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List of Abbreviation

PAYG –Pay-As-You-Go
PENCOM – PensionCommission
PFA –Pension Fund Administrator
PFC –Pension Fund Custodian
CPFA – ClosedPension Fund Administrator
PTAD –Pension Transitional Arrangement Department
NAICOM – NationalInsurance Commission
DCPS –Defined Contributory Pension Scheme
DBPS –Defined Benefit Pension Scheme
EFCC –Economic and Financial Crime Commission
NSITF –Nigeria Social Insurance Trust Fund
RSA – Retirement Savings Account
CPS –Contributory Pension Scheme
NEEDS –National Economic Empowerment and Development Strategies
MDGs –Millennium Development Goals
PCs –Personal Computers
ILO –International Labour Organization
IMF –International Monetary Fund
PRTT –Pension Reform Task Force Team
PRA 2004 – Pension Reform Act 2004
SOEs – State Owned Enterprises
RBBRF – Retirement Benefits Bond RedemptionFund
NECA – Nigeria Employers ConsultativeAssembly
NUP – National Union of Pensioners
NDC –Notionally Defined Contribution
BOT – Board of Trustees
SEC –Securities and Exchange Commission
JTB –Joint Tax Board
TUC –Trade Union Congress
NLC –Nigerian Labour Congress
IDTs – International DevelopmentTargets
NPF –National Provident Fund
Unizik –Nnamdi Azikiwe University
ASUTECH – Anambra State University of Technology
SPSS –Statistical Package for Social Sciences
ANOVA –Analysis of Variance

ABSTRACT

The thrust of thisstudy is to examine the impact of the implementation of the Pension Reform Act2004 with particular reference to Nnamdi Azikiwe University, Awka from 2004 –2012. The primary objective was to systematically study the Pension Reform Act 2004and to find out its effectiveness and efficiency in enhancing pensioners'welfare. To achieve this objective the researcher stated three researchquestions and three hypotheses for which a structured questionnaire containingthirty seven (37) question items was constructed. The responses to the questionitems constituted the data for the study. The data extracted from thequestionnaire were presented and analyzed from which the following findingswere made: Majority of the respondents agreed that the problems of the OldPension Scheme negatively affected the pensioners' welfare; the respondentsagreed that theimplementation of the Pension Reform Act 2004 has notsignificantly enhanced the pensioners' welfare; the respondents agreed that theinstitutional framework for the implementation of the Pension Reform Act 2004is not significantly effective and efficient in delivering pensioners' welfarein Nnamdi Azikiwe University. Based on the findings, the following majorrecommendations were made: Public enlightenment mechanism for the beneficiariesand the public about the operations of the new pension scheme should beinstituted; Pension Fund Administrators should ensure that they have a credibleand competent workforce that will guarantee the issuance of accurate statementof account regularly. Any employer who fails to account accurately for hisemployees' contributions should be adequately sanctioned as provided by law toserve as deterrent for others. There is urgent need for regular training anddevelopment for human resource managers and others, etc. The researcher herebyrecommends further research on possible amendments on the gray areas in thePension Reform Act 2004 and the impact of the reform on the private sector'semployees and pensioners.

# CHAPTER ONE

# INTRODUCTION

## 1.1. BACKGROUND TO THE STUDY

It is in the nature of man to pass through a life cycle(childhood, youth and adulthood/old age), except in an occasion when this cycleis cut short by premature death. In like manner, the working lives of employeesmove continuously towards a certain direction that is from employment, togrowth, to retirement (or can be terminated either by death or disability).Since man is naturally born to grow and become old – the stage when it isusually too difficult to work and earn a living – planning for retirement/oldage becomes expedient. The extent an individual is committed to this causeduring his active productive years makes a difference in the quality of life heenjoys at his old age and longevity.

As people grow old they work, produce, and earn less andtherefore need a secure source of income to see them through their lifetime. Tothis extent societies and governments have developed mechanisms to provideincome security for their older citizens as part of the social safety net forreducing poverty. No doubt, these arrangements should be a source of concernfor everyone – rich as well as poor, young as well as old – because thearrangements adopted can either help or hinder economic growth (World Bank, 1994).

Pension has been a common global discourse in thecontemporary literature. The past decade has brought recognition of thecentrality of pension systems to the economic stability of nations and thequality of life and longevity of their workers after retiring from activeservice (Holzmann and Hinz, 2005). This notwithstanding, there has been anemergence of what Barr (2006) called 'a pension crisis' caused by high andrising pension costs which has created worries. In fact, the global trend is atotal paradigm shift towards definite and fully funded contributory schemes. Inmost countries pension plans are defined benefit plans financed on aPay-As-You-Go (PAYG) basis, through pay roll taxes that can be adjustedperiodically to ensure that revenues are sufficient to meet current pensionobligation (Dalang, 2006).

The WorldBank, in 1994 published a path-breaking seminal book on pension reformentitled, “Averting the Old Age Crisis: Policies to Protect the Old and PromoteGrowth” (Orszag and Stiglitz, 1999). The Bank delivered its new ideas onpension systems in this landmark report which became the reference point forthe Bank’s approach to pension reforms. It advocated a move away frompay-as-you-go financing which has dominated pension provision in both rich andpoor countries. The report backed compulsory funded pensions, and paid for byworkers saving part of their earnings in retirement accounts. Since1994 theBank has been involved in pension reform in more than 80 countries, andprovided financial support for countries to grow. According to the Bank, themain objectives of pension systems are: poverty alleviation, consumptionsmoothing from one’s work life into retirement and the broad goal of socialprotection. Consequently, reforms along these lines have been carried outmainly in Latin America and the post-Soviet “transition countries”. Chile wasthe first to embark on the reform as early as 1981. In all, twelve countries inLatin America have passed laws introducing mandatory savings; ten haveimplemented them. In Europe and Central Asia, fourteen countries have decidedto introduce individual accounts whilst ten actually made the change (Dalang,2006; Holzmann and Hinz, 2005).

After a critical assessment of the various pension schemesof the various countries, the World Bank on 21st February, 2005, released a newreport titled “Old Age Income Support in the 21st Century”: An InternationalPerspective on Pension Systems and Reform”. The report emphasized the need forchange as most pension schemes in the world do not deliver on their social objectives.Pension schemes create distortions, impose marginalization, old age poverty,post retirement sufferings and ultimately lead to untimely death. Above all,they distort market economies and are financially unsustainable because theyare expensive to run and the process fraudulent even by those mandated toadminister the pensions (Asuquo, Akpan and Tapang, 2012).

In an attempt to reposition pensions, the report stated thatany pension reform should consider:

The informal sector which incidentally makes up for morethan half of the labour force

Catering for people who will be poor throughout their lives,and

Those that will be physically challenged

In 1996, the International Development Targets (IDTs) wereset to improve economic well-being, social and human development and ensureenvironmental sustainability and regeneration in readiness for the fightagainst poverty in the emerging Millennium. In September, 2000, 149 worldleaders adopted the United Nations Millennium Development Declarations which itsfundamental values bind countries to do more in the realm of human development.Part of the mandate was to ‘halve the proportion of people whose income is lessthan one dollar a day and who suffer from hunger’. Emerging from the MillenniumDevelopment Declarations are Millennium Development Goals (MDGs), which are aset of specific, qualified and time-bound targets on the various dimensions ofhuman development – income, poverty, hunger, health, education, gender,equality, and environmental sustainability. Their importance for the globalcommunity is exemplified by their increasingly becoming the driving force fordevelopment policy internationally, the means for productive life for thebillions plus people living in extreme poverty as a way to secure a peacefulworld for all (UN, 2013; NEEDS, 2004).

Income security in old age is a worldwide problem, but itsmanifestations differ in different parts of the world. In Africa and parts ofAsia, the old make up a small part of the population – and have long been caredfor by extended family arrangements, mutual aid societies, and other informalmechanisms. Formal arrangements that involve the market or the government arerudimentary. But as urbanization, mobility, wars and famine weaken extendedfamily and communal ties, informal systems feel the strain. That stain is feltmost where proportion of the population that is old is growing rapidly, inconsequence of medical improvements and declining fertility (Word Bank, 1994).Agreeably, in Nigeria, old people were cared for through the extended familysystem. The aged had the opportunity to live with the children and youngerrelatives who provided him with his needs.

Today, thestory is different because the society is dynamic. There has been dislocationin the societies set up brought about by rural-urban migration of youth andyoung people in search of white collar jobs. The demographic changes haveaffected the traditional parent-offspring relationship. They now live in verydistant locations apart from one another. Western civilization made it possiblefor people to seek for paid employment in urban cities which sometimes are faraway from their villages. The evolution of paid employment precipitated theconcept of pension. The idea is that since workers spend the whole of theirproductive lives working for their employers, they (employers) in turn should,of necessity, make adequate plan for the up-keep of their workers after theyretire from active service.

Pension,simply put, connotes a form of official obligation in any employmentrelationship. It is a legal and economic obligation in which employers oflabour are mandated to fulfill in her contractual relationship with employees.It is a form of employers' benevolence towards employees (Pitch and Wood, 1979)quoted in Inyokwe (2013). Pension plans are usually established by a legaldocument called a trust deed with the declaration that the funds would beadministered in accordance with the rules spelt out in the document. Employersoffer pension benefits to attract, retain and reward employees. Employees, onthe other hand, rely on retirement benefits as a form of financial security intheir less productive years (Babatunde, 2012).

Pensionindustry in Nigeria has witnessed reforms over the years with the prevalence ofcrisis. Employees and employers do not usually realize the necessity forplanning adequately ahead for their retirement and retirement of theiremployees, respectively because the concept of pension is alien to them. Thisexplains why most private sectors had no pension schemes for their employeesand as such the workers who retired from such private sector organizations hadno retirement benefits. Even where the scheme existed it was poorly organized.The same poor attitude to pension schemes was prevalent in the public sectorwhere governments saw pension scheme as altruistic and public civil servants inpension management handled it unethically, hence, the preponderance of crisis(accumulation of huge pension liabilities, large scale misappropriation ofpension funds, etc.) in the pension industry before the enactment of PensionReform Act 2004.

The firstpension law in Nigeria was the Pension Ordinance of 1951. It was latertransformed into Pension Act 1958. This was the first attempt by the colonialadministration to provide for the full pension rights of the colonialadministrators. However, some limited right was granted to the Nigerian workersin the civil service at the discretion of the colonial Governor General. Thiswas followed by National Provident Fund (NPF) scheme established in 1961 by anAct of Parliament 1961. The NPF was changed to Nigeria Social Insurance TrustFund (NSITF) in 1993 via a decree No.73 of 1993. The effective date was fromJuly, 1994. This Act was broader based than NPF. This was the first legislationenacted to take care of pension matters in the private organizations.Thereafter, the Pension Act No.102 of 1979, the Police and other GovernmentAgencies' Pension Act No.75 of 1987, and Local government Edict whichprecipitated the

establishment of Local Government Staff Pension Board of 1987(Fapofunda, 2013; Odia and Okoye, 2012; Barrow, 2008; Akhiojemi, 2004; Balogun,2004).
However, there were several government circulars andregulations issued to alter their provisions and implementation. For example,mandatory retirement at the age of 60 years or 35 years of service, whichevercomes earlier, in 1988, and in 1992, the qualifying period for gratuity wasreduced from 10 years to 5 years and that of pension from 15 years to 10 years(Barrow, 2008) cited in Gunu and TSADO (2012).

Thegovernment operated a pay-as-you-go pension system. The pension administrationin the public sector was largely Defined Benefit (DB) pension scheme which wasneither funded nor contributory. The pay-as-you-go (PAYG) scheme was mandatoryto the public sector but optional in the private sector. The scheme wascharacterized by massive accumulation of pension debt which made the schemeunsustainable due to lack of adequate and timely budgetary provisions as wellas increases in salaries and pensions. There were also demographic shifts dueto rising life expectancies, pensioners live longer which added to the pensionexpenditure (Ahmad, 2006; Balogun, 2004).

Besides,the administration of the scheme was very unrealistic, inefficient, lesstransparent and cumbersome. This precipitated bureaucratic bottle necks andcorrupt practices. Huge amount of resources were expended in yearlyverification exercises. This also failed to provide the desired prompt andefficient payment of pension. One of the dailies, in collaboration observedthat:
…From the revelations, it had been a conduit for a bazaar oflooting and fraud masterminded by serving civil servants against theircolleagues who had left service. The 18-page report by the Abdulrahsed Mainastank with details of organized crime in government offices… had revealed thatsince 1976, N3.3 trillion had been deducted from the pensions fund nationwidewithout proper accountability… Shocking also was the fact that while theserving workers lined their pocket with the loot, an average of 50,000pensioners had not been paid their pension since retirement in the past 42years. (Sun, Monday, Nov. 5, 2012).

In spiteof huge revenue accruing from oil, successive regimes could not pay thesalaries of working employees as and when due let alone pension entitlements.The looting and “scramble” for pension funds by the pension “chieftains” wereso suffocating that President Olusegun Obasanjo, seemingly concerned about thenear destitution of the pensioners, said:
Over the years, retirement in our societies has becomesynonymous with suffering as if ageing were a course rather than a blessingthat it really is. Often pensioners are forgotten by their former employers whothus accentuates society’s attitude that rejects pensioners as spent shells.The culmination of this persistent neglect of pensioners has become a threat tonational security and indignant pensioners are made more and more inclined topublic protests and demonstrations (Adedapo, 2004).
As already stated, old pension crisis is a global problembut the Nigerian version is coloured with corruption and large scaleembezzlement of pension funds. This is because abinitio the pension industrywas not properly organized. There were poor supervision of pension fundadministrators in the effective collection, management and disbursement ofpension funds; the various governments were insincere about pension. The aftermath of these developments and moreled retirees to become more or less baggers (Toye, 2006).The administratorsdeveloped some unwholesome behaviours in the disbursement of pension funds.They organized unorthodox individual retirement scheme such as large scalefraud and collection of 10 percent kick back from pensioners as a condition forpayment. These pension administrators constituted themselves into beasts/birdsof prey to their former colleagues (pensioners).

It was against these myriad of problems that the FederalGovernment of Nigeria constituted various committees headed by Chief AjibolaOgunsola and Mr. Fola Adebola at different times to look at the challenges ofpension schemes in Nigeria and proffer solutions. Fola Adebola's committeereport was enacted into the Pension Reform Act 2004 and came into operation on1st July, 2004 (Fapofunda, 2013; Balogun, 2004).

The reform was a part of the main policy pursued by theObasanjo administration to address the Millennium Development Goals (MDGs)which is anchored on National Economic Empowerment and Development Strategies(NEEDS). The macroeconomic framework of NEEDS under 'Empowering the people'involves issues relating to health, education, environment, integrated ruraldevelopment, safety nets, gender, and geopolitical balance as well as pensionreforms. The achievement of the objectives of NEEDS' programme rests on fourkey strategies, one of which is 'implementing a social charter'. In order toharness the full potentials of the citizenry, NEEDS aims at alleviating povertythrough ensuring functional, sound and qualitative health and educationalsystems, employment generation for the youth. This is the overarching ultimategoals of NEEDS. The previous pension scheme which was in crisis was thenreplaced with a Contributory Pension Scheme by (the Act) to give the retiredcitizens a better life after retirement (ArticleNG, 2013; NEEDS, 2004; Charles,Mordi, and Abwaku, nd.).

The Pension Reform Act 2004 (the Act) was therefore enactedto correct these abnormalities in the system. Based on these wrong attitudes,Obasanjo administration introduced a pension system that is, according to him,sustainable and has capability to achieve the ultimate goal of providing astable, predictable and adequate source of retirement income for each worker inthe country (Ahmad, 2012). The pension reform Act 2004 (the Act) was signedinto law which gave birth to Contributory Pension Scheme (CPS) fully funded,privately managed, and based on individual account for both the public andprivate sector employees in Nigeria. The main objectives of the Act is toensure that every person that worked in either the public or private sector inNigeria receives his/her retirement benefits as and when due. The Act, amongits various provisions, repealed the Pension Act 1990 and other Acts pertainingto pensions were either entirely repealed or amended (Adedapo). The FederalGovernment has found the global trend in paradigm shift in pension industry –Contributory Pension Scheme.  It is inrealization of this fact that the researcher decided to conduct a study on theimpact of the implementation of the Pension Reform Act 2004 (ContributoryPension Scheme) on the pensioners' welfare in Nigeria with particular referenceto Nnamdi Azikiwe University, Awka. The justification for the sample is thatthe University has operated old pension system (PAYG) and is currentlyoperating the contributory pension scheme. The sample also possesses the samecharacteristics with other federal Universities.

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