International Journal of Management, Social Sciences, Peace and Conflict Studies (IJMSSPCS), Vol.7 No.2 June, 2024; p.g. 201 - 209; ISSN: 2682-6135

PENSION MANAGEMENT IN NIGERIA: CHALLENGES AND SOLUTIONS IN VIEW

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Abstract

The issue of pension management has become very important in Nigeria considering the sordid tales of corruption emanating from the management of pension and how these and other factors will impact on these individuals when they retire. Through qualitative research, the paper delved into the issue of the regulatory framework for pension management in Nigeria and identified gaps and areas of improvement. On the challenges of pension management in Nigeria, the paper made some salient points which included low coverage, inadequate funding, poor management, lack of awareness, and weak regulatory framework. Implementation of the contributory Pension Scheme (CPS), establishment of the National Pension Commission (PenCom), improved legislation, public education and awareness, and Technology were found to be part of the solutions to pension management challenges in Nigeria. In conclusion, pension management in Nigeria has been a major challenge due to factors such as corruption, mismanagement, and inadequate legislation. The paper recommended that the regulatory body, PenCom, should be strengthened to ensure that it has the power and capacity to effectively monitor and enforce compliance with the CPS, among others.

Keywords: Pension Management, Poor Management, Low Coverage, Weak Regulatory Framework.

Introduction

The issue of pension management has become very important considering the fact that significant proportions of the workforce across the globe are fast aging and this raises concerns about the fate of these individuals when they retire. Pension is an interesting variable that significantly influences employees' work behaviour within the context of the civil service in Nigeria. Pension payment is one of the motivating factors attracting employees to the public service. The payment is intended to provide financial support to the individual during their retirement years. Extant literature buttressed the foregoing definition thus: a pension is a regular payment made to a person who has retired from employment, to provide them with a guaranteed income during their retirement age (WHO, 2019.). A pension can be provided by an employer, a government, or both, and is typically funded through contributions made by the individual and/or their employer over the course of their working career (Oyelere&Oyelere, 2015). Pension can take different forms depending on the terms of the plan or program. Some pensions provide a defined benefit, which means that the retiree will receive a fixed amount of income for the rest of their life. Other pensions provide a defined contribution, which means that the retiree will receive a lump sum of money that has been accumulated through contributions and investment returns (PenCom, 2014).

It is worthy of note that pension scheme is not exclusively a practice in Nigeria. It is equally a practice in many developed nations. For instance, pension scheme has been in practice in the United Kingdom since 1909 and operates under a Contributory Pension Scheme (CPS)model (Blake, 2002). In Netherlands, scholars have documented that individuals become eligible for public pension at age 65, and next to the public pension, most employees (91%) are covered by at least some form of occupational pension (Damman, Henkens&Kalmijn, 2013). Equally, in Philippine, the pension program consists of the Social Security System (SSS) and the Government Service Insurance system (GSIS), of which the SSS provides pension benefits to all private employees and self-employed persons, while the GSIS provides pension benefits to all employees in the public sector (Mesa-Lago, Viajar& Castillo, 2011). These are just a tip of the iceberg when compared to the number of developed nations who have long standardized their pension schemes. While these developed nations seem to have perfected their pension schemes and other social security systems over the past decades, the Nigerian experience has had a history of mismanaged schemes under various governments.

Employees' performance plays important role in the society today as it leads to effective organizational performance in developed countries (Chioke, Abasili, Okeke, Mbamalu, Ibe&Odidika, 2023). However, in Nigeria, it is not accorded the level of attention that it deserved as a result of issues surrounding pension management. Again, while it is clear thatpublic administration is basically concerned with government agencies strictly implementing the policies made by government through its (Chioke, 2022a); it is not clear whether PenCom has sufficiently implemented pension related policies in Nigeria without major challenges. Pensions are an important part of retirement planning, as they provide a source of income for individuals who are no longer working. Pensions help retirees to mitigate declining standard of living and cover their expenses during their retirement year. The aim of studying pension management is to analyze the current state of pension management in Nigeria, identifying the challenges faced by stakeholders and the impact on retirement benefits for retired employees. The study examines the challenges of pension management in Nigeria and the ways of addressing and ameliorating these challenges. Furthermore, these solutions will help policy makers, stakeholders, and practitioners on how to improve pension management in Nigeria and ensure sustainable retirement benefits for the citizens.

Literature Review

Brief History of Pension in Nigeria

Pension in Nigeria has a long history that dates back to the colonial era. During the colonial period, the British administration introduced a pension scheme for Nigerian civil servants who were employed in the colonial service. This scheme was designed to provide retirement benefits to civil servants who had completed their service or had reached the mandatory retirement age (Ogunba&Odusanya, 2013). According to Ogunba and Odusanya, (2013) after

Nigeria gained independence in 1960, the country continued to operate a defined benefit pension scheme for public sector employees. Under this scheme, retired civil servants were entitled to receive a monthly pension payment based on their length of service and the average of their last three year' salaries. However, the pension scheme suffered from significant challenges, including inadequate funding, corruption, and mismanagement. This led to delays and non-payment of pensions to retirees, which resulted in hardship for many pensioners negating the whole essence of public service employment.

The pension scheme has undergone several changes over the years (Aina&Ogunmola, 2018). The first pension scheme in Nigeria was introduced in1951 for public servants under the Pension Ordinance of 1951. This scheme covered only federal government employees and provided retirement benefits based on the employee's length of service and salary at the time of retirement. In the 1970s, the pension scheme was extended to cover state government employees and employees of private companies (Aina&Ogunmola, 2018). However, the scheme remained largely unfunded, and payments were made from the government's annual budget.

To address these challenges, the Nigerian government introduced the Pension Reform Act (PRA) in 2004 which was reformed in 2014. The PRA established a new pension scheme called the Contributory Pension Scheme (CPS). The CPS is a defined contribution pension scheme that requires both employers and employees to contribute a minimum of 10% of the employee's salary to a Retirement Savings Account (RSA). The funds in RSA are then invested by licensed Pension Fund Administrators (PFAs) to generate returns (Oladipo&Ojo, 2015).

Since the introduction of the CPS, there have been several amendments to the Pension Reform Act, aimed at improving the administration of the scheme and ensuring that employees receive their benefits promptly (Okafor, 2017). The pension in Nigeria is still evolving, but it has come a long way from its early days and is now a more robust and sustainable system that provides retirement benefits to millions of Nigerians. The CPS has significantly improved the pension system in Nigeria, as it is more sustainable and better regulated than the previous defined benefit scheme. The implementation of the CPS has also led to the creation of a large pool of pension assets, which is being invested in the Nigerian economy to support economic growth and development (Adewole, Akinlo, &Adewole, 2017).

Overview of the Pension Scheme in Nigeria

The pension scheme in Nigeria is managed by the National Pension Commission (PenCom), which was established by the Pension Reform Act of 2004 (Onakoya, Asaolu&Adenji, 2019). The aim of the pension scheme is to provide retirement benefits to employees in the public and private sectors of the economy. There are two types of pension schemes in Nigeria: the Defined Benefit Scheme (DBS) and the Contributory Pension Scheme (CPS). The DBS is a traditional pension scheme in which retirement benefits are based on the employee's final salary and years of service. The CPS, on the other hand, is a mandatory scheme in which both the employer and the employee contribute a certain percentage of the employee's salary to a Retirement Savings Account (RSA). The RSA is managed by a pension Fund Administrator (PFA), who invests the funds on behalf of the employee (Adekoya&Adekoya, 2018).

Under the CPS, employees are entitled to a lump sum payment of up to 25% of their RSA balance upon retirement, while the remaining balance is used to purchase an annuity from a Pension fund Custodian (PFC). The annuity provides the employee with a regular income for life (Ogundipe&Adeniyi, 2019). The pension scheme in Nigeria is regulated by PenCom, which oversees the activities of PFAs and PFCs, ensures compliance with the Pension Reform Act, and protects the rights of pension contributors (Ogundipe&Adeniyi, 2019).

Comprehensively, the introduction of the CPS has led to an increase in the number of Nigerians covered by a pension scheme and has improved the management and funding of pension schemes in the country. However, there are still challenges such as inadequate funding and low levels of awareness among the informal sector, which need to be addressed to ensure the success of the pension scheme in Nigeria.

The Objectives of Pension Management in Nigeria

Some of the objectives of pension management in Nigeria are as follows:

1. To ensure that workers have access to a reliable and sustainable pension system that can provide them with adequate retirement benefits (PRA, 2014).
2. To promote transparency and accountability in the management of pension funds, in order to prevent fraud, corruption, and mismanagement (PenCom, 2014).
3. To encourage the growth of the economy by mobilizing long-term savings through pension funds. This can be invested in infrastructure projects and other productive sectors (Oyelere&Oyelere, 2015).
4. To promote financial inclusion by extending pension coverage to workers in the informal sector, who were previously excluded from the pension system (Onodugo, 2017).
5. To protect the rights of pensioners by ensuring that they receive their retirement benefits in a timely and efficient manner (Okoye, 2019).

In the long run, the objectives of pension management in Nigeria are aimed at ensuring that workers are adequately provided for in retirement and that the pension system contributes to the overall economic development of the country. The objectives are reflected in the Pension Reform Act of 2014, which established the legal framework for the management of pensions in Nigeria. The act provides for the establishment of the contributory pension scheme, the regulation and supervision of the pension industry by the National Pension Commission (PenCom), and the protection of the rights of pensioners.

Features of the Pension Reform Act 2014 (CPS)

The Pension Reform Act (PRA) 2014 is a Nigerian law that seeks to reform the pension system in the country. Some of the features of the PRA 2014 include:

1. Establishment of the Contributory Pension Scheme (CPS): The PRA 2014 established the CPS, which is a defined contribution scheme that requires both employers and employees to make contributions to a person fund.
2. Mandatory participation: The PRA 2014 made it mandatory for all employees in the public and private sectors to participate in the CPS, except for those exempted by the law
3. Penalties for non-compliance: The law provides for penalties for employers who fail to remit the contributions of their employees to the pension fund.
4. Establishment of Pension Fund Administrators (PFAs): The PRA 2014 established PFAs as licensed entities responsible for managing the pension funds of contributors.

5 Establishment of Pension fund Custodian: The law also established PFCs as licensed entities responsible for holding and safeguarding the pension fund assets of contributors.
6. Establishment of the National Pension Commission (PenCom): The PRA established PenCom as the regulatory body responsible for supervising and regulating the activities of PFAs and PFCs.
7. Portability of Pension accounts: The law allows contributors to transfer their pension account from one PFA to another and from one employment to another.
8. Retirement age: The PRA 2014 increased the retirement age for contributors from 60 years to 65 years, and also allowed contributors to retire earlier but not earlier than 50 years, provided they have contributed to the pension scheme for a minimum of 10 years.
9. Death benefits: The law provides for the payment of death benefits to the beneficiaries of a deceased contributor, which is a lump sum payment equivalent to three times the contributor's annual total emolument.
Source: National Pension Commission (PenCom) (2014).

Methodology

This paper made use of qualitative design. This means that data analysis was done qualitatively. Qualitative data analysis focuses on expressive data that provide descriptive details majorly in narrative form to examine the aim and specific objectives of the study (Chioke, 2022b). In this regard, qualitative descriptive method of analysis involves explanation or descriptive analysis regarding the generated data for the objective of the study (Arinze, Osegbue&Osuji, 2022). Therefore, secondary sources of data were utilized by the researchers in the course of this study. Chioke (2016) noted that, "This source comprises of already written or published works by different authorities documented in books, newspapers, magazines, notes, journals, official government documents and articles."

Results

Challenges of Pension Management in Nigeria

Pension management in Nigeria faces a lot of challenges which include:

1. Low coverage: one of the major challenges of pension management in Nigeria is low coverage. According to the National Pension Commission (PenCom), only about 10% of the working population is covered by a formal pension scheme (PenCom, 2020). This means that the majority of the working population is not saving for retirement, which could lead to a significant pension crisis in the future.
2. Inadequate funding: Another challenge facing pension management in Nigeria is inadequate funding. The literature is awash with inability of government to fund the pension scheme (Oyinlola, 2019; Adebayo, 2014). This breeds corruption.
3. Poor management: The management of pension funds in Nigeria has been plagued by corruption, mismanagement and lack of transparency (Adebayo, 2014). This has resulted in the loss of pension funds and the denial of benefits to retirees.
4. Lack of awareness: Many Nigerians are not aware of the importance of pension savings, and therefore, do not take adequate provision for their retirement (Oluwafemi&Amoo, 2019). This lack of awareness is a major challenge for pension management in Nigeria.
5. Weak regulatory framework: The regulatory framework for pensions in Nigeria is still weak, and there are concerns about the effectiveness of the regulatory authorities in ensuring compliance with pension regulations (Adebayo, 2021). This leads to lack of confidence on pension administrators by workers.

Solutions to Pension Management Challenges in Nigeria

Pension management in Nigeria has been a major challenge over the years due to factors such as corruption, mismanagement, and inadequate legislation. However, there have been efforts to improve the system and ensure that retirees receive their benefits in a timely and efficient manner. Some solutions to pension management in Nigeria include:

1. Implementation of the contributory Pension Scheme (CPS): The CPS was introduced in 2004 to replace the old Defined Benefit Scheme (DBS). Under the CPS, both employees and employers contribute a certain percentage of the employee's salary to a Retirement Savings Account (RSA) managed by a Pension Fund Administrator (PFA) (PRA, 2014). This system has been successful in ensuring that pension funds are better managed and protected from mismanagement and corruption.
2. Establishment of the National Pension Commission (PenCom): The PenCom was established in 2004 as the regulatory body for the pension industry in Nigeria. The commission is responsible for ensuring compliance with the CPS, supervising PFGAs, and protecting the rights of pension contributors (PRA, 2014). This however has not totally addressed the inefficiency in the pension scheme. It is therefore necessary for PenCom to improve its operation and oversight functions with a view to addressing the shortcomings.
3. Improved legislation: There have been efforts to improve pension legislation in Nigeria to ensure that the system is better regulated and protected from abuse. For example, the Pension Reform Act of 2014 introduced penalties for non-compliance with the CPS, increased the minimum contribution rate, and established a pension Fund to protect pension contributors in case a PFA goes bankrupt (Kehinde&Adeyemo, 2019). Timely disbursement of pensions is recommended and a quarterly payment of what has been contributed may be a way of incentivizing those in service
4. Public education and awareness: There is a need for increased public education and public awareness about the importance of pension planning and the CPS. Many Nigerians are still not aware of the benefits of the CPS and how it works. Therefore, there is a need for more public education programs to inform Nigerians about the CPS and encourage them to participate.
5. Technology: The use of technology can help improve pension management in Nigeria by making it easier to track pension contributions, monitor PFAs, and ensure that retires receive their benefits on time (Omotosho&Oyebola, 2020). For example, the PenCom has introduced an Electronic Pension Administration System (e-PAS) to automate the pension administration process and reduce the risk of errors and fraud. This needs further validation and follow up.

Conclusion

Overall, the PRA 2014 seeks to ensure that Nigerians have a reliable and sustainable pension system that will help them enjoy a comfortable retirement.In conclusion, pension management in Nigeria has been a major challenge due to factors such as corruption, mismanagement, and inadequate legislation. In this regard, this paper agrees with the need for the political class to run a system that transparent, Administration that is service delivery conscious, free from corruption and related problems (Chioke, 2023).However, the introduction of the Contributory Pension Scheme (CPS) in 2004 has been a major milestone in addressing these challenges. The CPS has helped to ensure that pension funds are better managed and protects from mismanagement and corruption. The establishment of the national Pension Commission (PenCom) as the regulatory body for the pension industry in

Nigeria has also helped to ensure compliance with the CPS and protect the rights of pension contributors. There have also been efforts to improve pension legislation in Nigeria, increased public education and awareness, and use of technology to improve pension administration. While these measures have helped to address many of the challenges facing pension management in Nigeria, there are still lapses bedeviling pension administration that need to be corrected and improved upon. A major pitfall in the pension scheme in Nigeria is inclusivity where very many employees in the public and private sectors are not covered.

Recommendations

Based on the challenges facing pension management in Nigeria, and the solutions implemented so far, some recommendations/strategies that could further improve the system include:

1. Strengthening regulatory oversight: The regulatory body PenCom, should be strengthened to ensure that it has the power and capacity to effectively monitor and enforce compliance with the CPS. This could include increased funding, training of staff, and the introduction of stricter measures/penalties for non-compliance.
2. Improved transparency: There is a need for greater transparency in the pension system to reduce the risk of corruption and mismanagement. This could be achieved through the regular publication of financial statements and audits of pension funds, as well as the introduction of measures to protect whistleblowers.
3. Expansion of coverage: The CPS should be expanded to cover more workers, particularly those in the informal sector who are currently not covered. This could be achieved through the introduction of incentives for employers to participate in the scheme and the introduction of simplified registration processes.
4. Collaboration with stakeholders: The government, regulatory bodies, pension fund administrators, and other stakeholders should collaborate to ensure that the pension system is properly managed and that retirees receive their benefits in a timely and efficient manner. This could involve regular stakeholder meetings, the introduction of feedback mechanisms, and the sharing of best practices.
5. Continuous public education: There is a need for continuous public education on the importance of pension planning and CPS. This could involve the use of various media platforms such as radio; television, and social media to disseminate information about the CPS and encourage more Nigerians to participate in the scheme.

By implementing these recommendations, Nigeria could further improve its pension system and ensure that retirees receive their benefits in a timely and efficient manner.

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