Problems of Contributory Pension Scheme in Implementation Nigerian Tertiary Institutions: Future Remedy

Okere Obinna .C
Department of Accounting,
Imo State Polytechnic,
Omuma Orlu East.
08111454010
Email – mrokereobinna@gmail.com

Abstract

The study investigated the problems of contributory pension scheme implementation in selected Nigeria Tertiary Institutions and to find future remedy. The main objective of the study was to determine reasons for the failure of contributory pension scheme in some Tertiary Institutions while the specific objectives are to determine appropriate Institutional frame work for the implementation of CPS in higher institutions whether employees' apathy hinders to contribute to the scheme jeopardize the operation of the scheme in higher Institutions and to determine if lack of trust hinders the operations of the scheme in territory Institutions. The research based on the secondary data in gathering information using context analytical approach. The investigation shows inadequate organizational frame work for the implementation of CPS in some tertiary Institutions in Nigeria and inadequate structure for sensitization of the staff to realize the vital merits in the scheme. The researcher recommenced the policy makers management coupled with pension Administrators need to facility a good structure aimed at educating and sensitizing current staff and incoming staff on the merits and reasons for having CPS. This will enhance and address the existing problems of staff lack of trust in the contributory pension scheme.

Keywords: pension, contributory, territory, lump sum, paramedic.

Introduction

Pension is universally regarded as amount paid by the government or organization/entity to an employee after working for specific period of time considered old or ill to work or have attended statutory age of retirement. Pension is monthly sum paid to a retired officer until death because the officer has worked with the organization paying the sum (Adam 2005), however Omoragbon (2004) defined pension as a sum of money paid regularly to a person who no longer works because of age, disablement or to his widow or dependent children by the state or by his former employer or from fund to which he or his former employer or both contributed. Pension is generally conceived as 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.

Pension system was introduced into Nigeria by the colonial Administration the first legislative document on pension in Nigeria was the 1951 pension ordinance which had retroactive effect from January 1, 1946. The ordinance provided public servants with both pension and gratuity. The National provident fund (NPF) scheme established in 1961 was the first legislation to address pension matters of private organization in Nigeria.

The National provident fund (NPF) was followed by the pension acts No 103 also of 1972 and by the pension act No 102 of 1979 18 years later. The pension acts No 102 of 1976 which commenced on the 1st April 1974 comprised the recommendation of Udoji commission which included all enactments and circulars on pension as well as repealing existing 113 person laws hitherto in force. Other pension acts include; Pension right of judges act No 5 of 1985, the police and other Government agencies pension scheme enacted under pension act No 75 of

1987 and the local government pension edict which culminated in the setting of the local government staff pension Board of 1997. In 1993 the National social insurance trust fund (NSITF) scheme was set up by degree no 73 of 1993 to replace the defunct National provident fund (NPF) scheme with effect from 1st July 1994 to cater for employees in private sector of the Economy against laws of employment men in old age invalidity or death (Balogun, 2006).

The office of the head of service prepared the trust deed and rules while the parastatals were empowered to have sole pension arrangement for their employee and appoint Board of trustee (BOT) in 1997 to manage their pension plans as enshrined in the standard. In 1954 the Nigeria Breweries was the first private sector pension scheme in Nigeria established for the employees while the United African Company (UAC) scheme followed in 1957. According to the World Bank (1994).

The matter of pension has received great attention in many countries over the past decades. Currently pension has greatly attracted the interest of many makers of policy in different countries as a way of enhancing privately funded retirement income saving by an aging work force. Eminent personalities who contributed greatly towards the development Nigeria economy and other areas were treated in dishonorable way as a result of poor administration. There were instances of collapse in queuing, for monthly pension money, paralysis, death frustration struggling to collect the pension (Dike 2006). Despite the fact that Government paid 100 percent in funding the old pension, it still posits problems and frustration for pensioner and retiree. President Olusegun Obasanjo took presidential decision and inactive to reform the pension Act 2004 as to fund out good and less cumbersome way of dispensing pension benefit without pain hence the emergence of the contributory pension scheme.

According to Dikeh (2006) contributory pension is a scheme where both employee and employer contribute to the pension fund under specific basis on which contributions will be made to the level of benefit that will be provided under this scheme individual accounts are maintained for the participants, the accounts being credited with their share of contributions and investment return. It ensures that everyone who has worked receives his / her retirement benefits as and when due and the new pension scheme covers all employees in the public service of the federation, the federal capital territory and the private sector of the economy National pension commission (2008).

The new pension scheme is contributory fully funded based on individual accounts that are privately managed be pension fund. Administrators (PFA) with the pension fund custodians. An employer is obliged to deduct and remit contributions to a custodian within 7 days from the day the employee is paid his salary while the custodian shall notify the pension fund administrator (PFA) within 24 hours and retirement benefits are tax exempt. The enactment of the new pension act 2004 signed into law by President Olusegun Obasanjo on 30th June 2004 has open a new visit in the management of pension fund.

Guiding the new pension regime is the National pension commission which is the apex regulatory body and the establishment of pension fund administrators and custodians. Under this act to qualify for pension the public officer must have served a minimum of I5 years and gratuity was payable after 10 years of services. However, the pension was employed only after having attained the age of 40years. Employment computation under this act is based on annual terminal basic salary, annual transport allowance, housing allowance, annual meal subsidy, annual rent grant, entertainment allowance and annual salary of domestic staff. The contributory pension scheme as promulgated by pension act 2004 was to fashion out a veritable and less cumbersome manner of dispensing pension benefit without causing much pains and sufferings to the retirees or other beneficiaries.

The scheme is contributory in nature whereby both the employers and employees contribute certain amount of money to be managed by pension fund manager.

This is to endure readily available of fund for disbursement to the qualified beneficiaries on retirement or wherever the employer leaves service. The contributory pension scheme expected to alleviate the problem associated with the old pension scheme whereby retirees suffered unduly and where frustrated in the bid to earn their retirement benefit. The introduction of the scheme in some tertiary institutions was to guarantee the retirement benefits of the staff on leaving the institution, still the scheme does not alleviate the sufferings of the pensioners of the institution.

Against this, the study investigated the problem that hinders the full operations of the school in some tertiary institutions. The study will be beneficial to makers of policy in tertiary institutions in Nigeria, assist them to know how to manage the pension fund contributed by the staff, the employees will know amount contributed as to plan better on retirement and will contribute to the already existing knowledge on contributory pension and how it works.

Review of Related Literature

Conceptual Review

The operation of contributory pension scheme regulated by the pension commission and it is private sector driven with government only playing its part by contributing its quota to the relevant pension manager for public servant Dike (2006). When the 2004 pension reform act was enacted it was meant to establish a contributory scheme for the payment of retirement benefits of employee in the public and private sectors Popoola (2012). The scheme sought a system that would correct the failure of the old scheme in which workers are subjected to undue hardship, especially in the nonpayment of their pensions. Under the old scheme, such expected beneficiaries had to queue for days many of them dying in the process without getting paid.

Under the contribution scheme every employee is mandated to open and maintain an individual retirement savings account in his or her name with any pension fund administration in compliance with section 2 of the 2004 pension reform act scheme. Pension fund administration is by law mandated to manage the account, but these funds and pension assets must be kept with pension custodians, who are guaranteed by the banks and regulated by the National pension commission. On retirement, a retiree can only be given certain percentage of the fund known as lump sum, while the rest will be utilized either as programmed withdrawal or as annuity. The contributory pension scheme has the following feature as established by the association of pension consultant on their 4 days national workshop.

(a) Contribution of fund by both the employer and employee to find retirement benefits.

(b). Crediting the employee's retirement saving account with pension fund administrator with fund contributed.

(c) Pension fund assets are privately managed and invested by professional pension fund assets are to be privately managed and invested by professional pension fund manager.

(d) Strict regulation of pension fund managers under uniform laws and regulation for both private and public sector

(e) The Establishment of the National pension commission.

World Bank (1994) stated that issue of pension has received much attention in many countries over the past decades. In fact, in recent times pension has increasingly attracted the attention of policy makers in many countries, as a means of facilitating privately funded retirement income saving by an ageing workforce. It stresses that many countries have opted for various forms of contributory pension scheme where employers and their employees are supposed to pay a certain percentage of the employee’s monthly earnings to a retirement savings account from which they would be drawing their pension benefits after retirement.

Adam (2005) 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 monthly sum paid to a retired officer until death because the officer has worked with the organization paying the sum. Adebayo (2006) stress that a greater importance has been given to pension and gratuity by employers because of the belief that if the employees future needs are guaranteed ameliorated and properly taken care of, they will be more motivated to contribute positively to organizations output. Similarly various government organizations as well as labor union have emphasized that need for, sound good and workable pension scheme. Meanwhile Odia and Okoye (2012) stated that there are two broad types of pension reform parametric reform involves adjustments to the parameters of the pension system such as retirement age, contribution rate, etc. but on the other hand systematic reform involves a complete shift in the pension systems by a country example from say defines benefit system on a multi pillars systematic pension reform, that is changing completely from the defined benefit to the defined contributory system. It has an individual to the defined contributory system. They stated that Nigeria individuals' retirement savings account (RSA) valued arrangement taking various forms (individuals employer sponsored, defined benefit and defined contributory) which are flexible and discretionary in the nature and informed intra-family or inter-generational sources of both financial and non-financial support to the elderly, including adequate health care Holman and Hinz (2005).

According to Adebayo (2006) greater importance has been given to pension and gratuity by employer because of the belief that if employees future needs are guaranteed ameliorated and properly taken care of the will be more motivated to contribute positively to organizations output. Similarly various governments' organizations as well as labor union have emphasized the need for sound, good and workable pension scheme. Financial regulation section 1905 state that all accounting officers shall ensure that a subsidiary account pension unit is created in their ministries extra ministerial officer and other arms of government. The section shall function independently of the main subsidiary account section of the ministries/Extra-ministerial and other arms of government also in section 1906 of financial regulation the accountant general of the federation shall allocate a below the line classification code to all ministries/Extra-ministerial offices and other arms of government for the recording of monthly pension contribution.

Where an employee transfers his services, or employment from one employer or organization to another the same retirement savings account shall continue to be maintained by the employee. Federal polytechnic Nekede operates the contribution pension scheme aimed at ensuring that every person who worked in the university receives his/her retirement benefits as and when due and assist improvident individual by ensuring that they save in order to carter for their livelihood during old age and establish a uniform set of rules, regulations and standards for the administration and payments of retirements benefits for the members.

An investigation of some Nigerian universities on the implementation of contributory pension scheme discloses that in the University of Nigeria Nsukka (UNN), the university is schedule for pension purposes by the federal government. The staff of the university enjoys both old pension scheme and the new contributory pension scheme as appropriate. Those who retired before July 2007 are placed in the old pension scheme while those who retired from July 2007 to date are accommodated under the contributory scheme. The old pension schemes. The old pension scheme is 100% funded by the federal government. Monthly subvention to the university those with 3 years and less to retire were exempted from the new contributory pension scheme at the inception of the scheme. Only professors who saved form 15 years and above appointment as professors are entitled to earn 100% of their relevant emolument as pensions under the old scheme.

While in Enugu State University of Science and Technology which is state owned University retired staff started receiving pension in 2004, sequel to the approval of the state

governor and at present staff are paid under the old pension scheme and are funded by state government. In Ekiti State University, the university does not operate the contributory pension scheme and at present, the university operates the old pension scheme and all effort to introduce contributory pension scheme failed. The Imo State University, is currently operating the contributory pension scheme. The university plans to move to the Nigeria university pension management company (NUPEMCO) when fully licensed for their pension administration. For the retirees who fall under the old pension scheme, the university pays their monthly pension along with staff salaries that is, pension is part of their staff emolument. Kogi state university has not commenced full implementation of the new contributory pension scheme but had however sensitized and duly registered them with pension fund administrators but currently they operate the old pension scheme for the few retired staff.

Theoretical Framework

The study was anchored on Expectancy Theory of motivation by vroom (1974) states that the strength of compliance depends on the attractiveness of the desired outcome. That an employee will yield to a higher compliance when he believes that the outcome will satisfy his personal goals. The theory according to Abba and others (2004) focuses on the relationships that the probability perceived by an employee will lead to the attainment of a desired outcome. That is the degree to which an organizational reward satisfies the employee's personal goals are the attractiveness of that potential reward to the employee. It therefore implies that if individual seriously perceives the outcome as leading the satisfaction of his needs, its measure of compliance is very high, if he does not expect a better outcome there is a reluctance in compliance.

The expectancy theory explained why a significant number of employees in various organizations in the country exert low compliance with the new contributory pension scheme and as a result does not augur well with the pension fund administrations. The issue of scanty complained with problem to the pension fund Administrations. On this note, pension fund Administrators have to be abreast of the tenets of expectancy theory in order to improve the quality of their services, so as to get the satisfaction of their clientele. Expectancy theory is a cognitive process theory of motivation that is based on the idea that people believe there are relationships between the effort they put forth at work, that is performance they achieve from that effort, and the rewards they receive from their effort and performance. In order words people will be motivated if they believe that strong effort will lead to good performance and good performance will to desired rewards. Victor Vroom (1964) was the first to develop 0an expectancy theory with direct application to work setting which was later expanded and refined by porter and Lawler (1968) and others Pinder (1987).

Expectancy theory is based on four assumptions (Vroom, 1964). One assumption is that people join organizations with expectations about their need, motivations and past experiences. These influence how individuals react to the organization. A second assumption is that an individual's behaviour is a result of conscious choice. That is people are free to choose those behaviours suggested by their own expectancy calculations. A third assumption is that people want different things from the organization such as good salary, job security, advancement and challenge. A fourth assumption is that people will choose among alternatives so as the optimize outcomes from them personally. The expectation theory based on these assumptions has three key elements; expectancy, instrumentality and valence. A person is motivated to the degree that he or she believes that (a) effort will lead to acceptable performance (expectancy), (b) performance will be rewarded (instrumentality) and (c) the value of the rewards is highly positive (Valence).

In evaluating the extent of implementation of contributory pension in Nigeria tertiary institutions and challenges thereof, it is pertinent to examine how the studies of other scholars corroborated with the finds of this study in the study titled "contributory pension scheme, workers commitment, retention and attitude towards retirement in the Nigerian civil service" Chizueze et al (2011) evaluated the impact of contributing pension on workers commitment retention and attitude towards retirement in the Nigeria civil service. The study drew respondent form the federal and state civil service in Calabar metropolis. Five hundred and forty-eight participants were purposively selected from the University of Calabar, Cross river university of Technology and governor's office Calabar. The study elicited response form respondent using four-point Likert scale questionnaire and data obtained were analyzed using Pearson product moment correction. The study adopted two schools of thoughts to explain the antecedences and attribute of pension scheme in Nigeria as well as workers attitude towards work and retirement. The first is the non-contributing school, this school is advocated by professional accounting bodies that pension retirement should be paid either as a lump sum or monthly throughout the life time of the pensioner (Sule & Ezugwu, 2009). On the other hand, the contributory school of thought emphasizes on the contribution from the employer and the employee also advocated to set of accounting bodies. The contributory school posits that contributory pension encourages efficiency, accountability and prudent management of pension asset and reduce corruption and mismanage of pension fund.

Methodology that the study adopted was survey design and also three hypothesis was used to test the significant relationship between contributory pension scheme and workers commitment to work in Nigeria civil service. The study demonstrated a significant positive relationship between workers commitment and the contributory pension scheme. The study suggests that workers are more confident towards retirement how than when the contributory pension scheme was introduced. The study revealed also that the psychological and emotional (Stress among workers occasioned by fear of retiring is gradually fading away in the Nigeria civil service. The study therefore recommended that government should put strict measures in place to ensure the proper monitoring and implementation of the provision of the pension reform act of 2004 and workers and employers of labour should be properly enlightened on the benefits of the contributory pension scheme. The study carried out by Okey and Osabede (2004) using descriptive method to examine the 2004 reform in Nigeria, the paper looked at the premises of the reform in both private and public sectors. It underscores the prospects of the new scheme, mostly in area of third-party administration by skilled institutions, fund, regulation and other problems like the coverage and spread. The researchers observed that most criticism against the introduction of the scheme are based on economic projections which could be controlled diversification in pension fund investments.

A mandatory pension scheme is different from poverty relief programmer and other social security benefits to avoid overloading the scheme. There is need for enlightenment towards the staff knowing their rights and demanding it from the employers.

According to Oluvatoy and Ezugwu (2009) in a paper "Evaluation of the application of the contributory pension scheme on employee retirement benefits of selected quoted firms in Nigeria; seek to evaluate whether the application of contributory pension scheme has an impact on employee retirement of quoted firms in Nigeria. Hypothesis was formulated and population of the study was one hundred and eighty-two (182) firms quoted on the first-tier market of the Nigeria stock exchange and ten (10) quoted firms selected as sample size based on judgement sampling. The study used data from secondary school such as annual reports and financial statements of the selected firms. Student's test was employed to analyses the data or observation. The study concluded that the application of contributory pension scheme has positive impact on the employee retirement benefits of quoted firms in Nigeria, the study recommended strong monitory/supervision and enforcement of the provision of the pension

reform act 2004. Strong implementation of the penalties provided by the act on non-compliance notwithstanding the status or origin of those concern.

Amininye, Manuel and Asuquo (2010) studied "university worker's perception of organizational retirement plans and their attitude to work. The purpose of the study was to examine the influence of Perception of the university organizational retirement on worker's attitude the work. The study which adopted survey design had a total of two hundred persons who participated as respondents. The result of data analysis revealed that workers had very low perception of their universities. Organizational retirement plans. It also revealed that worker attitude to work was largely unfavorable. There was however, a significant influence of perception on attitude to work across all the categories of workers.

Summary of findings

The study reviewed that the establishment of the contributory pension scheme is a strong remedy to the problems and shortcomings of the old pension scheme. That the contribution pension scheme compliance will be attended when strategies are put in place to educate the employees on the expected future benefits on retirement and the Administrator should enhance the qualities of their services as to attract employees' confidence in the system. The study also revealed that adequate institutional framework for the implementation of the scheme is paramount as to educate and enlighten the employees on the benefits as to address the problems/ challenges of employee's apathy and lack of confidence.

Conclusion

The study investigated the problems of implementation of contributory pension scheme in tertiary institutions in Nigeria and revealed the main problem to the implementation of the contributory pension scheme in Nigeria higher Institutions to be look of enough and suitable institutional frame work to champion the scheme. It concludes that the employee's compliance is to be attained when they are motivated/stages enshrined to let them know what they are to gain upon retirement.

Recommendations

The management of tertiary Institutions in Nigeria should in collaboration with the pension managers have strong structure aimed at educating and sensitizing current and incoming staff of the Institutions on the benefits and essence of contributory pension scheme.

The Administrators have integrity and effective commitments to good services. This will make employees have confidence: the scheme

The entire staff should be compulsorily made to identify with a pension Administrator as ground for benefiting from the scheme.

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