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Pension Policy and Dissatisfaction Among Public Servants in Nigeria: Implications for Poor Work Attitude

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Abstract

Over the years the management of pension scheme in Nigeria has been associated with diverse problems and these affect the interest of civil servants to work. The failures of pension schemes in the country have been attributed to poor pension fund administration, outright corruption; embezzlement of pension fund; inadequate build-up of funds and poor supervision. There have been several reviews of pension schemes by the federal government which have also caused implementation problems. In 2004, Nigeria established a funded system based upon personal accounts. This paper examines pension policies and dissatisfaction among public servants in Nigeria, showing its implication for poor work attitude. It gives an overview of schemes and identifies key problems facing pension scheme in Nigeria and suggest the way forward. Data was obtained from official publications, documentations, paper clippings and internet services. It concludes that there is not much evidence to show that the pension scheme is leading Nigeria in the desired direction and further reiterate that the success of pension reforms in Nigeria largely depends on the sincerity, collaboration and commitment of all stake holders.

Keywords:
Pension policy, Dissatisfaction, Work attitude, Pay-as-You-Go, Contributory pension scheme.

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Background to the Study

Pension is one indispensable form of employees' solid benefits which has positive impact on employees' discipline, loyalty and willingness to remain in the service of an employer, commitment to the attainment of job goals and concern for the survival of the organization. An occupational pension scheme is an arrangement under which an employer provides pension for employees when they retire or gives deferred benefits to members who leave. It is a system designed to provide the employees of an organization with a means of securing on retirement a standard of living reasonably consistent with that which they enjoyed while in service (Anam, 2012). Pension and related issues have received significant attention in many countries over the past decades. There are new changes in the way pension assets are managed and benefits are distributed to beneficiaries due to the difficulties associated with the pension schemes previously in existence.

Robolino (2006), noted that many countries have opted for different forms of contributory pension schemes, in which employees and their employers are expected to pay certain percentages of their monthly earnings to a Retirement Savings Account (RSA) from which they would be drawing their pension benefits after retirement. Pension reflects money withheld during the period of employment and returned with interest to an employee after cessation of work, that is, at retirement. A retirement scheme is a way of providing an employee with either a lump sum of money when leaving the service of an employer or providing a pension to the employee. It provides benefits which can be regarded as compensation to an employee for the services rendered to the organization.

Over the years the management of pension scheme in Nigeria has been inundated by multiple and diverse problems such as inadequate funding, inadequate subventions and grants, poor documentation and filing in pension offices, direct release of pension funds to underwriters, accumulated arrears of pensioners, inability to determine appropriate investment portfolios, lack of accountability, corruption and embezzlement of funds. Others include cumbersome clearance procedures, incompetence and inexperience of pension staff added to poor human relations, lack of etiquette and simple courtesy. This situation often affects employee loyalty and commitment to an organization negatively. There have been several reviews of pension schemes by the government which have also caused implementation problems. This paper examines the features, prospects and challenges based on retirement policy and problem of implementation in Nigeria Public Sector.

Pension and Pension Policies in Nigeria

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. It is aimed at providing workers with security by building up plans that are capable of providing guaranteed income to them when they retire or to their dependants when death occurs. The reason for pension scheme stems from the fact that, first; an organization has a moral obligation to provide a reasonable degree of social security for workers especially those who have served for a long period. Second the organization has to demonstrate that it has the interest of its employees at heart through pension schemes. The most popular way to determine the amount of an employee's pension is to base payment upon a percentage of the employee's earnings computed at an average over several years multiplied by the number of years the employee has served the company.

Pension is a tool used to manage employment. It can be applied in an organization to attain and retain certain levels of labour productivity. Armstrong (2010) affirms that pension helps employees to readjust themselves properly into the society after leaving employment. It constitutes an important tool in the hands of management for boosting employee morale which may lead to efficiency and increased productivity of employees in particular and the organization as a whole. Besides, pension is a device which employers use to meet their social responsibilities and thereby attract goodwill. Furthermore, pension now plays an increasingly important role in the economy of any country because the money earmarked for pension could be used for the establishment of small enterprises. It can also relieve pressure on the company for individual assistance by instilling in employees a sense of confidence at challenging responsibilities for their future.

Sterns (2006) observes that pensions could discourage labour turnover. If both the employees and employers contribute to the scheme, then it serves as a general area of joint interest and cooperation and therefore helps to foster better employment relations. However, employer and employee relationship in the provision of pension as a form of employee benefits is often affected by factors including: pensionable and gratuity age; the amount or the percentage of the proposed pension; method of financing; administration of pension and psychological pressure. Pension administration consists of five basic elements namely; flexibility; amount of benefits; finance; contribution to cost of pension and gratuity and death benefits.

Pension reform according to Blake (2003) is not a new issue in any part of the world. It is usually a continuous process especially with the ever changing economic and political processes witnessed everywhere in the world. David (2003) affirms that the United Kingdom which is one of the first countries to introduce the pension scheme has conducted several pension reforms, the latest being the pension reform under the Labour Government of Tony Blair in I997. Balogun (2006) affirms that Nigeria's first ever legislative instrument on pension matters was the Pension Ordinance of 1951 which took effect retroactively from 1st January, 1946. Though pensions and gratuities were provided for in the legislation, they were not a right as they could be reduced or withheld altogether if it was established to the satisfaction of the Governor-General that, an officer was found guilty of negligence, irregularity or misconduct. Since the enactment of that first Pension Ordinance, the pension scheme in the has undergone various developmental stages.

The National Provident Fund (NPF) Scheme was established in 1961 by an Act of Parliament to provide income loss protection for employees as required by the International Labour Organization (ILO) Social Security (Minimum Standards) Convention 102 of 1952. The NPF scheme however covered only employees in the private sector, and the monthly contribution was 6% of basic salary, subject to a maximum of N8.00 to be contributed in equal proportion ofN4.00 each by the employer and the employee. The NPF scheme was later converted to a limited social insurance scheme established by Decree No. 73 of 1993 and administered by the Nigeria Social Insurance Trust Fund (NSITF).

The NSITF was a defined benefits scheme covering employees in the private sector working for organizations with a minimum workforce of 5 employees. It catered for employees in the private sector of the economy with respect to loss of employment, income in old age, invalidity or death. The initial monthly contribution of members was 7.5% of basic salary, shared in the proportion of 2.5% by the employee, and 5% by the employer. In 2002 this was revised to 10% of gross salary (comprising basic salary, transport and housing allowances) shared in the proportion of 3.5% by the employee and 6.5% by the employer. The proportion of pension to salaries increased from 16.7 % to 30% between 1995 and 1999. The Local Government Pension Scheme was established by Military Fiat in 1977. In 1979, the Civil Service Pension Scheme was established by the Basic Pension Decree 102 of 1979.

Commenting on the provisions of the Decree 102 of 1979, Uzoma (1993), notes that in the special case of the public scheme the office of Establishment and Pensions acts as the trustee and constitutes the rules of the scheme. The scheme was for all public servants except those who were on temporary or contract employment. The compulsory retirement age for such workers was 60 years for both male and female workers except for high court Judges that was 65 years and 70 years for Justices of the Court of Appeal and the Supreme Court. However, the earliest retirement age was put at 45 years provided the worker had put in 15 years of service or more. In the same 1979, the Armed Forces Pension Scheme was created through Decree 103 of 1979 with retroactive effect from April 1974. Similarly, in the same year the Armed Forces Pension Act No. 103 was enacted. There was also the Pensions Rights of Judges Decree No.5 of 1985 as amended by the Amendment Decree Nos. 51 of 1988, 29 and 62 of 1991. The police and other government agencies' pension scheme were enacted under the Pension Act No. 75 of 1987. The Local Government Pension Edict culminated into the establishment of the Local Government Staff Pension Board in 1987.

Another landmark development in the history of the Nigerian Pension System was the Police and other Agencies Pension Scheme Decree No: 75 of 1993 which took retroactive effect from 1990. At this time all governmental parastatals and agencies directly funded by the treasury had a unified pension scheme that was virtually managed by insurance companies many of which were unable to honour their pension obligations. In the private sector, the first pension scheme in Nigeria was set up for the employees of the Nigerian

Breweries in 1954. This was followed by United African Company (UAC) scheme in 1957. These Decrees remained the operative laws on Public servants and Military Pensions in Nigeria until June 2004 though there were several government circulars and regulations issued to alter their provisions and implementations. For instance in 1992, the qualifying period for gratuity was reduced from ten to five years while for pension it was reduced from 15 to 10 years. In all there have been about eight (8) registered pension schemes in the country before 2004 which were largely unfunded, self-administered and uninsured.

The Pay-as-You-Go (PAYG) Pension Scheme

There are two notable schemes the self -administered scheme and the insured scheme. The self-administered scheme is administered on behalf of the staff by the trustees, in line with the Trust Deed and Rules. The administrators collect the contributions and invest such contributions through external or in-house fund managers. For the insured scheme, the administration of the pension is transferred to a life insurance company who collects the premium and invests the premium and on retirement, pays the retirees pensions. The most common form of this scheme is the deposit administration which allows the insurance company involved to invest accumulated pension fund contributions with subsequent interest. It is through the use of the insured scheme or the use of pension fund managers that the private sector managed its schemes effectively before 2004.

Prior to 2004 the pension scheme in operation was the Defined Benefit or Pay as You Go (PAYG). The government funded the public sector scheme hundred percent and it was a non-contributory pension scheme. Chilekezi (2005), observes that the pension payment was done through budgetary allocations for each fiscal year. The private sector scheme seemed better organized than the public sector and as Uzoma (I993), affirms it was mostly a contributory scheme, but in a few cases it was maintained as a non-contributory scheme 100% funded by the employers.

Pension Scheme and Dissatisfaction among Public Servants in Nigeria

The 2004 pension reform was necessitated by the myriad of problems that plagued both the Pay As You Go (PAYG) operated in the public sector and other forms of pension systems like occupational schemes, mixture of funded and defined benefits (DB) schemes that operated in the private sector. A major challenge of the public sector defined benefit scheme (PAYG) was its dependence on budgetary provisions for funding. Gbitse (2006), observes that the scheme in the public sector became unsustainable and was further compounded by increase in salaries and pension payments. The corruption and embezzlement in the country also affected the pension scheme and funds meant for it. Moreover, resulting from lack of adequate and timely budgetary provisions the scheme became largely unsustainable and brought about not only soaring gaps between pension fund obligations and revenues, that threatened economic stability but also crowded out necessary investments in education, health and infrastructure.

In addition, Gbitse adds that the Pension Fund Administrators (PFA), were largely weak, inefficient, and cumbersome and lacked transparency in their activities. Added to these was poor supervision of pension fund administrators in the effective collection, management and disbursement of pension funds. Commenting on the old pension scheme, Toye (2006), alludes to poor record management and documentation processes by the pension board as well as the inability of pension fund administrators to effectively carry out their duties in providing for the expected pension allowances as at when due. The aftermath of this development led retirees to become more or less beggars.

Successive governments in the country also abused resources meant for development and payment of pensioners and pensions was largely neglected. The pension burden on governments at various levels grew so big that prompt payment became impossible. The problem was further compounded by the negative economic and social effects of the policies of Structural Adjustment Programme (SAP), hikes in fuel price, devaluation of the naira, and the global economic recession among others which made the pension scheme inconsequential.

The eventual collapse of the non-contributory pension scheme is therefore a cumulative effect of all these problems that produced generally worsening living conditions for pensioners. Compared to the 1980s and the 1990s, the pensioners became worse off because their pensions were significantly depreciated. Added to the foregoing, is the fact that inflation in the country has for over two decades remained in double digits, a situation which has undermined and made nonsense of not only the pension, but also the minimum wage. Therefore aside from the fact that pensions were not paid promptly, when they were eventually paid their real values had been gulped by inflation.

There were other challenges to the PAYG scheme. For instance it was limited in coverage since it only covered the public service and a few private organizations. It also lacked uniformity. There were disparities between public and private sector organizations and even among various cadres in the same organization. Moreover, the scheme was too generous to be sustainable. It crowded out other social expenditures in the budget since much was spent on it to the detriment of demands from other social responsibilities. Furthermore, there were distortions arising from changes in life expectancy because in reality retirees outlived their life expectancy by far, thereby putting pressure on budgetary provisions.

Commenting on the pension scheme, Hassana (2008), affirms that most pension schemes in the public sector had been under- funded, owing to inadequate budgetary allocations in addition to which budget releases that seldom came were far short of the total benefits. This situation resulted in outstanding, unprecedented and unsustainable pension deficits that estimated to over two trillion naira before the commencement of the Pension Reform Act (PRA) in 2004. Others like Kunle and lyefu (2004); Taiwo (2006), also observe that the administration of the pension scheme was weak, inefficient, and non-transparent. Toye (2006), adds that there was no authentic list or data base for pensioners, and several documents were required to file pension claims. The restriction in investment and sharp practices in the management of pension fund exaggerated the problem of pension liabilities to the extent that pensioners were dying on verification queues for payments.

The private sector schemes were characterized by very low compliance ratio due to lack of effective regulation and supervision of the system. Most of the schemes were similar to Provident Fund Schemes, and did not provide for periodic benefits. More so, many private sector employees were not covered by any form of pension scheme. Most employees in the formal and informal enterprises were not catered for by any form of retirement benefit arrangements. Most pension schemes were designed as resignation schemes rather than retirement's schemes. A direct result of these myriad of problems was that the Federal Government constituted various committees at different times to look at the challenges of pension schemes in Nigeria and proffer solutions to move forward. One of these committees was the Fola Adeola committee, whose report was enacted into the Pension Reform Act (PRA) on the 1st of July, 2004.

The Contributory Pension Scheme

The Contributory Pension Scheme (CPS) has several merits. It facilitates prompt and regular payment of benefits since funding is made monthly and credited to individual RSAs immediately. It also ensures availability of fund for investment, particularly to the capital market. Contributions are put to long term investments in the economy. It involves workers' participation since an employee contributes to his/her retirement fund and is also at liberty to decide who manages it.

With the new scheme there is now a central regulator the Pensions Commission (PENCOM) who oversees all pension matters nationwide. Dalang (2006), notes that there were three regulators in the pension industry prior to the enactment of the pension Reform Act 2004. These were the Securities and Exchange Commission (SEC), the National Insurance Commission (NAICOM) and the Joint Tax Board (JTB). SEC was the licensed pension manager while NAICOM was and still is the agency responsible for licensing and regulating insurance companies in the country. The JTB was approved to monitor all private pension schemes backed up with enabling powers from schedule 3 of the Personal Income Tax Decrees 104 of 1993.

There is also private sector participation in the management of the scheme which has introduced profit making into pension administration and services as a check against the inflationary effects on the contributions. In addition, there is the portability of the scheme since it is now easier to change jobs. The employee only needs to provide the new employer with details of his retirement savings account.

The new scheme reduces government spending and commitment to payment of retirement benefit as employees now shares in it. There is less administrative cost to government because administrative costs are now largely borne by pension funds administrators and pension fund companies. More so the untimely payment of benefits which resulted in the accumulation of huge pension liabilities that are yet to be fully settled in the public sector is now a thing of the past for contributors under the new scheme.

Dissatisfaction among public servants in Nigeria: Implications for poor work attitude

In spite of the seemingly laudable framework of the CPS and other pension schemes in Nigeria, it has been characterized by several challenges:

1. There was an initial reluctance and skepticism by workers to register with PFAs. While this has reduced and there is a widening coverage especially in the informal businesses in the private sector, after almost a decade of inception, the scheme is still characterized by general misconceptions and knowledge gap.

2. There is a significant lack of adequate capacity building in the new pension industry with the personnel in the emerging pension fund industry showing a high degree of overlap with other business interests. Also insurance companies have scored low on their performance role in the pension scheme. Next, there is the transfer of risks to employees. The employee decides who manages his/her pension contributions and therefore assumes full responsibilities for the risks involved.

3. Moreover, there is lack of confidence on the part of the employees arising from failures of previous similar government policies. Added to this is the fear of continuity and sustainability by successive governments since new governments in the country have been known to jettison previous programmes midway. Another is the challenge of embezzlement and mismanagement of the contributions.

4. Corruption in the system has become so pervasive. Pension Fund fraudsters must be appropriately sanctioned to serve as a deterrent to others. It is worrisome that rather than steep sanctions for pension fraudsters there are controversial court judgments which are more like slaps on the wrists for offenders.

5. Another challenge is that of regulation. The role of the regulator is bringing in international best practices into pension administration. The regulator is backed by regulatory authority, which is the power that the legislation gives it to enforce statutes, to develop regulations that have the force of law, and to assist the public in ensuring that regulated entities comply with laws and regulations. However, as confirmed by Herskovits (2007) there seems to be a pattern of general lack of regulatory autonomy of Nigerian institutions.

Conclusion and Way Forward

The aim of the paper was to examine pension policies and dissatisfaction among public servants in Nigeria, showing its implication for poor work attitude. The literature reviewed gives an overview of the scheme and identifies key problems facing pension scheme in Nigeria. These challenges and dissatisfactions affect the attitude of public servants in the country. The CPS seems more complex to administer because its administration involves monthly computations throughout the life of employment. There are now higher administrative costs. Also there is no cash flow advantage to the employer because contribution cannot be deferred by him. The scheme is less flexible for employers who do not control funds contributed and cannot use it to their advantage whenever there is a need to do so. There is therefore urgent need to address the effective and efficient participation of the informal sector in the Contributory Pension Scheme.

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