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# Effect of 2014 PRA on Management of Retirement Benefits in Public Sector Organizations

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**Abstract-** The study is on the effect of 2014 Pension Reform Act in management of retirement benefits of selected public sector organizations (federal parastatals in Anambra state). The study examined the appropriateness of documentation by Pension Fund Administrators and its effects on the time lag before pensioners receive their lump sum (gratuity). It also determined the level of accuracy in computation of pension. To streamline the study, two research questions and two hypotheses were formulated. A descriptive survey research design was adopted for the study. The population of the study consisted of 128 pensioners from NIPOST, INEC and NPC Anambra state who retired under 2014 Pension Reform Act. Due to the smallness of the population size, the entire population was used as the sample size. Data for the study was collated through primary source (questionnaires). The reliability of the instrument was ensured using pilot test and analyzed using Cronbach Alpha, it yielded a reliability co-efficient of 0.85. Analysis of variance was used to analyze the data collated. The result of the analysis revealed that the level of accuracy in computation of pension is not very satisfactory.

**Keywords:** pension reform act (PRA), management, retirement benefits and public sector.

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**Keywords:** pension reform act (PRA), management, retirement benefits and public sector.

## I. INTRODUCTION

Management of retirement benefits is one of the problems facing Nigerian financial sector. Several efforts in the form of reforms have been made towards solving the problems but they still persist. Pension undoubtedly constitutes one of the bedrocks of public service in Nigeria. It was with this understanding that federal government has continuously embarked on reforms in the sector not only to save it from collapse but also to improve on its operations, especially the management of pensioners and their retirement benefits. Although Nigeria got her independence from the British Colonial Master, she still retained the colonial

system of paying pension and gratuity to her retirees. The civil war in Nigeria ended in 1970 but because of the declaration of no victor no vanquish, the Federal Government took over the payment of pensions and gratuities throughout the Federation. However, on March 31<sup>st</sup> 1976 the Federal Government relinquished the payment of pensions and gratuities to state government except those of federal workers.

Pension and gratuity which are under exclusive establishment matters have seen several reviews. The first was the Pension Act No.102 of 1974 which came as the legislation guiding the reorganization of the pension program in the public service. The second reform was in 1992 empowering the Parastatals to establish separate boards of trustees for management of their own Schemes. The third reform came as Decree 77 of 1993 and it established the Nigeria Social Insurance Trust Fund (NSITF) which replaced the old National Pension Fund managed by the Federal Government for the Private Sector. This Pension reform also known as Defined Benefit Scheme in the public sector has increasingly become unsustainable and further compounded by increase in salaries and pensions as costs constitute a significant proportion of personnel cost of various tiers of government. The Scheme was therefore fiscally unsustainable. On 25<sup>th</sup> June, 2004, a New Pension Reform Act bill was passed by the National Assembly and granted assent by our President (National Pension Commission 2004). President Obasanjo in his explanation after signing the bill into law, said that the New Pension Reform Act would help workers to secure their future and live comfortably after retirement.

However, none of these reforms could satisfactorily improve the management of the retirement benefits to an appreciable level. Retired workers are still complaining of not being adequately catered for by the Scheme. It was against this backdrop that Nigerians whole heartedly welcomed the 2014 Pension Reform Act which established a higher contributory pension system.

## II. STATEMENT OF PROBLEM

There are some problems militating against the smooth operation of the 2014 pension scheme. One of such problems is improper documentation which could

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be the discrepancies that arose in the registration of retiring workers into the scheme. Secondly, sometimes Pension Fund Administrators (PFA) may miscalculate someone's actual financial entitlements. The investments made by Pension Fund Managers as a result of capital market crises could not yield much and some of them lost the capital they invested. All these among others created problems in the implementation of the program.

### III. OBJECTIVES OF THE STUDY

The main objective of this study is to examine the effect of 2014 Pension Reform Act on Management of Retirement Benefits in Public Sector Organization. In order to achieve this, the study was guided by the following specific objectives:

1. To determine the level of accuracy in the computation of pension contributions.
2. To examine whether payment of pension is regular.

### IV. RESEARCH HYPOTHESES

1. Improper documentation has no significance effect on the time lag before pensioners receive their lump sum (gratuity).
2. There is irregular payment of pension under the new scheme.

### V. CONCEPTUAL FRAMEWORK

Conceptually, Pension is the amount paid by government or company to an employee after working for some specific period of time, considered too ill to work or have reached the statutory age of retirement (Ojiya, Ajie & Isiwu, 2017). It is a monthly sum paid to a retiree until death, because the person has worked for the organization paying the sum.

Nnanta and Ugwu (2011) also defined pension as a method whereby a person pays into pension scheme a proportion of his earning during his working life. The contributory pension provides an income (or pension) on retirement that is treated as earned income. On the other hand, gratuity is a lump sum of money payable to a retiring officer who has served for a specified minimum period of time.

It can also be seen as an arrangement whereby an employer provides benefits to employees after they retire from service. The essence of pension payment or income is to help the retiree to continue enjoying the basic standard of living that he could afford during his active working life to enable him live longer. Olanrewaju (2011) opined that the purpose of the pension is to provide officers of an organization with a means of securing on retirement, a standard of living reasonably consistent with what they enjoyed while in service. However these benefits could also be paid in the event of death or total disability.

Amadeo (2018) sees pension as investments pool that pay for employee's retirement commitments. Corporations and all levels of government provide pensions. The fund managers invest these contributions conservatively. They must avoid losing the principal and beat inflation. Pension can be defined as a steady income given to a person usually after retirement from active service, payment made in form of guaranteed annuity to a retired or disable employee. It could also come in form of death benefits which is amount paid to someone's widow, widower, children or next of kin at the death of the employee on active service.

### VI. BRIEF HISTORY OF PENSION SCHEME IN NIGERIA

The pension scheme was established by the colonial administration in 1951. The law that established it was called Pension Ordinance of 1951, this law which was promulgated in 1951 had a retrospective effect from 1<sup>st</sup> January 1946. It is also necessary to note that after the introduction of the pension scheme in 1951, there were pension increment in the subsequent years. The first increment was in 1974, the changes it introduced in the pension payments were as follows:

Pensioners earning less than #720 per annum had their rates increased by 50% subject to a minimum of #360 per annum

Pensioners earning #720 and above had theirs increased by 40% or #400 whichever is higher.

Those earning over #3000 were to receive 30% or #900 per annum whichever is higher.

Another increment came in June 1979 before the first reform that came in September of the same year. This was 10% flat upgrading in all pension sums. The reform was introduced before the Nigerian second republic; it was in the exercise of the exclusive powers of the federal government over matter relating to pensions and gratuity scales devised for the public officers by Udoji Public Service Review Commission in 1974. The Pension Act No. 102 of 1979 was the basic pension law from which other pension laws in public service of Nigeria have developed. The other laws which originated from the Pension Act No 102 of 1979 are:

The Armed forces Pension Act No 103 of 1979.

The Pension Right of Judges Act No 5 of 1985.

The Amendment Act No.51 of 1988

After the pension reforms Act 102 and 103 of 1979, there were increase in pension in the subsequent years. The second reform came into effect on 1<sup>st</sup> June 1992 under the administration of Nigeria Head of state General Ibrahim Babangida. This reform authorized the parastatals to introduce a separate Board of trustees for the management of their own schemes. It came with 5% increase across board.

The third reform came under Decree 77 of 1993 and from the same administration that introduced the 1992 reforms. It took effect from 1<sup>st</sup> June 1993 and established the Nigeria Social Insurance Trust Fund (NSTIF) to replace the old National Pension Fund managed by the federal government for the private sector. This reform equally brought an increase of 10% to that of 1992 (Njuguna, 2010). The innovation included the Private sector in the Pension matters and followed by other increments such as

New pension increment of 1<sup>st</sup> October, 1993 moved the rate up to 45% of the value of old increase.

Another increase came on 1<sup>st</sup> October, 1999 and moved the rate by 5%.

The next increase was actually made which increased the rate by 30%.

Exactly four months after the last pension increase, another outstanding one came on 1<sup>st</sup> May 2000 and it increased the rate by 142%.

In spite of all these efforts by the successive governments to improve on the conditions of the pensioner, so many problems still affect the achievement of this objective. The pension Scheme was not fully funded and it means by implication that the pension funds and assets did not match pension liabilities. As a result of that, it failed and the pensioners suffered it most.

Furthermore, Eme and Sam (2011) identified two other problems which are administrative bottlenecks and corruption. These impediments led to malfunctioning in the scheme. Some people in the bid to get rich quick, usually deposit the pension funds into banks for months with the callous aim of benefiting from the accruing interest before such funds are released if at all. Many pensioners have either died of starvation or got knocked down by vehicle while waiting for transport to the designated places for pension payment. Worse still, others have been reported to have slumped and died in queues while waiting their turn to be paid. Taking a reflective look at the pension administration in this country, it becomes very sad and painful that those who suffered in one way or the other to maintain peace and generate revenue to the economy are the ones suffering most (Barrow 2008).

The consequence of these tales of woes and scenarios, the emergency of the new pension scheme known as Contributory Pension Scheme. This policy which makes it mandatory for workers to contribute part of their earnings for their retirement also lifted the pension burden from the government/employer and places it on the employee/pensioners.

#### a) *Contributory Pension Scheme of 2004*

The 2004 Pension Reform Act is a paradigm shift from the 1979 Pension Act. Under the new scheme, employers and employees alike are to contribute 7.5 percent of employees' monthly emolument which

include basic salary, housing and transport allowance (Dada 2014). However, military personnels are to contribute 2.5 percent of their monthly emolument while the Federal Government contributes 12.5 percent of the employees' monthly emolument (Pension Reform Act, 2004). The scheme covers the private sector with five or more employees. The only exceptions are public employees who have three years or less to retire with effect from the date of enactment of the Pension Act being 30th June 2004 (National Pension Commission, 2004). Fapohunda (2015) posits that the employer may elect under the 2004 Pension Act to bear the full burden of the pension by contributing not less than 15 percent of the employees' monthly emolument. The objective of the new pension scheme include among others to ensure that every employee in the private and public sectors receives his/her benefits as and when due; to establish uniform rules, regulations, standards and laws for the administration, management and payment of pension funds in the country. According to Orifowomo (2006), the scheme was also established to assist employees by ensuring that they save to cater for life after retirement. More so, the scheme is to address the huge unsustainable pension deficit estimated at about two trillion naira which characterized the former Pay-As-You-Go (PAYG) Pension Scheme. Nyong and Duze (2011), also posit that the contributory pension scheme would address the pension deficit of the past in Nigeria; that the scheme as at July, 2010, has an asset of 1.7 trillion naira (11.3 billion dollars) across the country. The contributory pension scheme is expected to have a multiplier effect on workers attitude towards retirement, commitment to duty, and labour retention as well as negative attitude towards corruption especially in the civil or public service. This is because the uncertainty of receiving pension and gratuity after retirement was largely responsible for high labour turnover in the civil service. Agba and Ushie (2010), posits that, poor remuneration, delay in payment of fringe benefits and poor condition of service among other things are jointly responsible for the exodus of medical personnel from Nigeria to the United States and United Kingdom.

#### b) *2014 Pension Reform Act*

On 1<sup>st</sup> July 2014, President Goodluck Jonathan signed into law the "Act" which repealed the Pension Reform Act 2004. The 2014 Pension Reform Act expanded the scope of participation of the contributory pension scheme and among others, upward review of penalties and sanctions to pension defaulters and employers which implies that the new Act is an improvement of the former and offers more assurance and safety to workers and retirees. Some of the key changes include increase in the minimum number of employees required to make contributions under the Act, mandatory increase in the scheme's minimum contribution (Employer: 10% Employee: 8%) and the



imposition of fines and penalties on the Pension Fund Administrators (PFA) for failure to meet their obligations to contributors and violation of the provision of the Act (2014 Pension Reform Act).

The crux of the matter is to encourage participation in the contributory pension scheme. The Scheme applies to two categories of employees of private organizations in which there are 15 or more employees. The Act also provides that in the case of private organizations with less than 3 employees participation in the scheme would be governed by guidelines issued by the National Pension Commission (PENCOM). However, the Act is silent on the applicability of the scheme to private organizations with more than 3 but less than 15 employees. Persons exempted under the Act are substantially the same as under the repealed Act.

The Act also provides that an employer can take full responsibility of the contribution of both employee and employer. In that case the contribution shall not be less than 20% of the employee's monthly emolument. The penalties for misappropriation have also been increased. In addition to a prison term of 10 years and a fine of three times the amount misappropriated, a convicted person would refund the misappropriated fund as well as forfeit to the federal government any property, asset or fund with accrued interest or the proceeds of any unlawful activity under the Act in his/her possession.

The Act further criminalizes any reimbursement or payment by a Pension Fund Administrator (PFA) or Pension Fund Custodian (PFC) to a staff, officer or director upon whom a fine has been imposed under the Act. The penalty prescribed for this is a minimum of 5 million naira. In addition to the above and with particular reference to PFCs, the Act imposes a penalty of at least 10 million naira, upon conviction, where the PFC fails to hold the funds to the exclusive preserve of the PFA and PENCOM or where it applies the funds to meet its own financial obligations (in the case of a Director, 5 million naira or a term of 5 years imprisonment or both).

## VII. THEORETICAL FRAMEWORK

Ottong (2005) posits that theories in sociology such as structural functional theory and conflict theory are used as framework in analyzing societal problems. It can also provide prediction on how society can be reordered. The structural functional theory is a perspective in sociology that sees society as a complex system whose parts work together to promote solidarity and stability. Each social structure has social functions or consequences for the operation of the society as a whole. Therefore Pension is one of the social structures that needs to be adequately addressed for a smooth societal operations. Conflict theory developed by Karl

Marx, purports that due to society's never-ending competition for finite resources, it will always be in a state of conflict. The implication of this theory is that those in possession of wealth and resources will protect and hoard those resources while those without will do whatever they can to obtain them. Governments have several mechanisms for influencing the distribution of resources which include progressive taxes, minimum wages, special or social programs (pension) and regulation (investopedia).

## VIII. METHODOLOGY

Survey research design was the design adopted for the study. The population of the study was made up of 128 pensioners from Nigeria Post (NIPOST) Independent National Electoral Commission (INEC) and National Population Commission (NPC) Anambra state that retired under the 2014 pension reform Act in these public sector organizations. The entire populations were used for the study due to the smallness of the population size. Therefore, the population remains the sample for the study. Questionnaire was the major instrument used for data collection for the study. Cronbach Alpha was used to test the reliability of the instrument. Analysis of Variance (ANOVA) was employed to test the null hypothesis at 0.05 level of significant level.

## IX. RESULTS

$H_{01}$ : There is no accuracy in the computation of pension contributions

This hypothesis was tested using Friedman's ANOVA as shown below:

Hypothesis Test Summary			
	Null Hypothesis	Test	Sig. Decision
1	The distributions of SA, A, D and SD are the same.	Related-Samples Friedman's Two-Way Analysis of Variance by Ranks	.856 Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

From the above analysis, the result is positively and statistically insignificant. We therefore accept our Null Hypothesis as suggested in the table above which

contains that there is no accuracy in the computation of pension contributions.

$H_{02}$ : There is irregular payment of pension under the new scheme.

Hypothesis Test Summary			
	Null Hypothesis	Test	Sig. Decision
1	The distributions of SA, A, D and SD are the same.	Related-Samples Friedman's Two-Way Analysis of Variance by Ranks	.172 Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

From the above analysis, the result is positively and statistically insignificant. We however accept our Null Hypothesis as suggested in the table above which contains that there is irregular payment of pension under the new scheme.

The payment of pension under 2014 Pension Reform Act should be made more regular to reduce the suffering of pensioners.

## X. CONCLUSION

This paper x-rayed the effectiveness of 2014 Pension Reform Act in management of retirement benefits in selected Public Sector Organizations (Federal parastatals in Anambra state). The provision of this Act marks an improvement in pension management process by provision of stiffer penalties for PFAs and PFCs. So far, they could be given a pass mark but there is still room for improvement in documentation of pension matters and computation of pension contributions, so that pensioners should not be under paid.

## XI. RECOMMENDATIONS

The study recommends that:

The PFAs should improve on the level of accuracy in computation of pension contribution to eliminate loss of benefit being incurred by pensioners.

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