Appraising the Efficacy of the Contributory Pension Scheme in the Nigerian Private Sector

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Abstract

Since Nigeria switched from the defined benefit scheme to the Contributory Pensions Scheme, in the year 2004, the landscape has been besieged with surge of academic contribution appraising the efficacy of the new scheme, mostly in the public sector, with the private sector lacking in this regard. The study intends to know if these employees are enrolled under the contributory pension scheme and reason why private sector organizations are lackluster in the administration of the scheme. The study adopted the descriptive research design by using the survey method to administer 150 questionnaires to identified sample of wholly private sector employment in Abuja. Data was presented through the use of frequency distribution tables and interpreted through the use of simple percentage and histogram curve. Findings from respondents' shows that most private sector employees are not enrolled under the scheme and also indicate that harsh economic climate is responsible for the casual attitude of the private sector employer in adhering to the scheme. Going by the above findings, the study suggested adequate regulation of activities of the private sector in other to stem the tide of persistent infraction.

Keywords: Contributory Pension Scheme, Government, Pension, Pension Act, Pension Fund, Private Sector and Public Sector.

Introduction

Nigeria adopted the contributory pension scheme in 2004, due to the failure of the defined benefit scheme, and since then there has being surge of academic contribution appraising the efficacy or otherwise of the scheme, most of which are in the public sector with the private sectors receiving arcane attention, in spite of the Pension Reform Act covering employee in both the public and private sector. But reports from PenCom Annual Compliance Review PACR (2019) profoundly showed surreptitious violation of the act by most private sector employers, citing harsh business climate caused by poor infrastructure, high interest rate, and lack of support from the government, especially as it concerns the mandatory remittance of 10% contribution by employers as stipulated by the Pension Reform Act. Hence this paper appraises efficacy of the contributory pension scheme in the private sector by looking at the history of private sector pension in Nigeria, problem of the contributory pension scheme in the private sector including their prospects.

Since the enactment of the Pension Reform Act 2004, and its subsequent amendment in 2014, the academic landscape has been encircled with plethora of literatures appraising the efficacy or other wise of the contributory pension scheme, most of which spin around the public sector. In spite of the objectives of the Pension Reform Act, which is to ensure that employees in the public and private sector receive their pension as at when due and to assist improvident individual who by reason of old age are not able to cater for themselves. Also the Pension Reform Act 2014 stipulates that the private sector with a minimum of three employees shall be required to enroll them into the contributory pension's scheme. Surprisingly most private organization with souring number of employee most often behaves like the proverbial ostrich, burying its head on the sand with other part patently exposed. Even those that have had their employee enrolled under the scheme still contravened the act, with some even going as far as deducting employees' contributions and not remitting same to into employees RSA, thus making it extremely difficult to differentiate between a micro, small or medium scale enterprise for compliance purposes. In other to overcome the challenges of violation, PenCom has collaborated with her sister agencies to make PenCom Certificate of Compliance, a prerequisite for obtaining Government contracts. This also has created another challenge of unfunded and duplicated accounts whereby some contractors remit contributions to employees RSAs in order to comply but only when contracts are being sought.

From our pilot study, it was noticed that most private sector organizations in Abuja, are in breach of the act, with most of them having more than fifteen employees, while those in compliance are in breach of the Act, in different ways. With above scenario in mind this study intends to study the efficacy of the contributory pension scheme in the private sector. The aim of the study is to appraise the implementation of the contributory pension scheme in the private sector. The specifically objectives are to find out if private sector employees are registered under the contributory pension scheme and to understand the causes of private sector casual attitude towards the scheme.

Conceptual Clarification

Concept of Pension

The Encyclopedia Britannica defines pension as a series of periodic money 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. Ozor and Anekwe (2018) posit that pension consists of lump sum payment paid to an employee upon his disengagement from active service. According to him payment is usually in monthly instalments. He further stated 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.

Odewole and Oladejo (2017) view Pension as a monthly stipend payable to a retired officer until death under the Defined Benefit Scheme. It is a regular inflow of income accruable to retiree and payable by his employer after working for a certain number of qualifying years of service or attaining a prescribed number of years or having put in a qualifying service years. To Fapohunda (2013), pension is simply 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 income. It ensures that at old age, workers will not be stranded financially. Pension helps employees to adjust themselves properly into the society after leaving employment (Armstrong, 2010).

Robelo (2002) views pension as a method whereby an employee contributes into the pension scheme a regular saving of a certain proportion of his/her earnings during his working life to be utilized at a future date. It is a certain amount paid by government or private company to an employee after a qualifying period of years of his useful life, or attaining a specified age in active service (Ahmad, 2006). It is a lump sum payment to an employee after fulfilling a condition for the payment of pension (Ozor, 2006 cited in Odewole & Oladejo, 2017:39). Pension is also the method whereby a person pays into pension scheme a proportion of his earnings during his working life (Ameh & Duhu, 2017). This study sees pension as the cumulative contribution between and employer and an employee paid after the employee retirement from active service.

Literature Review on Private Sector Pension

Historically private sector pension scheme in Nigeria was first set up for the employees of the Nigerian breweries in 1954, which was followed by United African Company (UAC) in 1957. In like manner, National Provident Fund (NPF) was the first formal pension scheme in Nigeria established in 1961 for the non-pensionable private sector employees (Okpaise, 2005). It was largely a saving scheme, where both employees and employer would contribute a sum of four naira (#4) each on monthly basis (Onuoha, 2006). The scheme provided for only one-off lump sum benefits. The Nigeria social insurance trust fund (NSITF) was established by Decree No73 of 1993 to take over the NPF scheme and provide enhanced pension scheme to private sector employees (Ameh & Duhu, 2017). In the private sector on the other hand, many employees were not covered by the pension schemes put in place by their employers and many of these schemes were not funded. Besides, where the schemes were funded, the management of the pension scheme funds was full of malpractices between the fund manager and the Trustees of the pension funds. Between 1979 and 2004, several reports on pension in Nigeria affirm the fact that the PAYE scheme was associated with flaws. These flaws made it lose credibility, hence the introduction of the 2004 Pension Reform Act (Nweke, 2015).

The enactment of the Pension Reform Act 2004, and it subsequent amendment in 2014 raved up hope for employee under private sector organization as the act under section 2(1) of the PRA 2014 provides that; the scheme shall apply to employment in the public service of the federation, public service of the state, public service of the local government including the private sector. Sub section 2 of the act, provides that the scheme shall cover private sector organization in which there are 15 or more employees.

Regrettably in spite of the above provision, the private sector were still characterized by low compliance (Jorg, 2015), due to lack of effective regulation and stern enforcement of PenCom guideline (Okechukwu and Ugwu, 2011), Thus suggesting an obvious violation of section 1paragraph (c) of the Pension Reform Act; which states that "every person who worked in the public service of the federation, state and local government or the private sector receives his retirement benefit as when due". This forms part of the objectives of the Act.

Although PenCom 1st Quarter Report (2019) reveals that RSA registrations indicated a 0.87 percent (31,508) increase in RSA membership from the public sector during the first quarter of 2019 to stand at 3,640,858, which represented 42.49 percent of the total RSA registrations. whilst, private sector membership increased by 2.65 percent (127,345) in the quarter under review, which brought total registrations from this sector to 4,928,179 representing 57.51 percent of total RSA membership. This growth can be attributed to the increased level of compliance by the private sector as a result of the various steps taken by the Commission to improve compliance and coverage, as well as marketing strategies of the PFAs.

The act under section 2(2) provides that the scheme shall apply to employees who are in employment of an organization in which there are 15 or more employees. Also subsection (3) provides that notwithstanding the provision of (2) employees of organizations with less than three employees as well as self-employed persons shall be entitled to participate under the scheme in accordance with the guidelines issued by the commission. This has been viewed as an obvious lacuna susceptible to employers' exploitation (Pension Compliance Highlight, 2014).

Again the new rate of contribution to the scheme in section 4(1) which provides a minimum of ten percent by employer and a minimum eight percent by employee is considered to be antithetical to the growth of businesses in Nigeria, especially with regards to the increasing cost of doing business thus discouraging new employment, has resulted in poor compliance with the provisions of the PRA (Pension Compliance Highlight, 2014; Price Water Cooper House, 2013).

With the skyrocketing rate of violation of the act by employers, there are no protective whistles blowers' provision, that would enable employees expose aberrant employers, especially for the fear of loss of employment, due to spike in Nigeria's unemployment rate. Sadly, as a result of the above, many employers continue to breach the provisions of the mandatory contributory pension scheme, thereby inhibiting the ability of the scheme to be self-sustaining (Pension Compliance Highlight, 2014).

Also the availability of better job security in the public sectors as against the private sector, suggest the cause of spike in early retirement in the private sector, as most private sector employees either get sacked or placed on redundancy before attaining the mandatory retirement age provided by the pension reform act, although the Pension Reform Act has no clear provision for minimum retirement age as section 31 provides that no person shall be entitled to make any withdrawal from their retirement savings account before attaining the age of 50 years, and Section 3(2) permits withdrawal from retirement savings account by an employee who retires before the age of 50 and had not secure another job four month after, suggest that employee may retire before the mandatory retirement though ambiguous as it might seem, it profoundly indicates the surge in pension payment especially to private sector employees, (Faphohunda, 2013).

PenCom 1st quarter report (2019) showed approval for payment of N4.51 billion to 10,733 to RSA holders who were under the age of 50 years and were disengaged from work and unable to secure another job within 4 months of disengagement. Thus the cumulative total number of RSA holders who were paid benefits for loss of job according to this report was 313,468 and were paid a total of N107.93 billion been 25 percent of the balances of their RSAs as prescribed by the Pension Reform Act 2014. A further analysis showed that the private sector accounted for 95.38 percent of those who benefitted from these payments while the public sector accounted for 4.62 percent. These suggest that incessant job loss in the private sector, simultaneously lead to spike in number of employee in need off early pension

Theoretical Framework

The fundamental assumption of the modernization theory is the development of "universalism." This means that the strategies that have advanced industrial countries such as the UK and the US applied should be emulated by developing countries. The landmark of this Universalist approach is Rostow's (1960) stage theory. Rostow posits the idea of unidirectional history from traditional society to industrial society by emphasizing the take-off stage. The take-off stage is a sort of threshold in development. Once the society reaches this point, the socioeconomic conditions will advance and will be less likely to regress. However, for developing countries, following Rostow's original model, the most serious challenge is how to boost industrialization to the extent that the society reaches the threshold. Some functionalist sociologists such as Parson (1951) have suggested that the increased level of division of labour is a necessary condition for modernization, in particular the establishment of modern nation-states in which various bureaucracies and agencies are responsible for various technical tasks. They also claimed that the rationalization of political systems and the secularization of society are indispensable for accelerating the modernization processes.

Similarly, political scientists have suggested, particularly during the 1950s and 1960s, that modern technical bureaucracy is required to bring traditional society into an era of modernity. Samuel Huntington (1968), for example, argues that a centralized bureaucratic state can enhance the capabilities of the state and bring about modernization reforms in a changing society. When traditional society begins to move toward modernity, the technocratic and bureaucratic aspects of the state are required to coordinate and effectively implement various policies in politics, economics, and society. Hence this theory is a clarion call to the government to put in measures that would further strengthen compliance with provisions of the Pension Reform Act, as finding from observation and documentary account has conspicuously shown that lack of compliance has being the major bane militating against the effective take off of the new scheme, due to the cosmetic and window dressing approach that have been adopted in the regulation of employers. The contributory pension scheme since its adoption in 2004 has been adjudged by expert and stake holders to be novel, progressive and a pragmatic approach in solving the failings of the old defined benefit scheme, but expert and stake holders have equally suggested that measures have to be put in place to correct some of it noticeable flaws and avoid its extinction. These measures and strategies according expert and stakeholders should borrow from Rostow's Universalism, which advocates the emulation of strategies from industrialized countries, especially in the area pension administration, in other to forestall the failing or regression of the new scheme, bearing in mind the urgent need for modernization of every sector of the Nigeria's public administration through strategic partnerships, meritocracy, adoption of technology for tracking and effective supervision of agencies.

Research Methodology

The study elicited response from members of the general public with specific focus on private sector employees in the FCT. Respondents were selected using judgmental sampling, these is because data needed for this study requires only the participation of employees in the private sector. The aim is to find out how effective the contributory pensions scheme is in the private sector. Questionnaire was distributed to 150 samples, this sampled respondent consist of employees of four selected private institutions in Abuja. The study used the descriptive statistics and frequency distribution table for presentation and analysis of data elicited from respondents.

Result of the Findings

The result of the findings on registered employees under the contributory pension scheme is presented in Table 1.

Table 1: Responses on whether employees are registered under the contributory pension scheme

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	52	34.7	34.7	34.7
	No	98	65.3	65.3	100.0
	Total	150	100.0	100.0	

Source: Field survey, 2019

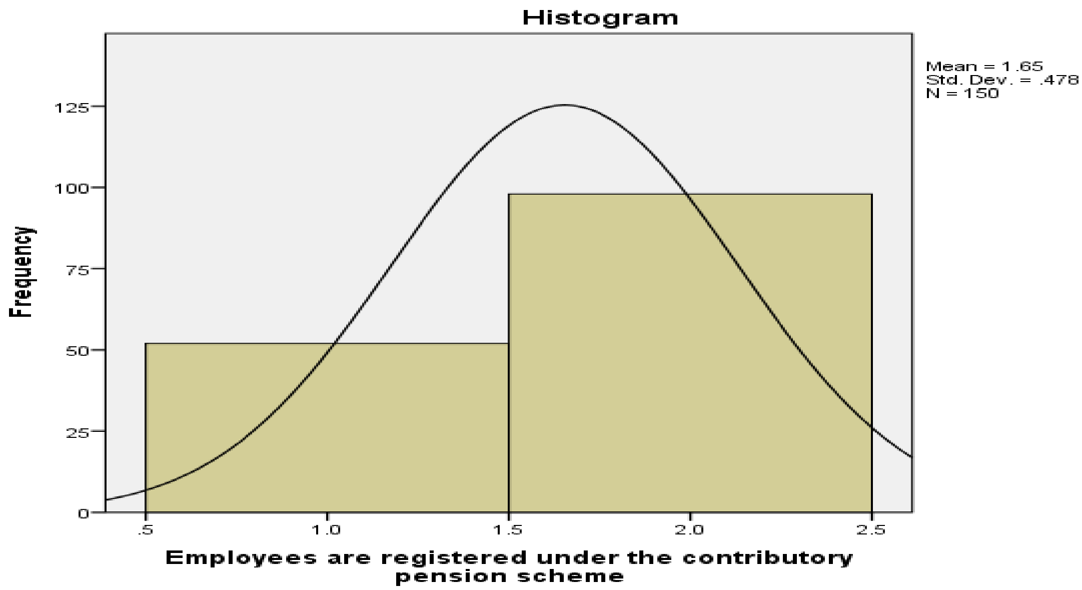

Fig. 1: Graphical illustration of responses on whether employees are registered under the contributory pension scheme
Source: Field survey, 2019

Table 1 indicates that out of 150 respondents, 52 of the respondents representing (34.7%) agree with the assumption that employees are registered under the contributory pension scheme. On the other hand, 98 respondents, which represent (65.3%), rejected the assumption that employees are registered under the contributory pension's scheme. The implication of response from table I suggest that most employees in the private sector are not registered/ Enrolled under the new contributory pension scheme in spite of having the required staff strength stipulated by section 3 of the Pension Reform Act.

Table 2: Reasons why private sector employers are casual towards the implementation of the contributory pension scheme

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Harsh economic climate	74	49.3	49.3	49.3
	Lack of effective monitoring by PenCom	41	27.3	27.3	76.7
	Huge percentage of employer contribution into employees RSA	35	23.3	23.3	100.0
	Total	150	100.0	100.0	

Source: Field survey, 2019

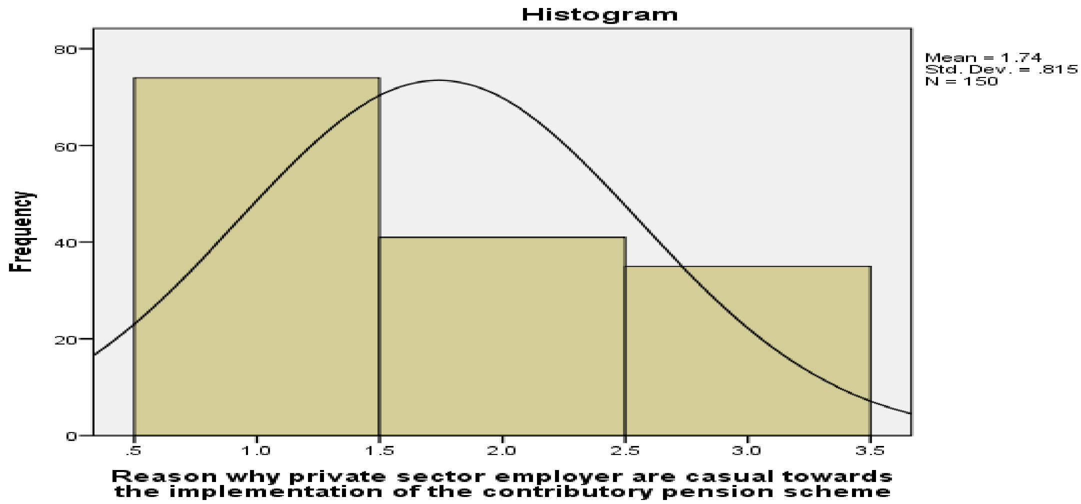

Fig. 2: Graphical illustration of reasons why private sector employers are casual towards the implementation of the contributory pension scheme
Source: Field survey, 2019

Response from Table 2 indicates that out of 150 respondents 74 of the respondent, representing (49.3%) of the respondent are of the view that harsh economic climate is specifically responsible for private sector casual implementation of the contributory pension scheme, on the other hand 41 of the respondent which represent (27.3%) believes that lack of effective supervision is responsible for the casual attitude in the implementation of the scheme, while 35 respondents, representing (23.3%) believes that huge percentage of employers contribution into employees Retirement Savings Account (RSA) is responsible for employers casual attitude in the implementation of the scheme. The policy implication of response from Table 2 shows that harsh economic climate is primarily responsible for private sector violation of the scheme.

Conclusion

This study has examined the efficacy of the contributory pension scheme in the Nigerian private sector. Findings from the above study shows that most private sector employees are not enrolled under the contributory pension scheme which is a violation section 2(2) of the Pension Reform Act. The second findings of the study show that majority of respondent are of the firm belief that harsh economic climate is responsible for the lackluster adherence to the contributory pension scheme policy in the private sector. The study conclusively asserts that in spite of the provision of the Pension Reform Act which made it mandatory for employees both within the public and private sector to operate the scheme, private sector employers have consistently violated the scheme, making it seem more like a public sector scheme, more realistically, the study solicit the use of the carrot and stick method, by enforcing stiffer sanctions against violators of the scheme and the provision of some economic stimulus to employers having difficulty sustaining their companies overhead.

Recommendation

i. PenCom should strengthen their supervisory machinery by way of partnership with the Cooperate Affairs Commission (CAC), which is saddled with responsibility of regulating the formation and management of companies in Nigeria. This partnership can take the form of ensuring mandatory pension enrolment of all private sector company employees into the contributory pension scheme. This will serve as a precondition for registration of private companies as stipulated under section 22 of the Companies and Allied Matters Act. However, in other to keep track of defaulting employers in the private sector, PenCom through it partnership with the CAC can withdraw the operating license of any employer failing to enrol their employees into the scheme, as stipulated under section 23 of the Companies and Allied Matters Act.

ii. As the economic turf gets tougher, it also imperative on the government, to put in place private sector economic stimulus measures, for instance the Central Bank of Nigeria through its Monetary Policy Committee (MPC) meeting should mandate financial institutions to issue loans on a single digit interest rate to support growth, just as it is being done in other countries. This will go a long way in helping private sector companies in fulfilling their responsibility by making their own percentage of contribution for staff in the pension scheme. Nigeria's bank loan to the private sector currently ranks among the lowest in the world, with only ($43billion) as at December 2018. This is very poor when compared with other countries like South Africa ($242billion), Indonesia ($404billion), Mexico ($422 billion).

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