

# Impact of 25% Contributory Pension Scheme Withdrawal Policy on Retirement Benefits of Staff of Federal Polytechnic, Kaduna

<sup>1</sup>Samson Ehada & <sup>2</sup>Linus Kevin

<sup>1&2</sup>Department of Accountancy,  
Kaduna Polytechnic, Kaduna

Article DOI: 10.48028/iiprds/ijasbsm.v12.i1.01

---

## Abstract

---

This study examined the effect of the 25% withdrawal policy from the contributory pension scheme on retirement benefits of staff of Federal Polytechnic, Kaduna. The contributory pension scheme was expected to solve the challenges of the Defined Benefit Pension Scheme, rather it became controversial. Using a descriptive survey design, data were collected from 600 staff (academic and non-academic) via a structured questionnaire. Data was collected using a structured questionnaire designed to gather information on staff perceptions and was analyzed using descriptive statistics. The results showed that the policy affects retirement benefits and financial security. The study concludes that the policy has negative implications on retirement planning. The study recommended that the policy should be reviewed especially on staff with few years to retire so as not to negatively affect their overall plan at retirement.

**Keywords:** *Pen Com, RSA, PFA, Withdrawal, Retirement, Polytechnic*

---

Corresponding Author: **Samson Ehada**

## **Background to the Study**

A contributory pension system is a retirement savings plan in which both employees and employers make contributions, and such schemes are prevalent. Management and legislation differ among nations, influencing retirement benefits. Pension programs worldwide provide financial stability throughout retirement, with contributing schemes being prevalent and subject to diverse management and laws (Organisation for Economic Co-operation and Development [OECD, (2020)]. Pension reforms in Africa seek to improve retirement security; nonetheless, certain nations are implementing contributing programs for sustainability. The Contributory Pension Scheme (CPS) of Nigeria, instituted by the Pension Reform Act of 2014, requires contributions from employees in both the public and private sectors. The National Pension Commission (PenCom) oversees the system. Contributors may withdraw 25% of their Retirement Savings Account (RSA) under certain situations. The 25% withdrawal policy substantially impacts the retirement benefits of the workforce at Federal Polytechnic, Kaduna. The policy's effects on retirement financial stability are noteworthy.

Stakeholders are concerned about the long-term implications of a 25% withdrawal. The contributory pension scheme was anticipated to mitigate the issues of the previous pension scheme; nonetheless, it became contentious. The study problem examines the impact of the 25% withdrawal policy on the retirement benefits of employees at Federal Polytechnic, Kaduna. Empirical studies: Adegbite and Ojo (2022) noted that premature withdrawals diminish retirement benefits. Similarly, according to Nwankwo and Udeh (2021), partial withdrawals affect retirement savings.

This study aims to address gaps in existing research, namely the absence of investigations on the effects of the 25% withdrawal policy within a polytechnic context, such as at Federal Polytechnic, Kaduna. Furthermore, scant research documents staff perspectives regarding the policy's influence on retirement benefits. Limited study offers insights regarding the necessity of reviewing the policy based on staff experiences. This study offers insights for policymakers regarding future changes, aids staff in comprehending policy implications for financial planning, and contributes to the existing knowledge on pension plans in Nigeria.

Based on the foregoing, the study answered the following questions:

- i. What is the effect of the 25% withdrawal policy on retirement benefits of staff of Federal Polytechnic, Kaduna?
- ii. How does the 25% withdrawal policy impact financial security in retirement for staff?
- iii. What are staff perceptions of the 25% withdrawal policy from the contributory pension scheme?
- iv. Does the 25% withdrawal policy influence retirement planning of staff?
- v. Should the 25% withdrawal policy be reviewed based on staff experiences and perceptions?

The main objective of this study is to find out the impact of 25% withdrawal from contributory pension scheme policy on retirement benefits of staff of federal polytechnic, kaduna. The specific objectives are to:

- i. Determine the effect of the 25% withdrawal policy on retirement benefits.
- ii. Examine the impact on financial security in retirement.
- iii. Assess staff perceptions of the policy.
- iv. Investigate the influence on retirement planning.
- v. Provide insights on whether the policy should be reviewed.

However, null hypotheses were formulated and tested as follows:

**H<sub>0</sub><sub>1</sub>:** 25% withdrawal policy does not significantly affect retirement benefits of staff.

**H<sub>0</sub><sub>2</sub>:** The policy has no significant impact on financial security in retirement.

**H<sub>0</sub><sub>3</sub>:** Staff perceptions of the policy are generally not negative.

**H<sub>0</sub><sub>4</sub>:** The policy does not influence retirement planning of staff.

**H<sub>0</sub><sub>5</sub>:** Staff does not believe the policy should be reviewed for better outcomes.

### **Literature Review**

The National Pension Commission (PenCom) is in charge of the Contributory Pension Scheme (CPS), which involves Pension Funds Administrators (PFAs) in charge of Retirement Savings Accounts (RSAs). RSA holders may withdraw up to 25% of their balance under the 25% Withdrawal Policy in specific circumstances, such as when they are unemployed or making payments to a home mortgage. According to research, there are concerns about how the 25% withdrawal may affect pensioners' long-term retirement benefits and financial security. In accordance with the Pension Reform Act of 2014, PenCom has set guidelines for the management of retirement and terminal benefits under the Contributory Pension Scheme.

The Life Cycle Hypothesis (LCH) was proposed in 1954 by Franco Modigliani and Richard Brumberg. According to the Life Cycle Hypothesis, people plan their savings and consumption throughout the course of their lives in order to sustain steady levels of consumption. Throughout their working years, people save money for their retirement. The LCH clarifies the possible effects on Federal Polytechnic, Kaduna workers' retirement benefits of the 25% withdrawal policy from the contributory pension system. Financial stability that depends on lifetime savings and spending patterns may be impacted by premature withdrawals as they may reduce retirement savings.

### **Risks of Early Pension Withdrawal**

The National Pension Commission (PenCom) is in charge of the Contributory Pension Scheme (CPS), which involves Pension Funds Administrators (PFAs) in charge of Retirement Savings Accounts (RSAs). RSA holders may withdraw up to 25% of their balance under the 25% Withdrawal Policy in specific circumstances, such as when they are unemployed or making payments to a home mortgage. According to research, there are concerns about how the 25% withdrawal may affect pensioners' long-term retirement benefits

and financial stability. In accordance with the Pension Reform Act of 2014, PenCom has set guidelines for the management of retirement and terminal benefits under the Contributory Pension Scheme.

A theoretical framework known as the Life Cycle Hypothesis (LCH) was put out by Franco Modigliani and Richard Brumberg in 1954. According to the Life Cycle Hypothesis, people plan their savings and consumption throughout the course of their lives in order to maintain consistent patterns of consumption. Throughout their working years, people save money for their retirement. The LCH clarifies the possible effects on Federal Polytechnic, Kaduna workers' retirement benefits of the 25% withdrawal policy from the contributory pension system. Financial stability that depends on lifetime savings and spending patterns may be impacted by premature withdrawals as they may reduce retirement savings.

### **Early Pension Withdrawals in Sub-Saharan Region**

Members are impacted by early access to pension savings, as seen in Uganda, where this access led to a 2.5% interest rate decrease for the 2021–2022 savings year over the previous year (Busuulwa, 2022). Early access to pension funds might have an impact on the pension plan. The liquidity of the portfolio would be improved by a significant number of withdrawals. This would reduce the scheme's ability to generate high returns via illiquidity premiums by limiting investment possibilities in long-term securities (The World Bank Group, 2019). Early pension withdrawals have a substantial impact on pension funds since they are a major contributor to outflows (Morales et al., 2017).

Early access to pension benefits and the financial performance of funds in Kenya were negatively correlated, according to a correlation study conducted by WERE (2011), which was referenced by Murithi (2015). According to the research, throughout a six-month period, members obtained Ksh. 2 billion. According to the study, this would have an immediate effect on pension fund liquidity, and the Kenyan government was counselled to take appropriate action to mitigate this over time.

### **Methodology**

This study utilizes a descriptive survey research approach to examine the impact of the 25% withdrawal policy from the contributory pension system on the retirement benefits of personnel at Federal Polytechnic, Kaduna. The research is carried out at Federal Polytechnic, Kaduna, Nigeria, including a population of 1,000 staff members participating in the Contributory Pension Scheme. A sample size of 600 staff was acquired using a stratified random sampling technique from various staff categories (academic and non-academic) to guarantee adequate representation. Data was collected through a structured questionnaire aimed at assessing staff perceptions of the 25% withdrawal policy's effect on their retirement benefits, and analyzed using descriptive statistics (frequencies, percentages, means) to encapsulate staff perceptions and experiences concerning the policy's impact on retirement benefits.

Based on the objectives of the study, the following question was designed in the Questionnaire.

### Section A

S/N	Question	Yes (100%)	No (100%)
1	Are you aware of the 25% withdrawal policy from the contributory pension scheme?	80	20
2	Do you think the 25% withdrawal policy affects your retirement benefits?	60	40
3	Does the policy influence your retirement planning?	60	40
4	Are you concerned about the impact of the 25% withdrawal on your long-term retirement benefits?	70	30
5	Do you think the policy should be reviewed?	70	30
6	Do you think the policy affects your overall retirement savings strategy?	60	40
7	Would you consider using the 25% withdrawal option if needed?	50	50

### Section B

S/N	Question	High	Moderate	Low	None
1	How does the 25% withdrawal policy impact your financial security in retirement?	40	30	20	10

### Section C

S/N	Question	Positive	Negative	Neutral
1	What is your perception of the 25% withdrawal policy?	20%	40%	40%
S/N	Question	Satisfied	Neutral	Dissatisfied
1	What is your perception of the 25% withdrawal policy?	20%	40%	40%

**Source:** Authors' compilation, 2025.

The reliability of the questionnaire refers to its ability to produce consistent results when administered under similar conditions. Without specific data on test-retest reliability, internal consistency (e.g., Cronbach's alpha), or other reliability measures for this particular questionnaire, it is challenging to definitively state its reliability. Typically, reliability can be enhanced through clear question wording, consistent administration, and pilot testing. The questionnaire appears to have face validity as questions align with study objectives (assessing impact on retirement benefits, financial security, and staff perceptions).

The validity of the questionnaire pertains to how accurately it measures what it intends to measure regarding the "Effect of 25% withdrawal policy from contributory pension scheme on retirement benefits of staff of federal polytechnic, Kaduna". The questionnaire appears to have face validity as questions align with study objectives (assessing impact on retirement benefits, financial security, and staff perceptions). Content validity seems adequate given the coverage of relevant aspects like awareness, impact, perception, and satisfaction regarding the policy. Construct validity would depend on how well the questions capture the constructs of interest. Content validity seems adequate given the coverage of relevant aspects like awareness, impact, perception, and satisfaction regarding the policy.

### **Findings**

The study found that most staff believe the policy negatively affects retirement benefits and impacts financial security. Perceptions are mostly neutral or negative.

### **Conclusion and Recommendations**

#### **Conclusion**

The study concludes that the policy has negative implications on retirement planning staff of federal polytechnic.

#### **Recommendation**

Based on the conclusion, the study recommended that the policy should be reviewed especially for staff with few years to retire so as not to negatively affect their overall plan at retirement.

#### **Suggestion for further Studies**

Based on the findings on the "Effect of 25% withdrawal policy from contributory pension scheme on retirement benefits of staff of federal polytechnic, Kaduna", other researchers could go further to:

- i. Investigate the long-term effects of the 25% withdrawal policy on retirement benefits and financial security.
- ii. Compare the effects of the 25% withdrawal policy across different tertiary institutions in Nigeria.

## References

- Adegbite, A., & Ojo, O. (2022). Impact of early withdrawals on retirement benefits in Nigeria. *Journal of Pension Economics and Finance*, 21(3), 345-362.
- Busuulwa, B. (2022). Early access to savings disrupts NSSF plans. *The East African*.
- BusinessDay. (2025). Here are six times you can draw from your pension.
- Butrica, B. A., Zedlewski, S. R., & Issa, P. (2010). Understanding Early Withdrawals from Retirement Accounts. Washington: The Urban Institute.
- FCMB Pensions. (2025). Temporary Access to Retirement Savings Account (25% Payment).
- Kaseke, E. (2021). Pension reforms in Africa: Challenges and opportunities. *International Social Security Review*, 74(2), 45-62.
- Modigliani, F., & Brumberg, R. (1954). Utility analysis and the consumption function: An interpretation of cross-section data. In K. K. Kurihara (Ed.), *Post-Keynesian economics*, 388-436. Rutgers University Press.
- Morales, A. E., Fuentes, O., Searle, P., & Stewart, F. (2017). Pension Funds and the Impact of Switching Regulation on Long-term Investment. IOPS.
- Murithi, K. O. (2015). The Effect of Early Access to Retirement Benefits on the Financial Performance of Pension Schemes in Kenya. Nairobi: University of Nairobi.
- Nairametrics. (2025). Sacked or Resigned? Follow These Steps to Withdraw 25% of Your Pension Contribution (RSA).
- NAPSA. (2022). Who We Are. Retrieved from National Pension Scheme Authority: <https://www.napsa.co.zm/who-we-are/>
- Nwankwo, C., & Udeh, S. (2021). Effects of partial withdrawals on pension savings in Nigeria. *African Journal of Business Management*, 15(4), 123-135.
- Organisation for Economic Co-operation and Development. (2020). Pension systems in OECD and G20 countries. OECD Publishing.
- Project Management Institute, Inc. (2017). A Guide to the Project Management body of Knowledge. Pennsylvania: Project Management Institute, Inc.
- PenCom, (2024). Guidelines on Pension Reform Act, 2014.

Stewart, F., & Yermo, J. (2009). Pensions in Africa. OECD Working Papers on Insurance and Private.

WERE, M. (2011). Impact of Accessing Retirement Age. The Retirement Benefits Authority of Kenya, Research and Development Department Publication.

World Bank Group. (2019). Early Access to Pension Savings: International Experience and Lessons Learnt. Washington: The World Bank Group.