PROBLEMS AND PROSPECTS OF CONTRIBUTORY PENSION SCHEME

* Introduction

* Objectives of Contributory Pension Scheme.

* A review of Pension Policies in Nigeria.

* Elements in Contributory Pension Scheme.

* Problems of the Scheme.

* Prospects of the Scheme

* Conclusion.
INTRODUCTION

• Meaning of Contributory Pension Scheme.-It simply means that the new Pension Scheme is contributory.

• It is fully funded. Money is contributed into the individual employee’s Retirement Savings Account (RSA). This is what distinguishes it from the old scheme.

• There is a private 3rd party custody of the funds and assets are based on individual accounts.

• It covers all employees in the public service of the federation, the Federal Capital Territory and the private sectors of the economy.

• All pensioners after 2007 come under this scheme.

• Pension contributions are paid directly to the Pension Fund Custodian (PFC).
INTRODUCTION (CONTINUES)

• to be held on the order of Pension Fund administrators (PFA).
• The new pension scheme is mandatory for all categories of employers, employees covered under the Pension Reform Act.
• Movement from one employment to another does not affect the new scheme
OBJECTIVES OF THE CONTRIBUTORY PENSION SCHEME

• To ensure that all workers in public service & private sector receive retirement benefits as at when due.
• To assist individuals to save in order to cater for livelihood during old age.
• To establish a uniform method of administering payments of retirement benefit in public & private sector.
• To empower employees to have control over their Retirement savings Account (RSA).
• To promote labour mobility and minimize incentives for early retirement.
• To ensure transparent and effective management of pension funds; and
• To promote wider coverage of pension scheme in Nigeria.
A REVIEW OF PENSION POLICIES IN NIGERIA

• Defined Benefit Scheme (Pay-as-you-go)
  - Final entitlement were based on length of service and terminal emoluments.
  - Funded by Federal Govt. through budgetary allocation.
  - Pension became a great burden to Govt.
  - Govt. could no longer cope with payment of pension and gratuities of workers.
  - This was because there was no plan put in place.
  - There was also non availability of records.
  - Uncoordinated administration.
  - Inadequate funding.
  - Outright fraud irregularities.
  - Diversion of allocated funds.
  - Presence of ineligible pensioners on the pensions payroll.
A REVIEW OF PENSION POLICIES IN NIGERIA (Continues)

- Inability to effectively implement budgets and make adequate provisions.

- **National Provident Fund Scheme of 1961.**
  - It was the 1st to address pension matters for private organizations.
  - 18 yrs. Later we had Pension Act No.102 of 1979
  - Armed forces Pension Act of 1979
  - The Police and other Govt. Agencies Pension Scheme were enacted under Pension Act No. 75 of 1987
  - Followed by the Local Govt. Pension Edict which culminated into the establishment of Local Govt. Staff Pension Board of 1987.
  - The National Social Insurance Trust Fund (NSITF) Scheme was established to replace the NPF w.e.f 1994 to cater for employees in the private sector.
A REVIEW OF PENSION POLICIES IN NIGERIA (Continues)

against loss of employment income or old age or death.

- New Contributory Pension Scheme.
ELEMENTS IN CONTRIBUTORY PENSION SCHEME

- An employee shall make monthly contribution of a minimum of 7.5% of total emoluments into his RSA.
- The military employee contributes 2.5%.
- The employer shall contribute a minimum of 7.5% of employee’s total monthly emoluments.
- Every employee or contributor is expected to open RSA in his/her name with PFA of choice, into which all contributions and returns on investment are paid.
- The RSA is similar to a Bank Account except that you cannot withdraw from it until after retirement.
- The fund should be invested by PFA and a statement issued to you on monthly basis.
- RSA remains with PFA of your choice even if you change job.
PROBLEMS OF CONTRIBUTORY PENSION SCHEME

- Remittance of benefits to the Retirement Savings Account (RSA) by firms, employers and employees.
- How genuine are our Pension Fund Administrators and Custodians that have been licensed. Were the licenses given to those competent and qualified?
- What are the legal frameworks put in place by government such that in spite of political changes, the scheme is sustained by subsequent government?
- How do we ensure effective implementation of penalties in the Act on non-compliers regardless of their status and origin?
- How will Government and national Pension Commission monitor, supervise, and enforce the provisions of the Pension reform Act 2004?
- What happens if a PFA or PFC defaults, or went into liquidation?
PROSPECTS IN THE SCHEME

• Movement from one employment to another does not affect the new scheme. The reform has removed the bottlenecks involved in transfer of service from one organization to another-w.r.t qualification for pension and sharing formula for payment of pension among employers.

• Employees right to the retirement benefits of the old, unfunded scheme is guaranteed under the Contributory Pension scheme. There must be issuance of a “Federal Government retirement Bond” redeemable upon retirement of the employee.

• Federal Government is already paying into a Retirement Benefits Bond Redemption Fund Account with CBN, 5% of the total monthly wage bill payable to all employees, for the purpose of redemption of the Bond.
The scheme entrenches the principle of transparency and accountability as reflected in the reporting requirements of the PFAs and PFCs to both the contributor and the National Pension Fund.

It ensures that you receive your pension after retirement without any delay.

Contributions to the new pension scheme are tax free.

The fact that you can always change your PFA once in a year encourages competition and efficiency among administrators.

There is adequate representation of relevant stakeholders in the Board of the National Pension Commission.
CONCLUSION

- You need an RSA Account
- Identify and choose a reliable PFA.
- You have the freedom to change your PFA after a year.
- The new scheme has the advantage of labour mobility without bottlenecks of transfer of service that existed in the old scheme.
- After retirement, you collect 50% of your total income as gratuity, while the rest is spread over some years as pension.
- It is assumed that women will live longer than men, so the pension is spread over 18 years, while for the men, it is 15 years after retirement.

I THANK YOU ALL FOR LISTENING

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