PENSION REFORMS
PENSION FUND ADMINISTRATION IN NIGERIA

By: S. I. Akhiojemi, B.Sc., MBA, FCA

Pension Fund Administration in Nigeria can be broken into two periods namely pre-2004 era and the new era beginning form July, 2004.

The purpose of a pension scheme is to provide the employees of an organization with a means of securing on retirement, a standard of living reasonably consistent with that they enjoyed while in service. In effect, it is the totality of plans, procedures and legal processes of securing and setting aside funds to meet the social obligations of care which employers owe their employees on retirement or in case of death. Thus, Pension Fund Administration is geared towards meeting the objective stated above. A well administered scheme will therefore serve as an incentive to new employees and helps to hold back experienced staff.

In Nigeria, the establishment of pension scheme dated back to 1951 when the Pension Ordinance was enacted and made retroactive from 1st January, 1946. This colonial pensions law was primarily designed for United Kingdom officers who were moved from post to post in the vast British Empire. The intention was to ensure that they maintained continuity of service wherever they were sent to serve. When the law became applicable to indigenous staff, it had limited application to the extent that it was granted at the pleasure of the Governor-General. Under the ordinance therefore pension was not an automatic right of Nigerians. It could be withheld at the flimsiest excuse. As at independence in 1960, the Pension ordinance CAP 147 of 1958 Laws of Nigeria (effective 1/146) as amended by Legal Notices, operated in the public Service up to 31st March, 1974. This was drastically reviewed and replaced by Decree 102 of 1979 (new Pension Act CAP 346 of 1990 Laws of Nigeria). This Law has a commencement date of 1st April, 1974. As at today, the Pensions Decree 102 of 1979 is the basic pension law from which other pension laws in the public service of Nigeria have developed. The other laws which cater for specific professional groups but retain the man ingredients of Decree 102 of 1979 are:

i. the Armed forces pensions Act 103 of 1979


PRE-2004 ERA
All the pension schemes run in the public service up to June 30th 2004 were non-contributory in the sense that employees do not contribute from their salaries towards the pension and/or gratuity. The Government simply budgets pension amount as well as that of present workforce. Gradually the financial burden of
pension/gratuity has become very weighty on government especially when section 1(1) of the 1979 law states that “……… Any pension or gratuity granted hereunder to any person on his retirement from the public service of the Federation shall be computed on the final pay of the person entitled thereto and in accordance with the provisions of schedule 1 to this law”. Prior to the enactment of this law, Pension calculation was based on “basic pay” and no “total pay”.

As more persons joined the rank of pensioners, Governments started finding it difficult to meet pension obligation to pensioners.

By 2002, pension liabilities nationwide was estimated at N2 trillion. This problem was further compounded by frequent increases in salaries and pension without a full assessment of the short and long term financial implication of these increases.

Other problems identified in the old system included:

i. Differentiation between public and private sector. The Nigerian pension laws currently distinguish between public sector and private sector.

ii. Poor Administration: There was a generally poor system of delivery payments and lack of a database of pensioners. Pensioners were sometimes, due to identification problems, not paid for months and were told at their own cost to participate in identification parades, either in Abuja or in Lagos, which could be thousands of kilometers away from their abode. Some pensioners have actually lost their lives in this process.

iii. Absence of opportunity for accumulation of investible funds for national economic development.

iv. Corruption.

In September, 2001 the presidency, through the Office of the head of the Civil service of the Federation, organized a workshop for top public servants and other stakeholders in pension matters in the country titled “Pension Reforms: A new approach to Pension Regime in Nigeria” The president in his keynote address charged the workshop with the following:

i. to narrow the gap of pension benefits between the public and private sector.

ii. to work out a process that would facilitate inter-sectoral, inter-governmental and inter-state transfer with due regard to pension benefits.

iii. to determine a suitable pension scheme, whether self administered or insured.

iv. to review the statutory retirement and qualifying age for pension and gratuity.
v. to determine the level of contribution between the employer and the employee and

vi. to advise on the establishment of an appropriate body that would manage the new pension schemes.

At the end of the workshop, the participants/stake holders resolved and made the following recommendations:

i. Narrowing the gap of Pension benefit between the public and private sectors government should without delay, direct the appropriate government body to work out a realistic and comparable living wage that will stimulate meaningful contribution to the pension scheme.

ii. Adoption of the principle of contributory scheme for the entire public service (as obtains in some parastatals) i.e. employees paying part of the cost of providing the benefits. However, contribution by civil servant should take into consideration their earnings.

iii. Both pension and gratuity should be contributory and government contribution should be first charge in the consolidated revenue fund.

iv. All employers should ensure that all deductions from employees’ wages and contributions by employers should be promptly paid into the fund.

v. Ministries and Parastatals should allow the Board of Trustees to function independently and effectively.

vi. All existing laws on pension matters should be reviewed and harmonized.

vii. There should be established a regulatory body for both private and public service pensions.

viii. Employers should prepare their employees for retirement through a programme of training and counseling on entrepreneurship and post retirement life.

So far, we have discussed the old order, its problems and inadequacies, government search for solutions and kind of solutions recommended. Government responded to these with the Pension Reform Act of 2004.

**JULY 2004 TO DATE**

With the passing into Law, the Contributory Pension Act of 2004 otherwise known as Pensions Reform Act 2004, there was the dawn of a new Era of Pension Administration. Firstly there is now one unifying law for both the public and private sector pension administration, secondly the new law makes contribution towards pension compulsory for both employer and employee. We now have fully funded schemes in place. The highlights of the Act include:
1. The Act is made up of 103 sections divided into 13 parts. Part 1 deals with; Establishment and Objectives of Contributory Pension Scheme for employees in the Public and Private sectors and it spans sections 1-13. Others are:

**PART II** Establishment and Composition of the National Pensions Commission (spans sections 14-19).

**PART III** Functions & Powers of the Commission (spans sections 20-21).

**PART IV** Staff of the Commission (spans section 22).

**PART V** Financial Provisions (spans section 23-28).

**PART VI** Transitional Provisions (spans sections 29-43).

**PART VII** Pension Fund Administrators and Custodians (spans sections 44-71).

**PART VIII** Investment of Pension Fund (spans sections 72-78).

**PARTS IX** Supervision and Examination (spans sections 79-84).

**PART X** Offences, Penalties and Enforcement Powers (spans sections 85-91).

**PART XI** Dispute resolution (spans sections 92-94).

**PART XII** Legal Proceedings (spans section 95-96).

**PART XIII** Miscellaneous Provisions (spans sections 96-103).

2. **IMPLEMENTATION OF THE ACT**

The Head of Service circular earlier referred to stated clearly that “Following the enactment of the Pension reforms Act of 2004, the President, Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, Chief Olusegun Obasanjo, GCFR has approved the implementation of the Contributory Pensions Scheme in the Public Service of the Federation with effect from 1st July, 2004.

3. **OBJECTIVES OF THE ACT**

i. Ensure that every person who worked in either the Public Service of the Federation, Federal Capital Territory or Private Sector receives his retirement benefits as and when due:
ii. Assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age; and

iii. Establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the Public Service of the Federation, Federal Capital Territory and the private Sector.

4. **THE MAIN SUBSTANCE OF THE ACT**

The salient points of the law include:

iv. Retirement benefits in the scheme can only be enjoyed or utilized upon retirement or attaining the age of 50 years whichever is later.

v. Every employee shall open retirement savings Account.

vi. There are 3 possible Benefits:
   i. Programmed monthly or quarterly withdrawals calculated on the basis of an expected life span: or

   ii. Annuity for life purchased from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments; and

   iii. A lump sum from the balance standing to the credit of his retirement saving account: provided that the amount left after that lump sum withdrawal shall be sufficient to procure an annuity or fund programmed withdrawals that will produce an amount not less than 50 percent of his annual remuneration as at the date of his retirement.

   iv. Rates of contribution:

**PUBLIC SERVICE**

Employee 7½%

Employer 7½%

**MILITARY**

Employees 2½%

Employer 12½%

**PTE SECTOR**

Employee 7½%

Employer 7½%
Section 9(3) says that in addition to the rates specified above, employers shall maintain life insurance policy in favour of the employee for a minimum of three times the annual emolument of the employee.

Persons mentioned in section 291 of constitution are exempted.

Subject to guidelines by the commission, voluntary contributions can be made under the Act by individuals.

Section 11 (1) Every employee shall maintain an account, (in this Act referred to as “Retirement Savings Account”), in his name with any pension fund administrator of his choice.

The employee may, not more than once in a year, transfer the retirement savings account from one PFA to another without adducing any reason for such transfer.

Section 11 (8) says that government contribution to the Pension of employees of the Public Service of the Federation and Federal Capital Territory shall be a charge on the Consolidated Revenue Fund of the Federation.

Section 12

1. As from the commencement of this Act, the right to retirement benefits of any employee who is already under any pension scheme existing before the commencement of this Act and has over 3 years to retire shall –

   (a) in the case of employees of Public Service of the Federation and Federal Capital Territory where the scheme is unfunded, be recognized in the form of an amount acknowledged through the issuance of a bond to be known as Federal Government Retirement Bonds, respectively, in favour of the employees and the bond issued under this Subsection shall be redeemed upon retirement of the employee in accordance with the provisions of this Act and the amount so redeemed shall be added to the retirement savings account of the employee and applied in accordance with the provisions of Section 4 of this Act; and

   (b) in the case of the employees of the Public Service of the Federation, Federal Capital Territory and in the private sector, credit the retirement savings accounts of the employees with any funds to which each employee is entitled and in the event of an insufficiency of funds to meet this liability the shortfall shall immediately become a debt of the relevant employer and be treated with same priority as salaries owed; where there is such debt the employer shall immediately issue a written acknowledgment of the debt to the relevant employee and take steps to meet the shortfall.
5. **IMPLEMENTATION AGENTS OF THE ACT**
The main agencies or institutions that will operationalise this Act are:

1. Pension Fund Administrators (PFAs)
2. Pension Fund Custodians (PFCs)
3. National Pension Commission (NPC)
4. Pension Departments

**S. I. AKHIOJEMI, B.Sc., MBA, FCA**
Director of Finance and Supply, ASCON, Badagry, Lagos & Treasurer, ASCON Pension Board of Trustees.

**References**


Chamberlain P. S. (2005); Defined contribution Pension Scheme Peterside@aol.com New York, USA http://nigeriaworld. Com/feature/publication/Peterside/0’10505.html.


Oladunmoye, e. (2006); Pension fund in Nigeria: Making it a success. http://www Business day online.com/


Osigwe, C. A. (2000); Pension Scheme: A Source of Staff harmony (A case study) (Research Paper) Department of Corporate managerial Administration, Chartered Institute of Administration, Lagos.


*Source: Journal of Professional Administration; vol8, No.1. April 2007 (24-29)*