Implementation of Contributory Pension Scheme (CPS) and the Challenge of Appropriate Employees' Pension Deductions in Nigeria: The Financial Managers' Review

Philip Olawale Odewole[1] and Titilayo Moromoke Oladejo[2]

[1] Obafemi Awolowo University

Received: 6 December 2016 Accepted: 3 January 2017 Published: 15 January 2017

Abstract

The study examined the reasons for the inappropriate employees? monthly pension deductions among the employees in the various Ministries, Department and Agencies (MDAs) in Nigeria as provided by the Pension Reform Act 2014 as amended. Descriptive and analytical methods were used to analyse the data. The results showed that misinterpretation of the provision of the act on mandatory deduction of 7½

Index terms— pension reform act, mdas, contributory pension scheme, inappropriate deductions.

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Abstract-The study examined the reasons for the inappropriate employees' monthly pension deductions among the employees in the various Ministries, Department and Agencies (MDAs) in Nigeria as provided by the Pension Reform Act 2014 as amended. Descriptive and analytical methods were used to analyse the data. The results showed that misinterpretation of the provision of the act on mandatory deduction of 7½ % from employees' emolument by the MDAs is responsible for the inappropriate employees' monthly pension deductions. Also, the results revealed that MDAs adopted different bases in the determination of the employees' monthly pension contributions different from the basis adopted in the calculation of the employees' monthly pension deductions by the employer in the Budget Office as stipulated by the Act. The study concluded that only the adoption of uniform basis between the MDAs and the Budget Office (employer) as provided by the Pension Reform Act 2014 can guarantee appropriate and correct employees' monthly pension deductions among the workforce in the various Ministries, Departments and Agencies eliminate the underdeductions of monthly pension contributions and overpayment of gross monthly salaries.

2 Introduction

ne of the most controversial public financial reforms in the recent Nigerian financial reforms' history is the implementation of the Contributory Pension Scheme. It is the most misunderstood Nigerian Public Financial Reform that have caused untold restlessness in the ranks and files of the federal government; employees in the public places. It is one of a few public policies that has defied meeting point between the employers and the employees in the public establishments and produced divergence of opinions among the stakeholders. Despite many organized seminars and conferences held to redefine and communicate a common ground of interpretation and agreement in order to consolidate the principles of its adoption for the uniform operation of the Of the Scheme to the entire populace. The solution to the challenges of its implementation is still a mirage in many Ministries Departments and Agencies in Nigeria while the center could no longer hold in parastatals.

Nigeria migrated from the Defined Benefit Scheme which is also known as Pay-As-You-Go with effect from July 1, 2004 to adopt a Contribitory Pension Scheme. The old pension scheme was characterized by countless defaults that have inflicted pains and hardships on both the state and the federal retirees. The payment of pension became a great burden to the governments. The pensioners were owed a backlog of arrears and there was no hope at sight for the settlement, coupled with the fact that the rate of retirement in the both federal and state establishments kept on increasing at an unacceptable proportion. Besides, there were no available records at that time to ascertain the actual number of federal and state pensioners. Few fund allocated for the payment of pensions was diverted. Ghost pensioners dominated the list of both federal and state pension payrolls. Budgetary allocations were not sufficient to make regular payments of pensions, with outright fraud and irregularities among the top echelons in pension houses. It was so clear that the federal government could no longer cope with the rising demands for the payment of pensions and gratuities of workers, whose final entitlements were based on length of service and career progression at the time of retirement.

The introduction of the Contributory Pension Scheme in Nigeria was therefore as a result of a failed implementation of Defined Benefits Scheme which could not meet the needs of the rising retiring officers' emoluments (Odewole, 2017). The Contributory Pension Scheme means that the new pension scheme is contributory, fully funded jointly by both the employers and employees. Unlike the old pension scheme where the scheme was only funded by the government through budgetary allocation, the Contributory Pension Scheme (CPS) entails that employee contributes money into the individual Employee's Retirement Savings Account (RSA), along side with the counterpart contribution by the employer into the same individual Employee's Account (RSA). There is third party custody of the funds contributed by both the employers and the employees into the RSA and assets are based on individual account. Under this new pension scheme in accordance to the Pension Act, 2004, the employees contribute a minimum of 7.5% of their monthly emoluments to the individual Retirement Saving Account open with the Pension Fund Administrator of their choice while the employer contributes the equivalent counterpart contribution of the same rate. The Act provides for the employees contribution of 2.5% for the military while the government contributes 12.5% of the monthly emoluments of the employees, making a total of 15% of the employee's monthly emolument on both side. The freedom of election is equally provided by the Act for every employer who may elect to contribute on behalf of the employees such that a total rate of 15% of employee monthly emolument is credited to the employee Retirement Accounts.

The reviewed Pension Act 2014 however adjusted these rates for both employers and employees. In accordance with this Act, employers now contributes 10% of the employee monthly emolument while the employee contributes 8% on monthly basis bringing the total to 18% of the employee monthly emolument instead of a total of 15% under the Pension Act, 2004. The provision of this Act has however not been implemented by both the federal and state government. The purpose of the contributory pension scheme is to ensure that all workers in public service and private sector receive retirement benefits as at when due, assist individuals to save for the rainy days, establish a uniform method of administering payment of retirement benefit in public and private sector and for the employees to have control over their Retirement Savings Account. The scheme is also intended to promote labour mobility and minimize incentives for early retirement. The era of transfer of service among the civil servants ended with the contributory pension scheme whereby with pension liabilities transferred from one agency to the other. The implementation of CPS promotes wider coverage of pension scheme in Nigeria. Movement from one organization to another that characterized the Pay-As-You-Go scheme does not affect the CPS. Also, the bottlenecks involved in the determination of qualifying years of service before a retiree qualifies for pension and the sharing formula among the employers where the employee works before his retirement is no longer necessary. The employees' right to the retirement benefits before the inception of the CPS, under the payas-you-go scheme is guaranteed under the contributory pension scheme by the issuance of a Federal Government retirement Bond which is redeemable upon retirement of the employee. The Retirement Benefits Bond Redemption Fund Account is domiciled with the Central Bank of Nigeria and is fully funded by payment of a regular 5% of the total monthly wage bill payable to all employees for the purpose of redemption of the Bond upon retirement by the employees. The scheme entrenches the principle of transparency and accountability, ensures that the employee receive his pension after retirement without any delay.

However, the intension of the scheme differs largely from the perception among the employees and the reality of its capacity to accentuate the sufferings of the employees after retirement. The scheme has generated contention and created a lot of controversy among the employees in many Ministries, Departments and Agencies shortly after its implementation, the impasse which is still unresolved in many public establishments. The bone of contention is in the appropriateness of the employee pension deductions that translate to monthly 7.5% of the emoluments. There are different versions of the interpretation of the 7.5% of the employee monthly pension deductions based on different treasury circulars issued on the scheme. Some MDAs interprete the 7.5% of the monthly emolument on the employee Basic Salary alone while others based the interpretation of 7.5% deductions on the employee basic salary in addition to transport and housing allowances, and the other category of the MDAs based the 7.5% interpretation of deductions on the employee's gross consolidated salary while a few based it on the takehome pay of the employee per month. These different versions and interpretations have resulted into disparity in the amount of employee monthly pension deductions among employees of equal grade levels and status in different MDAs operating the same salary structure which results into inappropriateness in the pension deductions on individuals employee as against the statutory requirement.

The objective of this paper is therefore to determine the correct mode of deduction that will translate to the appropriate employee monthly pension deductions in the original intention of the Act. The remainder of this paper is therefore arranged as follows: following the introductory section, section 2 reviews the literature, section 3 presents the methodology of the study. Section 4 presents the analysis and discussions of result. Section 5 concludes the study and offers some crucial policy implications.

3 II.

4 Literature Review

Pension is a monthly stipend payable to a retired officer until death under the Defined Benefit Scheme. It is a regular inflow of income accruable to retiree and payable by his employer after working for a certain number of qualifying years of service or attaining a prescribed number of years or having put in a qualifying service years . Pension is simply the amount set aside either by an employer or an employee or both to ensure that at retirement, there is something for employees to fall back on as income. It ensures that at old age, workers will not be stranded financially (Fapohunda, 2013). Pension helps employees to adjust themselves properly into the society after leaving employment (Armstrong, 2010). It is also viewed as a method whereby an employee contributes into the pension scheme a regular saving of a certain proportion of his/her earnings during his working life to be utilized at a future date **??**Robelo, 2002). It is a certain amount paid by government or private company to an employeafter a qualifying periods of years of his useful life, or attaining a specified age in active service (Ahmad, 2006). It is a lump sum payment to an employee after fulfilling a condition for the payment of pension (Ozor, 2006).

Pension systems have been largely classified into four in Nigeria (Adebayo, 2006 andUgwu, 2006), superannuating pension is a pension plan given to a worker who retires within a prescribed age of retirement stipulated by the prevailing condition of service, pension becomes compensatory when employee's post is abolished as a result of reorganization in the establishment and the employer cannot place him in the alternative employment. A retiring pension is a pension type granted an employee after a qualifying years of service or attaining the mandatory age of retirement while compassionate pension is where a pension scheme is not admissible or allowable on account of an employee's removal from the public office as a result of gross misconduct, insolvency, inefficiency or incompetence (Amujiri, 2009). The administration of the Defined Benefits Pension Scheme became unsustainable by the government with the dwindling resources accruable to the federation account.

Millions of retired Nigerians were subjected to untold hardship and abject poverty through the unpaid pensions. There was a serial neglect of the plight of the pensioners by the successive administrations after retirement. The pensioners lived a precarious lifestyle with falling social status. They were subjected to inhuman treatment within and outside their immediate environment.

The arrears of unpaid pensions and gratuities built up a pyramid of abject poverty and circles of penury around their immediate family. The years of unpaid pensions and gratuities were aggravated by the corrupt tendencies of the pension officials, inefficiencies of the civil service, administrative bottlenecks, bureaucracies and the economic downturn prevalent in the government circles (Orifowomo, 2006, Dalang, 2006). Pension Scheme was first introduced into Nigeria by the Macpherson Constitution of 1951 following the 1951 Pension Ordinance with retroactive effect from 1946 to mark the Richard Constitution of 1946. The first pension scheme in Nigeria was set up for the employees of the Nigerian Breweries Limited in 1954 as a social welfare and also to provide comfort for the employees after retirement (Nwanne, 2015). The Social Security Scheme of 1961 established by the Act of Parliament set up the National Provident Fund (NPF) to address all issues relating to pension of private organizations in Nigeria **??**Nnanta, Okoh and Legwu, 2011). The Decree No. 73 of 1993 set up National Social Insurance Trust Fund (NSITF) to replace the defunct NPF because of its limitations in covering only employees in the private sector with the monthly contribution of 6% of basic salary subject to a maximum of N8.00 to be contributed in equal proportion of N4.00 each by employer and employee (Balogun, 2006). The National Social Insurance Trust Fund (NSITF) which was an offshoot of National Provident Fund was a defined benefit scheme which coverage is limited to the employees in the private sector working for organization with a minimum staff strength of five employees' workforce. Its scope is in respect to loss of employment of the employees, sustainable income for the retirees in old age, labour incapacity or invalidity or death. The NSITF was contributory in nature funded by both the employers and employees.

The total monthly contribution was 7.5% of the employees basic salary shared between the employers and the employees in the proportion of 5% and 2.5% respectively. This ratio was later reviewed upward in 2002 to 10% of employees gross salary made up of basic salary, transport and housing allowances shared in the proportion of 3.5% and 6.5% between the employees and employers respectively. The Pay-As-You-Go scheme has many disadvantages, funded by the employer only, and the burden of payments of terminal benefits for the retirees became the sole responsibility of the government, making the continuous payment of pension and gratuities serious burdens after retirement. This unpleasant scenerio has provoked the federal government to look out for a better retirement plan that would accentuate the sufferings of the employees after retirement. On July 1, 2004, the Contributory Pension Scheme was introduced to replace the old Defined Benefits Pension Scheme. In line with the Pension Reform Act 2004, the employees contribute a minimum of 7.5% of their basic salary, housing and transport allowance while the counterpart contribution is made by the federal government for all the federal workers while 2.5% is expected to be paid by the military officers with the counterpart contribution of 12.5% by the federal government. The Act brought about the establishment of the National Pension Commission to regulate, supervise, and ensure effective administration of pension matters in Nigeria (Sale and Ezugwu, 2009). The new pension scheme is a contributory in nature for the payment of retirement benefits of employees who are eligible under the scheme (Odia and Okoye, 2012).

The Contributory Pension Scheme (CPS) differs largely from the Pay-As-You-Go pension scheme in term of its structure, responsibility of the employers and employees, administration and management, value chain, retirement benefits, claims, risks and uncertainty and mode of access to fund. The Pay-As-You-Go pension scheme was essentially a defined benefit while the CPS is largely a defined contribution. The Pay-As-You-Go scheme was only funded by the employers while the CPS is jointly funded by both the employers and the employees in a designated individual employee's Retirement Savings Account managed by his/her nominated Pension Fund Administrators. The CPS is mandatory for all employees in public and private sector except those captured by the exemption clauses in the Pension Act, while the membership of the Pay-As-You-Go was voluntary in the private sector. The management of the Pay-As-You-Go scheme was largely by a Board of Trustees set up to manage that pension fund. This committee was made up of mostly different union members and representative of the Association of Pensioners. The supervision of the Pay-As-You-Go pension scheme was by multiple corporate pension bodies such as SEC, NAICOM, JTB and the multiple command resulted in conflicting policy instructions decisions most times .The contributory pension scheme is strictly regulated by Pen Com. The Pay-As-You-Go pension scheme gave no pension benefits to the dismissed employees while the administration of CPS restored the full pension benefits after dismissal. The new contributory pension scheme was therefore introduced to correct the ugly situation created by the old pension (Tobiloba, 2014).

The Pension Reform Act 2004 provides for the establishment of Licensed Pension Fund Administrators and Pension fund Custodians. The responsibility of the Pension Fund Administrators (PFA) is to open Retirement Savings Account (RSA) for all employees, invest and manage the pension fund contributed by both the employers and the employees in accordance to the condition laid down by the PenCom. The PFAS are the veritable operators that add value to the contributors' fund (Adegbayi, 2005). The implementation of the Contributory Pension Scheme has created opportunities ranging from individual retirement savings to other benefits. The scheme enables accumulation of fund, mobility of labour from one job location to other without a negative effect on the Retirement Savings Account, the right of the contributors to change their Pension Fund Administrator as the occasion demands, unrestricted access to RSA as at when due (Oshiomole, 2007). The introduction of CPS has put to rest the prevalence of ghost workers (Amujiri, 2009) and eradicated the existence of ghost names on personnel payroll (Yunusa, 2009). Gunu and Tsado (2012) employed the use of descriptive statistics in analyzing the impact of contribution pension system on the economic growth in Nigeria. Their findings reveals the positive contribution of CPS to the Nigeria capital market.

Olanrewaju (2011) investigated the Pension Reform Act 2004 as it affects the welfare of retirees in Nigeria and the sociological evaluation of its provisions using Marxist Theory to analyse the 2004 Pension Scheme. His findings reveal that the Pension Reform Act, 2004 has no significant impact on the provision of basic social security of old age pensioners in Nigeria. Akeni (2009) compared the distributions between the old pension scheme and the CPS and observed nine distinguishing features between the two system. His findings revealed that accountability, accessibility, ease of payment of pension and gratuity, funding, management of pension fund, transparency, stakeholders confidence in the scheme, auditors control and corporate governance were the major features of the contributory pension scheme. Dhameji and Dhameji (2009) examined the linkage between commitment and motivation as it relates to pension. His findings show that there is a positive relationship between commitment and employees' motivation. assessed the impact of contributory pension scheme in terms of its ability to guarantee employees' comfort in relation to regular payment of pension after retirement. After ten (10) years of its operation, the contributory pension scheme was reviewed in year 2014 so as to widen the scope of its operation and increase the minimum rate of pension contribution under the reviewed pension scheme. The employees contribute a minimum amount of their basic salary, housing and transport allowances of 8% while the employers contribute a counterpart addition of employees 10%, which sums up the individual monthly pension contribution to 18% as against 15% in the 2004 Pension Reform Act.

The reviewed Pension Reform Act 2014 was therefore a direct consequence of the weakness of Pension Reform Act 2004 (Ajaero, 2014). Under this new Pension Act, 2014, fund mismanagement make operators liable upon conviction to a minimum of ten years imprisonment Nda-Isaiah (2014). The increase of employee total monthly contribution is welcome development. It is an effort towards greater productivity among the employees Usman, (2014). However, the increments of the employees' contributions and the employers' addition which the 2014 Pension Reform Act provides has not been implemented by the federal government of Nigeria. The employees' monthly pension deductions still remains 7.5% across the board for all the employees throughout the federation while the employers' counterpart monthly addition also remains 7.5%. Instead of the 18% total of the employees' monthly consolidated salary to be credited to the RSA, the total rate credited on monthly basis is the 15% minimum which the 2004 Pension Reform Act provides. The inability of the Government to implement fully the provisions of 2014 Pension Reform Act as it relates to both employers and employees contribution is not unconnected with the dwindling resources and sharp economic melt down which the country faces.

5 III.

6 Data and Methodology a) Data

The data used in this study were gathered from the Stanbic IBTC Pension Manager and Legacy Pension Manager LTD (PFA) for the Retirement Savings Account statement of the employees registered with the Pension Fund Administrator and the Employees' Statement of Account of the Retirement Savings Account registered with the legacy pension -Legacy Pension Managers Ltd (PFA). The Recurrent Personnel cost warrants were also obtained from Budget Office and the office of the Accountant-General of the Federation for different MDAs for the use of the study. The MDAs' payrolls and employees pay advice were also used for the study.

7 b) Model Specification

Descriptive and analytical approaches were used in the study to interpret the relevant data obtained from different sources. Tables were presented to illustrate data from the Pension Fund Administrators and the statement of Retirement Savings Accounts. The Recurrent Personnel Cost Warrants from different MDAs were also presented in a tabular form to explain the break down of the MDAs' monthly personnel cost releases. The monthly employees' pension deductions were matched with the PFA statements of Account for the Retirement Savings Account to disclose the possible variations in the pension deductions that account for either under-deductions or over-deductions from the employees' monthly salaries.

IV.

8 Results and Discussion

Table I shows the break-down of the Appropriation Act of a particular MDA for the personnel cost releases before the adoption and implementation of Government Integrated Financial Management Information System (GIFMIS) within the Treasury Single Account (TSA) for the budget preparation. Column I shows the different codes for the different items of expenditure, column 2 shows the item code while column 3 explains the amounts allocated on various subheads. One of the greatest challenges in the Pre-TSA era is the determination of actual amount of personnel releases from the array of figures in the personnel cost warrants. The total annual personnel cost of N6, 360, 323, 910 released to this particular MDA is inclusive of other allowable deductions of which employees' pension contribution is significant. Apart from Employees' Pension Contribution, there are other mandatory deductions which also form part of the Gross Personnel Cost releases such as National Health Insurance Scheme (NHIS) under which all the employees are mandatorily captured. All these are taken into consideration before the actual personnel costs are arrived at. A technical problem also arises because the item of contributory pension appears once on the personnel cost warrant, therefore a common error of accounting treatment is to deduct the amount of the CPS once with other deductions in other to arrive at the actual personnel cost release. Since the inception of the contributory pension scheme, the elements of the scheme provide for the employees' deductions of 7½ % from their salaries and the employers' counterpart contribution of 7½ %. At the annual budget discussion, when the MDAs' personnel cost budget is defended, the government counterpart addition of 7½ % is also added to the agreed 100% personnel costs for the MDA expected to be accounted for in the subsequent fiscal financial year. The 107½ % total personnel cost are not released to the MDA as the actual personnel cost release. The employees' deductions of 7½ % and the government counterpart contribution of 7½% totaling 15% of the total personnel costs are removed from the MDAs' personnel cost budget in addition to the mandatory National Health Insurance Scheme allocation at source. From the Table I therefore, the actual annual personnel cost for the MDA is (N6, 360, 323, 910-(240,110,191 × 2 + 160,073,460)). The sum of N240, 110,191 is repeated twice for both employer and employee as 7½ % contribution respectively. The sum of N160, 073, 460 is for the mandatory cost of National Health Insurance Scheme for the MDA. It is therefore the net of the gross personnel cost out of the value of N572, 003, 068 that would be released to the MDA. In the conceptualization of the contributory pension scheme theory, it is expected that 15% of the employees' salary will be credited to his Retirement Saving Account on monthly basis. In other words, if Mr. "A" 7½ % of his consolidated salary is N3,000, government would have removed this N3,000 from the MDA's personnel cost from source, add counterpart government contribution of another N3,000 before the rest is released to the employee's MDA as net of personnel cost.. The sum of N6, 000 will therefore be credited to the employees Retirement Savings Account with his designated Pension Fund Administrator. The employee is therefore paid the balance of 92.5% by his MDA while the deduction at source of 7.5% will reflect in his monthly pay advice as a memorandum so as to gross up his monthly salary to 100%. There is no provision in the Pension Act where the employee's deduction differs from the employer contribution because the two elements are deducted simultaneously at source with a common denominator in the budget office before the balance is released to the respective MDAs for the payment of net salaries to the workers. Table II shows the summary of the personnel cost releases with the adoption of Treasury Single Account (TSA) to the MDAs. Colum I shows the Fund Codes, Column 2 shows the document type for the transfer, Column 3 shows the periods of the year, January -December, Column 4 indicates the name of the organization while Column 5 explainsthe medium of the Transaction -through the Treasury Single Account of the MDA domiciled with CBN, Column 6 shows the gross personnel cost, Column 7 gives the Employers' contribution in the employees' pension scheme, Column 8 shows the employee pension deduction, Column 9 stands for the National Health Insurance Scheme deductions while Column 10 explains the actual releases to the MDAS. The personnel cost warrant through the Treasury Single Account has however substantially cleared the doubt about the controversy on the determination of both employers' contribution and employees' deductions from the personnel costs releases to the MDAs. The Federal government contributions are charged against the consolidated Revenue Fund of the Federal goverment. The same amounts are deducted for both the Employers contribution (FGN) and the employees' deduction on monthly basis against the MDA which is expected to be credited to the respective individual Employees Retirement Savings Account with various Pension Fund Administrators. It is therefore expected that in the employees payroll with MDA, the amount deducted as contributory pension scheme deduction for the employee which is shown as a reflection should be the amount credited in the employee's statement of his Retirement Savings Account with his designated Pension Fund Administrator (PFA). Table III shows the pay advice of an employee that operates and implements contributory pension scheme. Column 1 shows the payment items, Column 2 shows the code for the payment item, Column 3 shows the amount against the payment items, Column 4 shows the deduction items, Column 5 shows the codes for the deduction items while Column 6 shows the amounts against the deduction items.

The Budget Office of the Federation deducts a sum of N7, 591.52 from the employee's salary on monthly basis as 7.5 % of the employee's contribution which was credited to his designated Retirement Savings Account with his Pension Fund Administrator. It is therefore expected that the exact sum will be reflected in the employee's pay advice as a memorandum entry on monthly basis by his employer which will be added to the employer's counterpart addition and crdited in the employee's Retirement Savings Account to sum up to N15, 183.04 as monthly pension contribution inflow.

The employee's Retirement Savings Account statement was obtained to reconcile and confirm if what was reflected in the employee's pay slip is what was exactly deducted from the source for the employee'smonthly contribution. Table IV shows the Retirement Saving Account statement of a member staff in the MDA whose pay advice was presented in Table III. Column I shows the description for the month of entries, Column 2 shows the balance brought forward for both the employers and employees, Column 3 shows the dates in which values were received in the statement of Account, Column 4 shows the mandatory contributions by both the employee and employer which is 7½ % of emolument, Column 5 shows the voluntary contribution by the employee apart from the mandatory contribution. Pension Act 2014 as amended, makes provision for employee's voluntary contribution apart from the 7½ % monthly mandatory contribution. Column 6 shows the accumulated pensions accrued for the employee before the implementation of Pension Reform Act while Column 7 shows the Total Contribution. From the Staff Retirement Savings account statement, it can be seen that the employer's contribution and employee's deduction is the same throughout the relevant periods. A regular sum of N12, 006.13 was deducted for all the months within the quarter. But in the pay slip of the employee with his MDA, a sum of N7,591.52 was reflected on his pay slip as his deduction from source instead of N12,006.13 with a clear difference of N4,414.61 as under deduction on monthly basis. The implication of this treatment is that the employee is overpaid every month to the tune of his pension deduction which amounts to N4, 414.61. In a year, the employee would have been overpaid with a sum of N52, 975.32. Every member of staff on the institution's payroll is equally overpaid. One therefore wonders how the MDA finances the overpayment of salary payments from the personnel cost releases. Despite the volume of extant circulars issued on the implementation of the contributory pension scheme, many MDAs give different interpretations to the employees' monthly contribution that results into inappropriate deductions of employees' monthly pension contribution.

In some MDAs, employees deductions of 7½ % are based on basic salary and housing allowances while some MDAs calculate deductions based on basic salary, housing allowance and transport allowance. None of these bases amounts to appropriate employees' monthly pension deductions. Few MADs however base 7½ % deduction on the employees' consolidated salary which amounts to the appropriate employee's monthly pension deduction and corresponds to the amount deducted at source by the Budget Office on the employee's salary as stipulated by the Pension Act 2014 as amended. From the Table III above, the employee's pension was based on the employee's basic salary which is just a component of consolidated salary of the staff. The staff monthly basic salary is N102, 120.25 and 7½ % of N102, 120.25 is N7, 591.52. All other allowances which are integral part of the consolidated salary have been excluded whereas, in the deduction that have been effected for the employee from the source before the net was released to the MDAs, deduction was based on the employees' consolidated salary of CONTISS 11/07 of N160,081.73. Where a wrong base is used in the determination of pension employee's pension deduction despite the correct rates, it will amount to pension under deduction and inappropriate approved personnel cost releases for the year will be insufficient to accommodate the personnel costs expenditure for the year. No wonder, some MDAs could not pay all their employees' salaries for the whole twelve (12) months of the year causing untold hardship for the workers employee's pension deductions. The inappropriateness of pension deductions by the MDAs on employees' consolidated salary has grave consequences on the MDAs personnel cost budget. It results into serious personnel cost crisis, salary short falls by the MDAs inability to pay some approved regular allowances, failure to remit statutory deductions to the authorized bodies and inability to pay the Union dues. The direct consequence will therefore be that the Also, inappropriate contributory pension deduction on the employees by the MDAs mean that employees receive over and above 100% of their salaries on monthly basis. For an employee to be overpaid all through the year by the MDAs and yet the MDAs do not experience personnel cost crisis and short falls from payment of staff salary only mean that the personnel cost budgets have been over bloated or padded along the way by the MDA.

A persistent under deduction of the employees' pension also results into inability of MDAs to replace the exited staff, recruit new staff in the organization and also making the adjustment for the payment of incremental year credits for the staff members impossible. Where salary over payment is detected, it is the employer's responsibility to make a case for the refund of the overpayment and not the other way round so as to buffer the depleted personnel account. The pains of the inappropriate pension deduction will not be borne by the employees just because the actual deductions for both the employers and employees have been taken care off from source and credited to the employees Retirement Saving Account. Table **??** shows the pay advice of an employee in a MDA that make appropriate pension deductions, Column 1 solemn after the employee's personal details shows earnings information, Column 2 shows the amount, Column 3 shows the deductions on the employee emolument while Column 4 shows the amount of total deduction for the month.

The monthly consolidated salary of the employee is N25, 463.25 which is made up of the employee's basic salary, housing allowance, transport allowance, utility allowance, responsibility allowance etc. The contributory pension deduction is N1, 909.74 which is 7½% of the consolidated salary. The consolidated salary of the employee was disclosed at gross value, that is, the amount the employee is actually entitled to, while the contributory pension amount appeared at the deduction column so as to deflate the gross consolidated salary at net value which was the amount actually received from the ministry of finance. This treatment and deduction is the appropriate way of treating the employees' deduction in the pay advice of the employee. The alternative way is disclosing the net value of the consolidated salary after adjusting for the employee deduction at source and thereafter reflecting Table VI shows the Retirement Savings Account statement for an employee in the MDA that reflect an appropriate deduction at source from the Federal Ministry of Finance. Segment A contains the information of the mandatory contributions for the employees. Segment B contains the Employee's, Voluntary Contribution (VC) which the Pension Act provides for while segment C contains details of transactions for the period 01/04/2017 to 30/06/2017 column in this segment shows the value date, Column 2 shows the transaction description, Column 3 contains information about the employer contribution, Column 4 shows the details about the employee's deduction, Columns 5, 6, 7, 8, 9, 10 and 11 shows the AVC, Admin Fees, net value in naira, pattern of withdrawal, unit price and the units of transaction respectively. The employer's contribution to the employee's Retirement Savings Account on monthly basis is 1,909.74 which is exactly the same with the employee's monthly deduction. The amount disclosed at the deduction column of the employee's pay advice is also the same value signifying that what is deducted at source for the employee and credited into his Retirement Savings Account is the exact value the MDAs disclose in the personnel pay advice of the employee. In other words, both Federal authority that deducts at source and the local MDA that discloses what was deducted based their 7½ % employee pension deduction on the consolidation salary of the employee. Where the basis for deduction is the same, appropriate deduction will be made by both the MDA and the Central authority from the employee's emolument. Where the basis differs, it will resort to discrepancy and varying amount of deduction on both sides. In appropriate deductions from the employee's emolument arises from the misinterpretation of the relevant circulars on contribution pension scheme where statutory 71/2 % employee's deduction is based on the consolidated salary which is made up of the employee's basic salary, house allowance and not the basic salary alone or basic salary and one of the allowances leaving out other allowances that constitute the consolidated salary. The misinterpretation of the Pension Reform Act will resort to under-deduction of the employee pension as reflected by the MDA on the employee's pay advice and overpayment his monthly salary which will result to poor personnel cost budget performance and depletion of the MDA's Personnel Account. Also, unupdated personnel payroll by the MDAs can also lead to inappropriate employee's pension contribution. The personnel payroll is the summary of both the number and categories of workforce in the establishment. The payroll should give adequate and up-to-date information about the employee. The current grade level and status, earned promotion during the year, employee's advancement, demotion, upgrading, downgrading, award of incremental credit etc. are all factors that determine placement of the office on an appropriate consolidated salary scale.

Officer's disciplinary actions like suspension, loss of incremental credits, must all be reflected in the updated payroll. The employee's conversion from one salary grade level to the other will equally distort the appropriateness of the employee's pension deduction, if not communicated to the appropriate authorities.

V.

9 Conclusion and Policy Recommendation

The objective of this paper is to investigate the reason for the inappropriate employees Pension deduction as provided by the exstant Treasury circulars on the implementation of the contributory pension scheme in Nigeria. The challenge of the inappropriateness of the employee pension deductions is largely because of the wrong interpretation of the 7½% on employee's emolument which clearly differs from the intents and purposes of the relevant treasury circulars on the administration and implementation of the contributory pension scheme. Any other interpretation given to the employees' emoluments in which the 7½ % employee pension is not based on the employee's consolidated salary will always lead to inappropriate employee employee's pension deductions. Also an un updated personnel payroll, like notice on staff advancement, promotion, upgrading, demotion and suspension to the appropriate authority will either lead to pension over deduction or under deductions. To maintain a uniform and appropriate account of employees' pension deduction that will correspond to the deduction at source by all the MDAs, the following must be taken into consideration:

? The mandatory 7½ % of contributory pension deduction should be based only on employee's monthly consolidated salary. It is only when the mandatory 7½ % of the employees pension deductions is based on the staff consolidated salary that appropriate deductions from source can be reflected by the MDAs on employees' pay advice through correct interpretation of the relevant treasury circulars on the implementation of contributory pension scheme in Nigeria. [1] [2] [3]

I

Code	Line Item	Amount
2	Expenditure	6,745,931,132
21	Personnel Cost	6,360,323,910
2101	Salary	3,201,469,210
210101	Salaries and Wages	3,201,469,210
21010101	Salary	3,201,469,210
2102	Allowances and Social Contribution	3,158,854,700
210201	Allowances	2,758,671,049
21020101	Non Regular Allowances	2,758,671,049
201202	Social Contributions	400,183,651
21020201	NHIS	160,073,460
21020202	Contributory Pension	240,110,191
22	Other Recurrent Costs	107,164,077
2202	Overhead Cost	107,164,077
220201	Travel & Transport -General	28,451,552
22020101	Local Travel & Transport: Training	16,362,440
22020102	Local Travel & Transport: Others	12,089,112
220202	Utilities -General	17,199,676
22020201	Electricity Charges	15,255,683
22020205	Water Rates	534,064
22020206	Sewerage Charges	1,409,929
220203	Materials & Supplies -General	12,191,337
22020301	Office Stationeries/Computer Consumables	1,547,946
22020303	Newspapers	576,789
22020306	Printing of Security Documents	369,494
22020309	Uniforms & Other Clothing	5,340,640
22020311	Food Stuff/Catering materials Supplies	4,356,467
220204	Maintenance Services -General	6,942,832

Figure 1: Table I :

[2]( ) 2017 C Implementation of Contributory Pension Scheme (CPS) and the Challenge of Appropriate Employees' Pension Deductions in Nigeria: The Financial Managers' Review

[3]Implementation of Contributory Pension Scheme (CPS) and the Challenge of Appropriate Employees'Pension Deductions in Nigeria: The Financial Managers' Review

II

Federal Government of Nigeria
Report Parameters
Years: 2016
Period: 1-12
Organization Type:
Warrant Type:
Warrant No:
Warrant Status: Finalized
Organization: 0517021006/a particular University in NIGERIA
Fund: 02101/Main Envelop -Personnel
Warrant Lines

Fund	Document	Period	Organization	Type	Gross Amount	FGN Pension	Employee Pension	NHIS	Net Amount	St
02101	W01-00006053	2016-1	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911.17	63, 112, 911. 17	42,075, 274. 08	825,924,21	F
02101	W01-00006053	2016-2	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-3	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-4	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-5	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-6	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-7	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-8	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-9	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-10	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-11	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F
02101	W01-00006053	2016-12	0517021006/University of Benin	TSA	994 225 309.00	63,112, 911. 17	63, 112, 911. 17	42, 075, 274. 08	825,924,21	F

Figure 2: Table II

III

	Staff Pay Slip for: February 2012: Salary				
Employee Information					
Full Name			Post Prin Technologist		
Faculty	Basic Medical Sc.		Dept/St/ Code: 1200/10498		
Dept	Anatomy & Biology		Bank U.B.A		
Scale	Contiss 11 Sept 07		Bank Branch		
Pen. Admin.	Ibtc				
	Payments			Deductions	
	Item	CE	Amount	Item	CE Amount
	CONTISS	100	102,120.25	ASLTON DUE 447	5,000.00
	** Less 7.5%	425A**	(7,591.52)	CTCS	415 15,820.00
	Subtotal	019	94,528.73	EMAIL	427 1,500.00
	HOUSING	260	11,455.57	NAAT DUE	424 1,957.37
	SubGross	021	116,984.30	PAYE	407 3,010.31
	Arrears of Cons sal	002	2,932.26		
	Peculiar Allow	262	66,005.83		
	GROSS PAY		185,922.39	TOTAL DEDUCT	
	NET PAY 158,634.71				
	** Already Deducted at Source by Ministry of Finance				

Figure 3: Table III :

IV

B. Statement Summary					
Contribution from Inception			1,280,320.00		
Total Withdrawal from inception				(711.54)	
Net Contributions to Date			1,279,608.46		
Gains/(Loss) from Inception				208,682.55	
Current Value			1,488,291.01		
No of Unit Held				818,551.87	
Unit Price				1.8182	
C. Transactions from the Quarter					
Description	Date	Mandatory N	Voluntary N	Voluntary N	Total N
Balance B/F					
Balance BF	31-Dec-11	1,207,871.68	0.00	0.00	1,207,871.68
December 2011					
Employer	25-Jan - 12	12,006.13	0.00	0.00	12,006.13
Employer	25-Jan - 12	12,006.13	0.00	0.00	12,006.13
Admin Fee	25-Jan-12	(100.00)	0.00	0.00	(100.00)
February 2012					
Employer	01Mar - 12	12,006.13	0.00	0.00	12,006.13
Employer	01-Mar-12	12,006.13	0.00	0.00	12,006.13
Admin Fee	01-Mar-12	(100.00)	0.00	0.00	(100.00)
January 2012					
Employer	01Mar - 12	12,006.13	0.00	0.00	12,006.13
Employer	01-Mar-12	12,006.13	0.00	0.00	12,006.13
Admin Fee	01-Mar-12	(100.00)	0.00	0.00	(100.00)
Net Contribution to Date					1,279,608.46
Gain/Loss for the Quarter					28,380.14

Figure 4: Table IV :

VI

Consolidated Salary
Federal Government of Nigeria
Employee Pay slip: Aug -2017

Employee Name:	Grade:		GL03_CONHESS	
IPPIS Number:	Step:		3	
Ministry:	Gender:		Female	
Division				
Designation:	Health Assistant			
Location:	OSUN STATE			
Date of First Appt.:	18-MAY-2015			
Date of Birth:	03-JAN-1986			
Trade Union:	NON MEMBER			
Bank Information Details				
Bank Name:	ACCESS BANK NIGERIA PLC			Contributory Pension Information
Bank Branch:	ONDO		PFA Name: Legacy Pension Managers Limited	
Account Number:				
Pension PIN: PEN100742890418				
	Gross Earnings Information		Gross Deduction Information	
	Earnings	Amount	Deductions	Amount
	CONHESS Cons Salary	25,463.25		CONHESS 636.58 NHF
CONHESS Shift Allowance			CONHESS PENSION	1,909.74
	Hazard Allowance		CONHESS TAX	492.49
	Total		CONHESS UNION DUE	0.00
			CTSS NASU CICS OAUTH	330.43
			CTSS OAUTHC MCICS	11,600.00
			Total	14,969.24
			Summary of Payments	
			Total Gross Earnings	33,860.25
			Total Gross Deductions	14,969.24
			Total Net Earnings	18,891.01
Balances				
Cumulative Tax Deduct	Cumulative Income	Cumulative Pension	Cumulative NHF	
4,432.41	304,742.25	86,484.07	5,729.22	

Figure 5: Table VI :

? The personnel staff payroll must be updated monthly and send to the appropriate authorities like the staff Pension office, Pension Fund Administrators, Budget Office, Accountant General Office.

?

Figure 6:

the amount deducted as employee's pension deduction as a memorandum entry. The employees' pension fund administrator is legacy pension. The employee's Retirement Saving Account is open with the PFA where both the employer's contribution and employee's deduction is credited.

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