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PENSION REFORM ACT 2014 AND THE FUTURE OF PUBLIC SERVICE PROSPECTIVE SENIORS: A PROGNOSTIC ANALYSIS

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ABSTRACT

The study examined the Pension Reform Act of 2014 in relation to the future of public service prospective seniors in Nigeria. The study analysed the contents of the Act to point out its effects on the life-after retirement of prospective seniors presently in public service. The study utilized the qualitative desk research method and secondary method was utilized to source for data. The study found that timely remittance of pension deduction; investment of pension fund etc, have been put in place by government to achieve the Act's objectives. The study concluded that the proper implementation of the Act will positively affect the future of public service prospective seniors. The study thus recommended that all stakeholders should be sincere, cooperative and dedicated in their dealings towards the successful achievement of the Act's objectives.

KEYWORDS: Pension Reform Act, Prospective Seniors, Public Service, Retirement, Nigeria.

INTRODUCTION

Pension programmes, which are schemes and activities that regulate and manage the issues relating to pension is an issue of concern to the general public. This is because such programmes are central to the well-being of pensioners and the elderly, and also determines what their future life (after retirement) will look like.

The Nigerian pension reform was necessitated due to the inability of the government to meet the pension overheads which has continued to cut deep into the national budget.

Over the years, Nigeria has operated different pension reforms, the latest being Pension Reform Act 2014, which came on board to correct the deficiencies in previous pension reforms like that of 2004.

Pension programmes are basically related to prospective retirees and life after retirement, which is futuristic. To this end, this study examined Pension Reform Act 2014 in relation to the future of public service prospective seniors and made predictions on how the future life of public service retirees with the application of the Act. In achieving the above, the study utilized qualitative desk research method and secondary

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data collection to arrive at its findings.

This study will be relevant to the general public, pension fund administrators and government agencies in surmounting the challenges inherent in the implementation of the Pension Reform act 2014, if the recommendations are adhered to.

LITERATURE REVIEW

Pension

The U.S. Department of Labour, (2010) defined pension ‘as a type of retirement plan that provides a monthly income in retirement”. Government organizations and some large companies usually offer a pension. A pension is a fund into which a sum of money is added during an employee's employment years and from which payments are drawn to support the person's retirement from work in the form of periodic payments.

A pension may be a "defined benefit plan", where a fixed sum is paid regularly to a person, or a "defined contribution plan", where a fixed sum is invested and becomes available at retirement age (Thomas & Gerald, 2010). Pension is thus conceptualized as the amount set aside either by an employer or an employee or both for the employee to utilize after retirement from active service. It is aimed at providing workers with financial security by building up plans that are capable of providing guaranteed income to them when they retire or to their dependents when death occurs.

Pension Reform

Pension reform is the positive changes made for the improvement of pension programmes or schemes to remove abuses or injustices in existing pension schemes or programmes, which include introducing new ideas or innovations to improve pension administration.

Pension administration in Nigeria can be traced to the Pension Ordinance of 1951, which took effect retroactively from 1st January 1946, with the sole aim of protecting British officers who might be asked to serve in Nigeria. The Pension Ordinance was initially intended only for the British officials but was later extended to Nigerians after series of criticisms and protests, even at that, its application to Nigerians were with limitations.

From the inception of the Pension Ordinance of 1951, Pension administration has undergone several reforms in Nigeria. The National Provident Fund (NPF) Scheme was established in 1961 by an Act of Parliament to provide income loss protection for employees as compulsory by the International Labour Organisation (ILO) Social Security (Minimum Standards) Convention 102 of 1952. The NPF scheme was later transformed to a limited social insurance scheme established by Decree No. 73 of 1993 and managed by the Nigeria Social Insurance Trust Fund (NSITF).

The Civil Service Pension Scheme was established by the Basic Pension Decree 102 of 1979. This scheme was for all public servants except those who were on temporary or contract employment. The compulsory retirement age for these set of workers was 60 years apart from high court judges that was 65 years and 70 years for Justices of the Court of Appeal and the Supreme Court.

In that same year of 1979, the Armed Forces Pension Scheme was created through Decree 103 of 1979 with retroactive effect from April 1974 (Pension Decree, 1979). Also in 1979, the Armed Forces Pension Act No. 103 was enacted.

In 1985, there was the Pensions Rights of Judges Decree No.5, as amended by the Amendment Decree Nos. 51 of 1988, 29 and 62 of 1991. The police and other government agencies' pension scheme were enacted under the Pension Act No. 75 of 1987. The Local Government Staff Pension Board was established in 1987. In 1993 there was Police and other Agencies Pension Scheme Decree No: 75 of 1993 which took retroactive effect from 1990.

These various Decrees were in operation in Nigeria until June 2004, when the Federal Government developed the pension management and administration with the enactment of the Pension Reform Act of 2004. This reform led to the emergence of the Contributory Pension Scheme (CPS), (FRN, 2004).

The Pension Reform Act of 2004 though introduced the CPS in place of the Defined benefit scheme (Pay-as-you-go) that was on ground, had its deficiencies, such as none coverage of state and local government employees and judiciary workers, hindrance in payment of retirement benefits, abolition of gratuity, non-uniformity in the level of contributions, discriminatory nature and rate of contribution which negate the Nigerian Constitution of 1999 on the principle of equality (Anyim, 2014), and others led to the enactment of the Pension Reform Act of 2014 (PRA). With the PRA of 2014, the informal sector of the Nigerian economy can also participate and it makes pensions scheme in Nigeria for both private and public sector identical under the aegis of CPS (Anyim, 2014).

Pension Reform Act 2014

Former President Goodluck Jonathan, on 1 July 2014, signed into law; the new Pension Reform Act 2014. The Pension Reform Act 2014, repealed the Pension Reform Act No 2 of 2004, and it governs and regulates the administration and management of the Contributory Pension Scheme (the Scheme) in Nigeria. Below are some basic facts about the pension reform act of 2014:

The Act sets out the regulatory framework for the administration of the contributory pension scheme for both the public and private sectors in Nigeria. The Act encourages participation in the contributory pension scheme which applies to all employees in the public sector and those in private Organizations with 15 and above number of employees. The Act requires both employer and employee to make a minimum of 10% and 8% respectively of the employee's monthly emoluments, which is the contributory Pension Scheme. Pension funds can be invested to yield profit or dividends; this includes specialist investment funds and other financial instruments as approved by the Commission. Interests, profits, dividends, investments and other income accruable to pension funds or assets are exempted from tax.

The National Pension Commission (PenCom), which is the sole regulator of pension activities in Nigeria, determines how compensations will be made where the shortfall in payments arise. The Act provides for an employee who disengages from employment before the age of 50 and is unable to secure employment within four months of disengagement to be allowed to make withdrawals from the account not exceeding 25% of the total amount credited to the retirement savings account.

There are penalties for offences of misappropriation of funds, reimbursement or payment by a Pension Fund Administrator (PFA) or Pension Fund Custodian (PFC). In situations where the PFC fails to hold funds to the exclusive preserve of the PFA and PenCom or where it applies the funds to meet its own financial obligations, the Act permits disciplinary actions. The High Courts of the Federal, State, Federal Capital Territory and National Industrial courts have the jurisdictions to try such offences. A Pension Protection Fund has been created by the Act to protect the contributors' funds. Profits from this fund are paid to contributors in the form of minimum guaranteed pension.

Any member of board, employee or agent, officer engaged by a PFA or PFC is expected to maintain confidentiality with respect to information obtained in the course of their duties, failure to comply will be sanctioned. No action can be taken against an officer or employee of the National Pension Commission (PenCom) for any act done in execution of the Act or any other law if not commenced within three months of the act or in the case of a continuous act, within 6 months after the act ceases.

Funds Contributed to PFA's shall be computed and credited into the respective retirement savings account opened under the Act. Any individual who has retired before the commencement of the Act shall be entitled to make withdrawals from the account although not exceeding 25% of the total amount credited to the retirement savings account. Any employee aggrieved with his employer or PFA is required to first approach the Commission for redress before exploring arbitration or initiating action at the National Industrial Court (FRN, 2014).

EMPIRICAL LITERATURE

Kotun, Adeoye and Alaka (2016) examined the effects of contributory pension scheme on employees' productivity: Evidence from Lagos state government. The authors critically examined some of the justification for the contributory pension scheme as part of its values and determined their implications for public servants productivity and pensioners welfare in Lagos State. The methodology employed to achieve these objectives was carried out through primary source of information and personal interview. The primary source involved field survey that consists of administering questionnaire. The sample size is one hundred and twenty respondents (120). Simple random sampling method was used in administering the questionnaire. The data collected was analyzed statistically in form of tabular presentation with the aid of Statistical Package for Social Sciences (SPSS) version 21. Two hypotheses were tested. The result of the analyses reveals that there is significant relationship between adequate retirement package and employees' productivity and that it has a positive impact on the organization efficiency. Both empirical study and oral interview conducted however, found that the contributory pension scheme (CPS) has positive potentials over the defined benefits pension scheme (DBPS). The authors recommended that stakeholders should be involved in the review of the scheme so as to streamline it and to adequately supervise operators' clients' sensitization programmes. Also, dissemination of

appropriate information on the new pension scheme should be a continuous exercise.

Ikeanyibe and Osadebe reviewed the promises and challenges of the 2004 pension reform in Nigeria by using descriptive historical method to assess the 2004 pension reform in Nigeria. It examines the promises of the reform vis-à-vis the pre-reform crisis-ridden pension administration in both public and private sectors. The paper underscores some prospects of the new scheme which are mainly in the areas of regulation, third party administration by professional institutions and funding but identifies other challenges such as spread and coverage, slow pace of acceptance by lower tiers of government and corruption. The authors point to the fact that most of the criticisms against the introduction of the scheme are based on economic projections which could be neither here nor there, and, which could be controlled by diversification in pension fund investments. The authors recommended the need for enlightenment directed towards the employees understanding their rights and demanding it from the employers as concerning private sector coverage.

Amiens and Abusomwan (2019), examined the challenges of recent pension reforms in Nigeria as well as the vision achievement rate of PenCom. The study reviewed the literature and published annual reports of PenCom. It was found that reluctance and disbelief by workers to register with Pension Funds Administrator, compliance, benefit inadequacy, low capital formation, non-inclusion of the informal sector, overlapping regulations, and coverage are persistent challenges confronting recent pension reforms in Nigeria. In addition, it was found that the vision achievement index by PenCom is below average after 14 years of operation. The study recommends a synergy between Pension Fund Administrators, Pension Fund Custodians and PenCom in order to combat some challenges of noncompliance. In addition, these stakeholders should adopt best processes and technologies that would influence workers positively and change the unwillingness and disbelief by workers to register with Pension Funds Administration (PFAs).

Ikwor and Nkwagu. (2020) examined the post 2014 Pension Reform Act on Nigeria economic growth. The study specifically sought to ascertain the effects of post 2014: Retirement Savings Account (RSA) portfolio performance; Closed Pension Fund Administrators (CPFA) portfolio performance; and contributory pension scheme (CPS) portfolio performance on Nigeria economic growth. The study is hinged on the deferred wage theory and endogenous growth theory. The study adopted ex-post facto research design. Secondary data was quarterly sourced from National Pension Commission for a period of 2011 to 2019. The Ordinary Least Square was employed in estimating the hypotheses as stated in the study's model specification. The findings show that retirement savings account portfolio performance; closed pension fund administrators portfolio performance; and contributory pension scheme portfolio performance have positive and significant effect on Nigeria economic growth. This implies that the Nigeria pension industry is contributing significantly to Nigeria economic growth. The study recommended amongst others that policy makers, especially, the pension regulators such as PenCom, etc. should make concerted efforts at expanding and regulating the investment outlets for Pension Fund Custodians in the country.

In summary, from the studies reviewed in the literature, all the authorities have given an insight on how pension reform may affect economic performance, effects on employee productivity and vision achievement of PenCom, but none of such studies focused on how the Pension Reform Act 2014 will affect the future of public service prospective seniors. The dearth of such studies therefore claimed the attention of this study and this constituted the gap this study intends to fill.

PENSION REFORM ACT 2014 IN RELATION TO THE FUTURE OF PUBLIC SERVICE PROSPECTIVE SENIORS

Change in Contributory Rate

The Act has increased the rate of contribution for employees and employers to a minimum of 8% and 10%, respectively. This has greatly increased the monthly savings of prospective retirees and will go a long way in ameliorating some of the difficulties inherent in old age for these prospective seniors in the public sector.

Timing of Remittance of Pension Deduction

The Act requires employers to remit the deductions made in respect of pension within seven (7) days from payment of salary. Late remittance will attract a penalty of not less than 2% of the total outstanding contribution for each month or part month for which the default continues. This aspect of the act will help boost the morale of the prospective seniors and also create a sense of patriotism.

Withdrawal from the Scheme

The 2014 Act creates another condition which allows retired individuals and persons, who disengage from employment under the age of 50 and are unable to secure another employment within four (4) months of disengagement, to make withdrawals from their Retirement Savings Account (RSA) not exceeding 25% of the total amount credited to the retirement savings account. This part of the act will help the prospective retirees to have something to fall back on, in case of any eventuality that will make them redundant before retirement.

Equity Contribution for Mortgage

Section 89(2) of the Act provides that a PFA may subject to the guidelines issued by the Commission, apply a percentage of the balance in a Retirement Savings Account (RSA) towards the payment of the equity contribution in a mortgage scheme entered into by the holder of an RSA. This is a commendable achievement as it increases the ability of an RSA holder to access mortgage loan, it will assist prospective retirees to have their own house to live in and not to continue being tenants even at old age and it will also help to speed up the attainment of government's dream of housing-for-all in the country.

Dispute Resolution

Any dispute between employee and employer or Pension Fund Administrator (PFA) is to be reported to the National Pension Commission (PENCOM) for a redress before approaching the National Industrial Court. This welcome initiative enables disputes to be resolved easily and promptly to foster industrial harmony, which contributes to the wellbeing of prospective retirees on the long run.

Additional Obligation for the Employer

The Act requires employers to open a notional RSA for the remittance of employees' pension contributions where such employees fail to open an account within six (6) months of employment. This will assists the prospective public sector senior secure his/her future by saving.

The Pension Protection Fund (PPF)

Under the new Act, the PPF, which consists of an annual subvention of 1% of total monthly wage bill payable to employees in the Public Service, an annual pension protection levy paid by the Commission and all licensed pension operators at a rate to be determined by the Commission from time to time; and income from investment of the Pension Protection Fund. The main objective of the Fund is to guarantee a minimum benefit to prospective seniors in service and make up any shortfalls to that amount as may arise. The Act also provides that the Commission will issue regulations governing the operations of the Fund.

Exemption from Tax

The Act states that any interests, profits, dividends, investments and other income accruable to pension funds or asset are not taxable; withdrawal of voluntary contribution is no longer subject to tax if withdrawn within 5 years and tax is limited only to the returns on such contributions if withdrawn within 5 years. The thought of tax exemption on profits, dividends, investments etc have continued to put smiles on the faces of prospective public sector seniors and also boost their morale.

Choice of Pension Fund Administrator

The Act provides employees with the right to choose their PFA. Where an employee fails to open a Retirement Savings Account (RSA) within 6 months after assumption of duty, his employer can now request a PFA to open a nominal RSA for such employee for the remittance of his pension contribution. This flexibility aspect of the Act is encouraging since it gives the employee the liberty to choose his own Pension Fund Administration that he/she is comfortable with and trusted.

Investment of Pension Funds

The Act has expanded the scope of investments in which pension funds can be invested to include specialist investment funds and other financial instruments the Pension Commission may approve. While this is a good thing on one hand, care should be taken for funds to be invested wisely to protect and preserve contributors' wealth.

Offences and Penalties

The Act criminalizes an attempt to commit an offence and imposes the same penalty as the offence itself. The penalties for misappropriation have also been increased. In addition to a prison term of 10 years and a fine of three times the amount misappropriated, a convicted person would refund the amount misappropriated as well as forfeit to the Federal Government any property, asset or fund with accrued interest or the proceeds of any unlawful activity under the Act in his/her possession, custody or control. The Act also imposes a penalty of at least 10 million Naira upon conviction on a Pension Fund Commission, where the PFC fails to hold the funds to the exclusive preserve of the PFA and PenCom or where it applies the funds to meet its own financial obligations (in the case of a

director, 5 million Naira or a term of 5 years imprisonment or both). This development has continued to build the confidence of contributors in the scheme believing that their contributions are secure and looking forward to a blissful life after retirement.

DISCUSSION OF FINDINGS

From the analysis of the Pension Reform Act of 2014 above, the study found that the Act has put several measures in place to achieve its objectives of establishing a uniform set of rules, regulations and standard for the administration and payment of retirement benefits for public service, make provision for the smooth operations of the contributory pension scheme, ensure everyone in the public service and employees in large companies with more than 15 employees receives his/her retirement benefits as and when due and assist citizens to save to cater for their future livelihood at old age. Some of these measures are; Timely remittance of pension deduction; dispute resolution; investment of pension fund, exemption from tax, compulsory pension contribution etc.

CONCLUSION

From the discussions of findings the study concludes that with the effective application of the Pension Reform Act of 2014, most prospective public service seniors do not have the fear of future uncertainties because the Act has really prepared them to face the future with the knowledge that they have something (income) to fall back on and able to cater for their life after retirement.

The 2014 Pension Reform Act has turned the thoughts of retirement into a sweet dream for prospective public service seniors since they now look forward to good and peaceful life after retirement. Public service employees now believe they will have a stable emotional, psychological and financial life after retirement, which will boost their morale and enhance their overall production in the service.

The study recommends that all stakeholders like the employees who make contributions; the employers who contribute for their employees; financial institutions (Pension Fund Administrators) who manage and administer contributions; PENCOM (regulator) and government that sets the regulatory framework, should all be sincere, cooperative and dedicated in their dealings towards the success of the Act.

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