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The New Contributory Pension Scheme Administration and Prompt and Regular Payment of Pensioners in Nigeria: An Appraisal

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Authors' contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

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ABSTRACT

Pension administration has been a recurrent problem in the Nigeria public service since independence in 1960. The need to have a sustainable pension system necessitated the introduction of the Pension Reform Act 2004.The introduction of the scheme has generated intellectual debate amongst scholars, experts and stake holders, about the significance, efficacy and sustainability of the scheme, as regards the prompt and regular payment of pension benefit as specified by the objectives of the scheme. The broad objectives of this study is to examine the challenges associated with administration of the contributory pension's scheme in Nigeria, concerning the prompt and regular payment of pension to retirees. The specific of the scheme are to examine the prompt and regular payment of pension; and to determine the level of awareness of

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the retirees about pension process. Simple percentage was used in analyzing data. The result revealed that, retirees frequently faced the dismal challenge of delayed payment of their pension benefit, especially those with accrued right, there are also issues of delayed monthly pension payment, due to miscalculation or system error. The study revealed that the survivors of the deceased retiree find it difficult to receive their retirement benefit. The study also showed that there are still doubts concerning the capacity of the retirement redemption fund, which is one of the succors provided by the act, to guarantee the prompt and regular payment of pension. Base on the forgoing findings, the study suggested that accrued right should be placed on the first line charge and exempted from the cumbersome envelop budgeting process, including the establishment of an accrued right unit saddled with the responsibility of managing accrued right, among others.

Keywords: Pension; retirees; prompt and regular; accrued right.

1. INTRODUCTION

Prompt payment is a commercial discipline, which requires businesses to agree fair and reasonable payment terms with their suppliers. Ensure suppliers' invoices are approved and paid within agreed terms, and encourage the adoption of the same practices throughout their supply chain [1]. For instance in the United State of America, there is what is called the prompt payment act, the prompt payment act is law enacted in order to ensure that companies transacting business with the Government are paid in a timely manner [1]. With certain exceptions, the Act requires that the Government make payment within 30 days from the date of submission of a properly prepared invoice by a contractor. For amounts not paid within the required period, the Government is obligated to pay interest at a rate established by the Secretary of the Treasury. At the time of original enactment, the law provided for a 15-day grace period in addition to the basic 30-day period; [1].

Drawing quintessentially from the above historical underpinning, the definition of the concept formed part of the guiding assumption that heralded the adoption of the Contributory Pension Scheme in many countries of the world. The uncoordinated nature of the old defined benefit scheme impelled policy makers into looking for a scheme that follows a meticulous standard of operation, which will be to the benefit of all, the employee, employer and the nation inclusive.

The new pension scheme introduced a tripartite system with three key autonomous players –The Regulator, The Administrator and The Custodian to minimize the possibility of misappropriation of pension funds (PWC, 2014). The scheme was designed to bring more certainty to the future by ensuring that Nigerian workers have more security in retirement. For this reason, the Pension Reform Act (PRA) made provisions to improve on the efficiency and accountability in the Contributory Pension's Scheme by placing emphasis on protecting pension contributions [2,3].

Recall that, the cardinal objective of the new pension scheme is to improve the post-retirement living conditions of the Nigerian workers, by ensuring that workers both within the public service and the private sector, receive their retirement benefit as at when due. And also to assist improvident individuals to save in other to cater for their livelihood during old age, as captured in section 1 paragraph (c) and (d) of the Pension Reform Act 2014, is a radical departure from the old defined benefit scheme [2] (Essien & Akuma, 2014:53). The Scheme, being a joint contribution between the employer and employee, reduces the burden of pension payments of the employers and ensure sustainability of the scheme [2].

Regrettably, in spite of the noble intentions of section 1 paragraph (c) and (d) of the PRA 2014, delays have seldom been witnessed by retirees in the payment of their pension, attributed to the late release of pension-accrued rights by the federal government (Onuoha 2019). Findings revealed that the federal government unpaid pension accrued rights for the period covering May 2017 to April 2018 spiked up to about N97.55 billion. While total accrued rights being owed pensioners since the commencement of the Contributory

Pensions Scheme, is over N300 billion (Onuoha, 2019).

Ezeala (2019) contended that, the late payment of accrued rights to retiring or retired workers by the various tiers of government is already rendering pension administration cumbersome or even impossible. That is while as a measure to ensure that the government settles the backlog of accrued rights, Pension Fund Administrators, PFAs, have being stopped from granting access to Retirement Savings Accounts, RSAs, until the government releases accrued rights. Which implies that, under the CPS, government retirees can only get their entitlement when the government releases their accrued rights. “This is because accrued rights have to be lumped into Retirement Savings Accounts (RSAs) before lump sum and programmed withdrawals could be worked out for retirees.

Iloani (2018) disclosed that, cut in budgetary proposals presented to the National Assembly by the National Pension Commission (PenCom) delays retired federal workers from accessing their retirement benefits promptly. PenCom computes the entitlements of prospective retirees ahead of time, and factors it into the budget, submitted to the lawmakers for approval. Once the lawmakers cut the budget, the retirees will have to wait until another budgetary provision is made, to make up for the shortfall.

For instance, Federal Government workers due to retire in 2019, were affected by the cut in the pension budget of the National Assembly. Budget cuts is known as absolute figures, that hampers the retiree from receiving his retirement benefit as when due, as envisaged by the act (Aghahowa, 2019). Finding a way out of the persistent budget cuts, experts have advised the federal government to raise bond as stipulated by section 15(1) of the PRA 2014. This will help to settle the accumulated accrued rights to enable retiree’s access their benefits immediately.

Apart from raising bond, it has also being suggested that, the Federal government should explore the provision of section 39(1) of the PRA (2014) that puts the central Bank of Nigeria in charge of management and investment of funds, referred to as redemption fund in respect of public service. For instance, subsection 2 stipulates that the federal government shall pay into the redemption fund an amount not less than 5% of the total wage bill payable to employees in the public service of the federation. That the budget office of the federation on receipt of advice from the commission in pursuant to subsection 3, ensure adequate appropriation for shortfall and subsequent payment. In addition, section 40 of the act, stipulates that the redemption fund shall be charged on the consolidated revenue fund. These provisions are clear enough with respect to accrued right to which, budgetary appropriation should not have constituted a constraint to the prompt and regular payment of accrued right to retirees (Aghahowa, 2019).

The phrase accrued right which is quite new in our pension lexicon, gained prominence due to transfer of employee’s contribution from the old defined benefit scheme to the Contributory Pension’s Scheme. More often than not, stakeholders are enmeshed in confusion with regard to its meaning. Onuoha, (2019) clarified that; the phrase-accrued rights are largely entitlement of workers before the advent of the private sector-driven Contributory Pension Scheme. It is a term used to describe what the government owes its workers who have been in service before the commencement of the Pension Reform Act, 2004 (Reviewed in 2014). In a similar vein Aghahowa… explained that accrued rights is the component of the contributors’ benefits that accrued over time right from when they commenced work up to the time the pension reform commenced.

Apart from the issues of delayed release of accrued right, the provision of Sections 3, 4, and 5 of the Pension Reform Act 2004 that stipulates that employee under the age of 50 cannot receive his/ her pension benefit upon retirement, to set up his own private business is a clog in retirees progress and tantamount to servitude [4].

1.1 Statement of the Problem

According to Olanrewaju (2011) and Dostal (2010) some of the major weaknesses of the Defined Benefit Scheme include: Massive accumulation of debt estimated at over two trillion naira; large-scale arrears of unfunded entitlement of retirees; inadequate budgetary provisions coupled with rising life expectancy; increasing number of employers, wages and pensions; and inadequate supervision and regulation of pension system. These shortcomings adversely affected payments of retirement benefits to retirees in Nigeria. Thus, leading to it abrogation, and replacement to what is regarded as a more realistic scheme, the 'Contributory Pension Scheme'. The contributory pension scheme ensures that both the employer and employee participate in the scheme through the payment of certain percentage into a central pool known as Retirement Saving Account, to avoid delays hitherto witnessed in the previous scheme, and to reduce the financial burden of the government. Nigeria was among the first country to adopt the contributory pension's scheme in the whole of sub-Saharan Africa, as it formed part of the vision (2010) document adopted by the federal government that aimed at accentuating economic development. However, in spite of the groundswell of optimism by policy makers and experts about the progressivism and avant-garde nature of the scheme, it has often cast some shadow of doubt as to its efficacy, with regard to meeting the need and expectation of retirees. Research in this area, has revealed complaints of delay in the payment of retirement benefit, breach of the Pensions Reform Act by Pension Fund Administrator especially in the area of miscalculation of pension benefit, poor regulations and contradictory guidelines by PenCom, reports of outright fraud and corruption, poor management among others. However, consistent spotlight on other areas has continued, as hundreds of employees both within the public and private sector continue to retire, populating the public space with senior citizens in need of better life after retirement, provoking the need for research into areas of prompt and regular payment of pension and the awareness of retirees about the pension process.

1.2 Theoretical Framework

The study used the theoretical framework, introduced by David Easton, Gabriel almond and Karl Duetsch. Their study is derivative of general systems theory, as their work resolves majorly around the study of political system. The political system is part of the subsystem within the social system. It explains the network of power and authority relations that defines the goal of society and its decision making process. Easton defines political system as a set of elements that is interrelated and interdependent on other element. It comprises a pattern of behavioural interaction that is dynamic and all-inclusive in character. This interaction produce results (output) that are authoritative and binding (Agene, 2003 in Otinche, [5]). To Almond political system is that system of interaction that is to be found in all independent societies which performs the function integration both internal viz a vis other societies by means of employment or threat of more or less legitimate compulsion.

This theory shows the dyfunctionality of the political system resulting from poor pension management that led to the introduction of the contributory pension scheme in 2004. The emerging challenges, of prompt and regular payment of retiree pensions, is a major worry for the political system as currently represented by PenCom, through it regulatory role, couple with the numerous demands from several stake holders. Some stakeholders have even suggested a return to the old scheme that guarantees the payment of a lump sum. In addition, it has been suggested that, the RSA holders should be given their contributions once it has gained a substantial amount, to invest in private business or own a property. Some of these demands could have eroded the benefit of pension reform.

2. RESEARCH METHODOLOGY

The respondents used for this study were retirees of the Federal Capital Development Authority (FCDA). The study distributed survey questionnaires to 170 retirees of the FCDA, out of which 162 was returned. The retiree population comprises of those staff that retire between the periods of 2014 – 2020 in FCDA, this period is significant due the enactment of the new Pension Reform Act 2014. The data was analyzed using descriptive statistics. Qualitative analysis of the interview responses was done to validate the responses from questionnaire.

2.1 Research Objectives

The study carries the following objectives:

1. To examine the prompt and regular payment of pension
2. To examine the level of awareness of the retirees about pension process

2.2 Data Presentation and Analysis

S/N	Statement	SD %	D %	U %	A %	SA %	Total
1	Retirees are paid their monthly and quarterly pension promptly	6 (3.7)	12 (7.4)	114(70.4)	24 (14.8)	6 (3.7)	162/100.0
2	Retirees are paid their monthly and quarterly pension regularly	9 (5.6)	9 (5.6)	122(75.3)	19 (11.7)	3 (1.9)	162/100.0
3	Retirees are promptly enrolled for the monthly and quarterly pension payment	15 (9.3)	1 (.6)	23 (14.2)	114(70.4)	9 (5.6)	162/100.0
4	Pensioners are given option of how their pension will be paid, either through program withdrawal or life annuity	13 (8.0)	27 (16.7)	14 (8.6)	108(66.7)		162/100.0
5	Contributory pension scheme guarantees the availability of fund for prompt and regular payment	9 (5.6)	12 (7.4)	16 (9.9)	3 (1.9)	122(75.3)	162/100.0
6	Management of pension fund that has ensured prompt and regular payment of pensions	6 (3.7)	20(12.3)	25 (15.4)	12 (7.4)	99 (61.1)	162/100.0
7	Retirement benefit of contributory worker or retiree are promptly accessed by their survivor (spouse, relative, children)	3 (1.9)	120(74.1)	8 (4.9)	15 (9.3)	16 (9.9)	
8	Retirement redemption fund will ensure as provided by the act the prompt and regular payment of pension	9 (5.6)	29 (17.9)	111(68.5)	10 (6.2)	3 (1.9)	162/100.0
9	Monthly remittances of contribution from employer of pension is not always accurate due to miscalculation of total retirement fund	25(15.4)	14 (8.6)	15 (9.3)	108 (5.6)		162/100.0
10	Prompt and regular payment of pension reduces stress and anxiety	15 (9.3)	4 (2.5)	11 (6.8)	132(81.5)		162/100.0
11	Prompt and regular payment of pension encourages planning	3 (1.9)	15 (9.3)	6 (3.7)		138(85.2)	162/100.0

Source: Field Work, 2021

1. Majority of the respondents 70.4% were not sure that retirees earn their monthly and quarterly pensions promptly. 18.5% agreed. 11.1% disagreed.
2. Most of the respondents, 75.3% were indifferent concerning the statement that retirees get their monthly and quarterly pensions regularly. 11.2% differ fundamentally. 13.6% settled with the view that retirees get their monthly and quarterly pensions regularly.
3. A bulk of the respondents, 79.4% agreed that retirees are promptly enrolled for the monthly and quarterly pension payment. 14.2% are not sure. 15.3% disagreed.
4. A vast majority of the respondents 66.7% agreed that pensioners are given option of how their pension will be paid, either through program withdrawal or life annuity. 8.6% were not sure. 24.7% disagreed.
5. Majority of the respondents 77.2% acceded that, Contributory Pension Scheme guarantees the availability of funds for prompt and regular payment. 9.9% were undecided. 13% disagreed.
6. Most of the respondents 82.7% conceded that the management of pension fund has ensured prompt and regular payment of pension. 15.4 % were neutral. 16% opposed the view.
7. A large number of the respondents 76% reject the view that retirement benefit of contributory worker or retirees are promptly accessed by their survivor (spouse, relative, children). 4.9 % were quite unsure. 19.2% agreed.
8. Bulk of the respondents 68.5% were not sure that retirement redemption fund will ensure as provided by the act the prompt and regular payment of pension. 23.5% disagreed. 19.2% concede that retirement redemption fund will ensure as provided by the act the prompt and regular payment of pension.
9. Most of the respondents 66.7% agreed that monthly remittances of pension are not always accurate due to miscalculation of total retirement fund. 9.3% were undecided, and 24% disagreed.
10. A good number of the respondents, 81.5% agreed that prompt and regular payment of pension reduces stress and anxiety.6.8percentage were not sure, while, 11.8% disagreed.
11. This item Illustrates that, majority of the respondents, 85.2% agreed that the prompt and regular payment of pension encourages planning. 3.7% were undecided. 11.2% disagreed.

2.3 Research Findings

1. The study revealed that there is doubt about the capacity of the new contributory pension scheme to guarantee prompt payment of monthly and quarterly pensions to retirees.
2. The study illustrates that there are doubts, concerning the capacity of the scheme to guarantee the regular payment of monthly and quarterly pensions to retirees.
3. The study also shows that retirees are promptly enrolled for the monthly and quarterly pension payment, following the yearly retiree's enrolment routine.
4. The study demonstrates that retirees are given option of how their pension will be paid, either through program withdrawal or life annuity, depending on the preferred choice of the retiree.
5. The study, disclose that the contributory pension's scheme guarantees the availability of funds for the timely payment of pension benefits.
6. The study also revealed that the CPS guarantees the availability of funds for timely payment of pension benefits.
7. The study also exposed that that survivors of the deceased retiree, find it difficult to receive their retirement benefit.
8. The study proves that there are still doubts concerning the capacity of the retirement redemption fund, which is one of the succors provided by the act, to guarantee the prompt and regular payment of pension.
9. The study also shows that remittances of monthly pension contribution from employer are not always accurate, due to miscalculation of total retirement fund.
10. The study also reveals the Contributory Pension Scheme will reduce the stress of the retirees if retirement benefits are promptly accessed.
11. Finally, the study revealed that the Contributory Pension Scheme encourages planning.

3. RESULTS AND DISCUSSION OF FINDINGS

The study established that retirees appreciate the laudable objectives of the scheme, which is indicative of their agreement that "retirees are promptly enrolled for monthly and quarterly pension payment after six month waiting period". Pensioners are given options of how their pensions will be paid, either through program withdrawal or life annuity, contributory pension scheme, guarantees the availability of fund for prompt and regular payment of pension benefit to pensioners, prompt and regular payments of pension reduces stress and anxiety, prompt and regular payment encourages planning. However, they are doubtful that retirees are promptly and regularly paid their pensions [6,7]. Retirement redemption fund will ensure the prompt and regular payment of pensions. This response shows that, the scheme is not very effective as flaunted. For instance, not all retirees receive their monthly and quarterly pensions as at when due, due to lack of proper documentation of retiree's information, because of the unnecessary bureaucratic verification processes involved in rectifying some of these issues identified. There are also, issues surrounding the nonchalant, and abrasive attitude of some the Pension Fund Administration officials (PFA), which has made most retirees become lethargic and unenthusiastic about the scheme. They also added that those whose benefits had being paid are most times having issues with the lack of accurate payment due to error from the PFA, which they claim might be due to sharp practices on the part of the of the PFAs. There are also complaints that the families of some of their deceased counterpart find it quite difficult to assess the retirement benefit of their deceased breadwinners [8,9]. Some retirees and officials confided with the researcher that the scheme have not lived up to expectation, hence should be reformed or even cancelled and return to the old defined benefit scheme

Quite frankly the opinions of retirees who the scheme directly impacts on, cannot be neglected, since they are the chief beneficiaries of the CPS, and can better assess the effectiveness of the CPS, with regard to its impact on their lives, followed by the popular adage that 'he who wears the shoe knows where it pinches'. The implication of the finding from this study, which states that the Contributory Pension's Scheme guarantees prompt and regular payment of pensions to pensioners in is not valid, supported by the conclusions of [4] (Uzoh and Anekwe, 2014:53; Onuoha, 2019). This implies that the CPS does not have significant effect on the prompt and regular payment of pension to pensioners. However, in spite of the reservations from retirees and officials about the operation of the scheme, the laudable intension of the scheme cannot be overemphasized. Finding from this study is similar to the findings in Ahmad and Oyadiran, (2013) were they submitted that the contributory pension's scheme significantly improves the welfare of civil servants, but does not address the problem of inadequate budgetary allocation, hence rendering it ineffective on tackling the problem of retirees in Nigeria.

4. CONCLUSIONS

From the forgoing analysis, it quite clear that the prompt and regular payment of pension benefits to retirees is the bedrock in which the contributory pension's scheme is laid upon. Going by the stipulation of section 1paragraph (c) and (d) of the Pensions Reform Act, which informs the contributory nature of the scheme, employer and employees are to contribute 18% into the retirement pool, as against the previous defined benefit scheme, were the employer is wholly responsible for the payment of this benefits. Quite worrisomely, in spite the contributory nature of the scheme, the scheme has begun to witness it own forms of delay, especially the delayed release of accrued right, which are pension benefit held before the introduction of the new Contributory Pensions Scheme [10,11]. According to PenCom guideline, unless and except the accrued right is released by the government, pension benefits cannot be paid to the retiree, particularly those on government employment. This has put a clog on the progress of the new contributory pension scheme, and has made retirees to express a lot of deep reservations and resentment about the scheme. It is in the above regard, the findings of this study become relevant to government policy makers and stakeholders, as the study suggest the following measures.

5. RECOMMENDATIONS

The federal government should adopt a pragmatic payment mode, by signing an executive order that pension allocation should be gotten directly from the consolidated revenue fund in the first line charge, by exempting the retirees accrued right from the cumbersome envelop budgeting process, that passes through the ministry of finance budget and national planning before accrued right is paid. This will ensure the prompt and regular payment of pension.

The research recommends the setting up of the accrued right unit, this accrued right unit will be saddled with the responsibility of managing the accrued right of retirees by the usage of relevant technology in tracking the accrued right of retirees before the CPS came into effect. This will cut down the time for processing of accrued right of retirees and facilitate the prompt and regular payment of pension.

The study also suggest that accrued right should be raised from the paltry 25% to 50 - 55% there about, to enable retirees plan with their monies, besides retires can be assisted to invest their monies on profitable investment as recognized by experts, and this monies can be equally insured against investment risk, so that retirees can have control and full value of their monies.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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