Constitution that the Pension Scheme should be reviewed every five years, the Pension Reform Act 2014 repeals the Pension Reform Act 2004 (as amended). The highlights of the Act are that:

1. The scheme will be applicable to employers with three or more employees (currently five or more required); and
2. The total rate of contribution will increase from the current 15% of monthly emolument to 20% with a minimum of 12% by the employer and a minimum of 8% by the employee.

Main Achievements

The main achievements of the pension reforms are:

1. The introduction of PTAD has weeded out 15,000 'ghost pensioners' and saved the government N2 billion in less than 2 years.
2. The contributory pension scheme has drastically reduced the cost of pensions to government.
3. Delays in the payment of pensions have reduced.
4. Everyone who works in the public service, no matter how briefly, is now entitled to a pension, compared to the previous scheme that required working for 10 years.
5. So far, 9 million employees have been registered.
6. Under the scheme, 24 Pension Fund Administrators, 4 Pension Fund Custodians, and 7 Closed Pensions Fund Administrators (CPFA) have been licensed.
7. The scheme has been adopted by 18 state governments, out of which seven are in full compliance, while 11 others are at various stages of compliance.
8. The Pension Transitional Arrangement Department (PTAD) was established in accordance with the provisions of the Pension Reform Act to continue to administer the affairs of existing pensioners.

9. There is effective provision of policy guidelines on pension and administration of retirement benefit of pensioners.
10. There is consistent payment of monthly pension to federal civil service pensioners.
11. The establishment of PTAD has created a coordinated framework for the administration of the old pension scheme.

Key Challenges

1. Lack of a comprehensive database of pensioners.
2. Huge liabilities inherited as a result of non-payment of gratuities and monthly pensions over a long time.
3. Little guidelines on investments opportunities for the benefits of the retirees under the scheme.
4. Unnecessary delays by some MDAs in remitting pension deductions made from staff.
5. Insufficient and timely funding of the Retirement Bonds Benefits Redemption Fund Account.
6. Lack of a home-grown mortality table that could more accurately inform calculations about pension duration and annuities.
7. Limited awareness of the rights and process under the contributory pension scheme.
8. Fraud in the pension administration system and underhand practices by some PFAs.
9. Minimum Pension Guarantee not yet in place.
10. The review of pension entitlements in line with salary increases is not yet in place.
11. Refusal of some Labour unions (NUPENG & PENGASSON) to migrate to the contributory Pension Scheme, insisting rather to continue operating their in-house pension scheme
12. Unfunded huge deficits in some MDAs; in-house managed schemes still operating under the Defined Benefits' Scheme

Assessment of Reform Initiative

Against the 10 criteria for assessing the success of reform efforts, it is clear that while significant successes have been recorded, daunting challenges remain.

S/No.	Assessment Criteria	Result of Assessment
1.	Has the pension reform improved the quality and quantity of public services?	More people now are enrolled in the pension scheme and payment of benefits is guaranteed. The quality of pension administration has also improved. The establishment of PTAD is a positive step as there is now a proper management framework for administering the old scheme.

S/No.	Assessment Criteria	Result of Assessment
2.	Do more people now have access to services, including disadvantaged groups such as women, young persons, and people with disabilities?	More people now are enrolled in the pension scheme and payment of benefits is guaranteed.
3.	Has the pension reform reduced the cost of governance?	The reforms have certainly reduced the cost of governance, particularly as the huge pension burden that was facing government has dramatically lightened. The reforms by PTAD have also saved the government N2 billion in less than 2 years.
4.	Has the pension reform made the service more affordable for citizens?	The reforms have given more people pension security. However, the contributory nature of the scheme means that public servants now have to make a contribution where they previously did not have to. The payment of pension benefits is guaranteed, unlike the situation under the old scheme, although many are unhappy about the absence of any sort of gratuity payment.
5.	Has the pension reform reduced corruption?	Although the activities of PTAD has identified 15,000 'ghost pensioners' and saved government N2 billion, there are still major issues to be tackled in the integrity of pension administration in Nigeria. There is appreciable delay between when a pensioner is cleared by PENCOM and when the Pension Fund Administrator starts to pay their entitlements. Many pensioners attribute this to underhand activities by some PFAs. Several people are standing trial for pension fraud, including members of a Pension Task Force set up in 2010 to tackle pension fraud.
6.	Has the pension reform reduced unnecessary bureaucracy and red tape?	Pension reforms have reduced bureaucracy and red tape, and the incidence of pensioners sleeping on the floor for days in Abuja is now virtually non-existent.

S/No.	Assessment Criteria	Result of Assessment
7.	Is the pension reform likely to lead to improved development outcomes?	Better pension management will lead to better development outcomes, particularly as senior citizens will be able to live for longer with dignity and security.
8.	Are things improving, staying the same, or getting worse?	Things have improved with regards to the likelihood of actually receiving a pension. They have also improved on the basis that everyone who works can now get a pension. Similarly, many state governments and the private sector have embraced the scheme and many people who otherwise would not have had a pension now do. However, pensioners are still not getting their full entitlements in a timely manner, as there is insufficient education and awareness about pension rights and processes. Again, there is still a need to tackle corruption in the system. Generally, things are improving but there is still a lot to do.
9.	Where things are improving, will those improvements endure?	The improvements that have been made are likely to endure. The contributory pension scheme is more sustainable than the previous system.
10.	Where things are not improving, what should be done?	Not Applicable

Proposed Next Steps

The proposed next step actions to further deepen the pension reform are as follows:

1. Government should consider reintroducing some sort of gratuity scheme, even if it is merely symbolic in value.
2. Where remittances are delayed by MDAs, sanctions should be applied.
3. The National Bureau of Statistics should develop a home-grown mortality table to enable proper risk assessment and planning.
4. Awareness creation should be intensified about the benefits of the Contributory Pensions Scheme.

5. Government should consider withdrawing pension accounts from commercial banks and domiciling them in the Central Bank of Nigeria to reduce corruption in pension administration.
6. PENCOM should develop a scheme to better regulate the activities of PFAs, including investigating complaints and applying sanctions.
7. There should be a Minimum Pension Guarantee for all Nigerian pensioners.
8. Pension levels should keep pace with increases in salaries.