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FEDERAL GOVERNMENT PENSION SCHEME AND RETIREMENT BENEFITS IN NIGERIA

RAYMOND NWAPI O., PhD
Department of Political Science, Faculty of Social Sciences, Abia State University, Uturu, Abia State Nigeria
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Abstract

This study examined federal government pension scheme and retirement benefits in Nigeria. The study focused on identifying the challenges in pension management. The work was anchored on Herzberg's Two Factor Theory. The study used only secondary source of data through effective literature review. It was discovered that pension policy affects pension and employees' retirement benefits; there is significant effect of corruption on pension and employees' retirement benefits; and there is significant relationship between poor management of pension scheme and employees' retirement benefits. The study concludes that employee productivity in public sector and overall organizational growth depends on the extent to which there is effective and efficient contributory pension management which will make workers to feel at home, feel relax and therefore perform their functions well; hence enjoying benefit after retirement. It was recommended that there is need for the amendments of the pension policy to make it favourable for the employees; hence making the government to effectively pay retirement benefits to retiring staff. Also, there should be high level of transparency, accountability and probity in the pension management so as to identify and stop all forms of corrupt practices.

Key Words: Federal Government Pension Scheme, Retirement Benefits, Pension Policy, Employees' Retirement Benefits, Corruption and Poor Management.

Introduction

Employees, especially those in public sector organizations, work for specified number of years or age and go on retire. After retirement, the retired workers earn pension till they die (Obasi, 2022). Thus, pension is simply the amount set aside either by employer or employee or both to ensure that at retirement, there is something for retiring employees to fall back on as income. It is referred to as a sum set aside for retirement purposes. It is a form of arrangement that hopes that at retirement, retirees will not be stranded financially. Furthermore, pension reform 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

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world. Basically, the pension system was introduced in Nigeria by the colonial administration. The first legislative document on pension in Nigeria was the 1951 pension ordinance which had retroactive effect from January, 1946. It provided the public servants the rights both for pension and gratuity.

Nigeria has operated various social protection schemes but they had only operated in the public sector. Until 2004, Nigeria had operated particularly in the public sector a Defined Benefit Pension Scheme (pay-as-you-go) which was largely non-contributory. Final entitlement for a retiree was based on length of service and terminal emoluments. It was funded by the Federal Government through budgetary allocation. The scheme was marred by many problems; government could no longer cope with payment of pension and gratuities of workers mainly because there was no plan put in place; there was non-availability of records; uncoordinated administration and inadequate funding; outright fraud and irregularities; diversion of allocated funds; and presence of ineligible pensioners on the pensions payroll (Ahmed, 2022). These challenges affected the pensioners in all public sector organizations. These problems associated with payment of pension in Nigeria necessitated the reform of pension administration during Obasanjo's regime as a civilian president giving birth to the Pension Reform Act of 2004.

The Pension Reform Act was also meant to address the manifested loopholes in the old Defined Benefit Pension Scheme and provide adequate benefits to retirees (Odia & Okoye, 2021). It is also guided by the key principles of sustainability, accountability, equity, flexibility, and practicability. The new Pension Scheme is contributory and fully funded. Money is contributed into the individual employee's Retirement Savings Account (RSA). This is what distinguishes it from the old scheme. There is private third party custody of the funds and assets are based on individual accounts. It covers all employees in the public service of the federation, the Federal Capital Territory and the private sector of the economy (Musa, 2018). All pensioners after 2007 come under this scheme. Pension contributions are paid directly to the Pension Fund Custodians (PFC) to be held on the order of Pension Fund Administrators (PFA). The new pension scheme is mandatory for all categories of employers and employees covered under the Pension Reform Act. Movement from one employment to another does not affect the new scheme.

Generally, the working lives of employees move continuously towards a certain direction that is, from employment, to grow, to retirement. Some are fortunate to save enough money to take them through the retirement period; while majority leaves the service with little or no savings at all. The above issue necessitated this study on pension and retirement benefits. The pension scheme in Nigeria has experienced a highly deficient service delivery regardless of the growing numbers of pensionable public outlets of the public sector service. Nigeria has undergone public service reforms which were triggered off by the quest for efficient and effective public service provision. Here, the growing financial requirements to address increasing pension debt structures (retirement benefits) necessitated the different reforms over time in Nigeria. However, the retirement benefit planning as an exercise in Nigeria and the world over is fraught with many challenges. The Nigerian workers are especially challenged by low levels of income and savings as well as huge family and social responsibilities, hence complication of retirement benefit planning.

The average life expectancy of Nigerians somewhere around 54 years, with a large number of Nigerians living up to 80 years and some 90years also inflate the outrageous conditioning of the

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Nigerian worker. The grossly inefficient pension arrangement in Nigeria for pensioners destroy the chances of workers to contribute to their pension arrangement based on the Pension Reform Act 2004 with most workers tending to the needs of their old relations who also doubled as unpaid pensioners. The workers however noticing the growing deficiency of the pension administration in the country have taken the dampened alternative of planning ahead for their old age by involving themselves in corrupt practices to meet the anticipated expenses of the future. Managing and administering pension funds have continued to pose a major challenge to government in Nigeria. Yet, pension which guarantees an employee certain comfort in his or her inactive year is critical to the sustenance of the life of the individual and the society.

In our society today, most workers are not covered by any reasonable form of retirement benefit arrangement while the few schemes suffer from poor management. There are challenges of poor policy for pension, corruption in pension programmes and poor pension management in Nigeria public sector. The above challenges have continued to manifest throughout the pension programmes in the country including the most recent pension scheme. Generally, years after the establishment of the new scheme there are still speculations about the success of the scheme (Ikeji, Nwosu & Agaboh, 2021). Workers are skeptical of the success of the new scheme mainly because of the failure of all the previous schemes. Some Nigerian workers have retired from their various places of work without a reliable pension scheme due to the failure by their employer to key into the scheme or failure to remit deductions to the appropriate pension manager.

A review of the compliance reports forwarded by Pension Fund Administrators (PFAs) to the commission during the first quarter of 2015 revealed that issues of non-compliance with investment limits by some PFAs; delay in the payment of retirement benefits; receipt of pension contributions without appropriate schedules; unresolved customer complaints; and non-implementation of disaster recovery plans are still weighing down the scheme (Ibezim, 2020). Subsequently, the commission conveyed these issues to the concerned operators as well as monitored them in their efforts at resolving them. The commission retained the services of consultants in order to follow-up and concludes work on the recovery of outstanding pension contributions and penalty from defaulting employers (Ogah, 2016). There has also been the Pension Reform Act of 2014 signed into law by former President Dr Goodluck Jonathan to further strengthen pension administration in Nigeria.

The Act was designed to bring more certainty to the future by ensuring that Nigerian workers have more security in retirement. As such, the Pension Reform Act 2014 made provisions to further improve retirees' benefits, efficiency and accountability in pension administration in the polity by placing further emphasis on protecting pension contributions (Eme, Uche & Uche, 2023). This recent contributory pension scheme is a fully funded pension scheme that generates adequate funds through certain percentage of contributions from monthly earnings by both employee and employer through a form of savings. Based on the guidelines of Pension Commission of Nigeria (PenCom) and National Insurance Commission (NAICOM) for group life insurance, employers must bear all costs related to life insurance for its employees, separate from contributions made under the scheme.

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Pension

Many scholars in social science have explained the concept of pension in different ways. Dike (2015) in his assessment of pension, declares that pension is the amount paid by government or company to an employee after working for some specified period of time, considered too old or ill to work or have reached the statutory age of retirement. A pension is a contract for a fixed sum to be paid regularly to a pensioner, typically following retirement from service. It is different from, severance pay because the former is paid in regular installments while the latter is paid in one lump sum (Eme, Uche & Uche, 2023). Here, the explanation of pension entails that someone can only receive pension when he/she has worked and retired in an organization. The organization where the pension retired is the organization that pays pension to the person.

Rabelo (2022) asserts that pension is also a method whereby a person pays into pension scheme a proportion of his/her earnings during his working life or where organization where someone work pays some amount of money as their contributions. In this case, pension is seen as contribution from retired workers and their employers. The contributions provide an income (or pension) on retirement that is treated as earned income. Ayegba et al., (2023) described the term pension as payments a person receives upon retirement, usually under pre-determined legal and/or contractual terms. Thus, pension is simply the amount set aside either by employer or employee or both to ensure that at retirement, there is something for employees to fall back on as income. A pension plan created by an employer for the benefit of employees is commonly referred to as an occupational or employer pension. Labour Unions, the government and other organizations also fund pensions. Many pension plans also contain an additional insurance aspect, since they often will pay benefits to survivors or disabled beneficiaries.

It is referred to as a sum set aside for retirement purposes. It is a form of arrangement that hopes that at retirement, retirees will not be stranded financially. According to Adebayo (2006) and Ugwu (2006), there are four main classifications of pensions in Nigeria, namely, retiring pension, compensatory pension, superannuating pension and compassionate allowance. This was supported by Amujiri (2009) who defined compassionate allowance as a pension scheme that is not admissible or allowed on account of a public servants removal from service for misconduct, insolvency or incompetence or inefficiency. In the same vein, Dhameji and Dhameji (2009) linked commitment to motivation and opined that commitment is also tied to how well an employee is motivated. Motivation here entails the process of influencing employee's behaviour towards the attainment of organizational goals. Sule and Ezugwu (2019) asserted that a good pension guarantees employee's comfort and commitment to the organization during his/her active years. There are many features of the Nigeria new pension scheme. There are:

1. **Opening of retirement savings account:** Every employee shall open a Retirement Savings Account (RSA) with any pension fund administrator of his choice from the list of registered PFAs of the State and shall submit his Personal Identification Number (PIN) to his employer for remittance of the pension contributions deductible from salary as well as the employer's portion (Amah, 2011). The PIN is unique for each individual. It start with the letter PEN followed by number (1) for male employee and (2) for a female employee. The RSA is portable and can be moved to another employer in case of change in employment. Section 8(1) of the Act provides that every employee shall open and maintain an account

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in his or her name with any pension fund administrator of his or her choice. This account belongs to the employee throughout his or her life whether he changes job or otherwise (Ojiya, Ajie & Isiwu, 2017). The account is meant to receive monthly contributions from the employee and his employer. This fund is to be in-vested in such prescribed investment outlets. For security reasons, pension fund's administrators are allowed to invest 75% of fund assets in federal government securities (FGN Bond) while the balance of 25% assets may be invested in publicly quoted companies.

2. **Pension Fund Custodians (PFC):** The law also provides for the licensing of PFC to keep all pension fund assets in a safe custody. That is, all monthly contributions on behalf of each employee are sent to a Pension Fund Custodian who, upon receipt of such contributions, duly instructs the PFA to credit the account of the employee(s) concerned with the total contributions thus remitted. Evidently, the person who keeps the assets (PFC) is different from the person who carries out the investment (PFA) (Ojiya, Ajie & Isiwu, 2017). The custodian will execute transactions and under-take activities relating to the administration of pension fund investments upon instructions by the PFA (Federal Ministry of Information and National Orientation, 2006). In view of the large amount of assets to be handled, the licensed Pension Fund Custodian, being a limited liability company, and a licensed financial institution, must have a minimum capital base of N5,000,000,000 unimpaired by looses.
3. **The National Pension Commission (PenCom):** To ensure effective administration of pension matters in Nigeria, the Act established a regulatory agency (PenCom) to regulate and super-vise the scheme (Ojiya, Ajie & Isiwu, 2017). The commission is to make certain that payment and remittance of contributions are made and retirees are paid when due. Furthermore, the agency will ensure safety of funds by issuing guidelines for licensing, approving, regulating and keeping a tab on the investment behaviour of PFAs. It is the watch dog of the scheme who must act in the interest of all stake holders.
4. **Monthly payment of pension contributions:** The rate of contribution is 7.5% of monthly emolument by both the employer and employee making a total of 15% (Eremie, 2015). The employee's portion is deducted from the payroll that consist basic salary, housing and transport allowances and remitted alongside the employer's portion into the retirement savings account of employee through the collecting bank of the Pension Fund Custodian (PFC) of the pension fund administrator (Farida, 2010). The employer is to deduct and remit the contributions within seven days from the day the employee is paid his salary while custodian shall notify the PFA of the receipt of such contributions. It is to be noted that contributions and retirement benefits are tax exempt.
5. **Pension Fund Administrators (PFAs):** According to Ibeh (2020), the Act provides for the licensing of PFAs whose duty is to open retirement savings ac-count for employees, invest and manage the funds in fixed income securities and other instruments as may be determined by the Regulatory Agency, National Pension Commission (PenCom).
6. **Group life insurance policy:** The employer shall maintain a life insurance policy in favour of the employee for a minimum of three times the annual total emolument of the employee. The premium for the cover shall borne solely by the employer. The benefit from the policy is to be paid into the RSA opened by the deceased employee whilst in service.

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7. **Transition gap: Retirement benefit bond redemption fund:** To switch from the pay-as-you-go to the new scheme creates a financing gap for workers who have earned pension rights under the old scheme (Ojiya, Ajie & Isiwu, 2017). The retirement benefit bonds are to be issued to workers concerned, the value of which will be equal to the accrued pension benefits up till the commencement of the funded scheme. The bonds are redeemable at the retirement date for each worker as appropriate. The law provides that a fund known as the "Retirement Benefits Bond Redemption Fund" be established and maintained by the Central Bank of Nigeria (CBN). FGN pays 5% of its total monthly wage bill in the public service of the Federation and Federal Capital Territory into the fund to retire any retirement benefit bond issued.
8. **Withdrawal from retirement savings account:** An employee can only withdraw from RSA upon the attainment of 50 years of age and no longer in employment (Zubair, 2016). Employee who retires due to medical reasons or disability or is compulsorily retired can withdraw a lump sum of 25% of the balance in his retirement savings account if less than 50 year of age at the time of retirement/withdrawal from employment and could not secure a new job after three months of such retirement. Where an employee is dismissed from employment after being found guilty of misconduct or negligence or irregularity, the employer portion and all employer benefits are forfeited. The employee is however entitled to his own contributions.
9. **Clearance certificate:** Every employee who has retired or otherwise from service shall obtain and present a clearance certificate or letter from his last employer before the PFA gives such employee access to benefits (Akpan, 2017). Where the employee is indebted to his employer, the total amount of the debt outstanding or value of the employer's property unduly held by the employee hall be deducted from the employee's retirement savings account and paid to the employer.
10. **Past service benefit and redemption fund:** Employees' in service prior to commencement of the new pension scheme are eligible for past service benefits. The nominal roll for payment of salaries as at expiration of the old scheme was used for the actuarial valuation of the past service benefit. Upon computation of the past service benefit, a bond is issued (Ayo, 2020). In the event of death, the bond is presented to the beneficiary of the deceased employee. Since the total value of past service benefit payable in most cases is high, it is necessary to have a dedicated fund for payment of the past service benefit hence, the Retirement Benefit Bond Redemption Fund (RBBRF) account into which 5% of total monthly wage bill is paid for the sole purpose of redeeming the bond issued. Also, past service benefits of employee who leaves service at various dates before retirement could be planned in the build-up of the fund.
11. **Processing of benefit payment:** The law provides two modes for payment of benefit at retirement.

a. **The programmed withdrawal module of the PFA:** It is a product of the PFA which uses a template to compute the lump sum and the monthly pension payable as retirement benefit to the retiree. The four parameters used are the age, gender, final emolument and RSA balance. The method of the template is that as lump sum increases, the monthly

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pension reduces (Fapohunda, 2013). Each retiree shall agree with the PFA during exit discussion, the amount to be received in line with the minimum and maximum amount payable. The payments under the programmed withdrawal module are supervised by the National Pension Commission (PenCom) and benefits are paid for a minimum of eighteen years after retirement.

b. **The annuity option:** The annuity option serves as an alternative to programmed withdrawal module; it is obtained from a licensed life insurance company and also pays monthly pension to retiree till death. Where a retiree opted to buy annuity, PFA would pay the lump sum and transfer the balance to the insurance company for the purchase of single premium annuity. Annuity is guaranteed for a period of ten years and thereafter for life.

More so, there are many issues on the Pension Reform Act of 2014. According to Nwanna and Ogbonna (2019), the Pension Reform Act 2014 as reviewed introduced several changes within the pension industry which have key implications for industry stakeholders and the economy.

(a) Lower employer eligibility requirements

- Employers with less than 3 employees and self-employed persons are entitled to participate under the scheme
- Increased contributor enrolment and pension compliance
- Increased assets under management by Pension Fund Administrators

(b) Setup of pension protection fund

- Establishment of a Pension Protection Fund to serve as a hedge for the funding of minimum pension guarantee
- Pool of funds to provide eligible retirees with a minimum monthly pension
- Increased cost of operations for key players due to the introduction of an annual Pension Protection levy (Nwanna & Ogbonna, 2019).

(c) Increase in contribution rates

- Increase in contributions rate from 15% to 18%. A minimum of 10% and 8% for employer and employee respectively. However, employers who choose to bear the full contributions are required to make a minimum contribution of 20%
- Increased staff cost resulting in loss of employment for employees whose employers cannot bear the additional cost
- Reduction in disposable income plummeting consumption levels and impacting the consumer goods industry
- Reduced consumption resulting in reduced taxable income for government further impacting the provision of infrastructure
- Fewer funds available to engage the informal sector in gainful employment

(d) Stiffer penalties for pension fraud

- Stiffer penalties for the contraventions of the Pension Reform Act
- Curbing of unethical practices and the diversion of Pension Fund
- Protection against loss of Pension funds (Nwanna & Ogbonna, 2019).

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(e) Foreign investment of pension funds

- PFAs can now invest pension funds in foreign investments albeit within the confines of PenCom guidelines
- Several investment options available for PFAs including Real estate Mortgage Financing

(f) Tax exemption of investment income

- Introduction of tax-exempt status for pension fund investment income
- Increased voluntary contributions
- Increased assets under management (Nwanna & Ogbonna, 2019).

(g) Withdrawals from RSAs for mortgage contributions

- Retirement savings account holders can now withdraw a maximum of 25% of their pension assets as equity contribution towards payment of a residential mortgage
- Reduced assets under management
- Increased voluntary contributions (Nwanna & Ogbonna, 2019).

Employee Retirement Benefits

When people who have worked in public sector get retired, it is expected that they should enjoy some retirement benefits. Retirement benefits include all good things and gain which retired civil servant gets after retirement. It covers gratuity, pension, and other financial and known financial gains which are given to them based on their service to the public organization or for other reasons. According to Ogadinma (2018), benefits can consist of monthly payments to former employees or a lump sum upon attainment of a specified retirement age, and may include additional payments in case of death or disability. In determining the type of plan and the level of benefits and features it provides, it is necessary for the sponsoring organization to answer some pertinent questions: (a) Can the company afford expenses of establishing and maintaining the plan? (b) Will the establishment of the pension plan help the sponsor to attract and keep employees? (c) Does a competitor have a similar pension plan? (d) Considering governmental restrictions, is this undertaking worthwhile? Depending on how benefits are specified or funded, a retirement plan can be either a Defined Benefit (DB) or Defined Contribution (DC) plan (SAS 8, Para. 13:8). These methods are now discussed in the subsections that follow.

i. Defined Benefit (DB) plans

The defined benefit plan pays an individual benefit that is defined by formula, usually without reference either to the amount of contributions an individual has made to the plan or to the level of investment returns that the pension plan has earned on its assets. Under the DB plan, the pension is defined either as a specific Naira amount or by a general formula based on salary. As Wolk, Tearney and Dodd (2002) stated, when benefits are defined by a general formula, two alternatives exist: (a) benefit is either based on career average salary multiplied by years of service or (b) final salary (usually the average of regular compensation a few years prior to retirement) multiplied by years of service. In his opinion, McGill (2014) stated that the benefits in defined benefit plan may be paid either as a single lump sum amount at retirement date, or alternatively as a life annuity. When the benefit is lump sum, the payment represents a multiple of the defined base i.e. the final regular salary average over statutory years, multiplied by the assumed percentage for each year of service.

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However, if the benefits are defined as life annuity, the same principle is used, but in this case the benefit is paid each regular pay period and represents a fraction of the final average period. The problem with defined benefits plans is that the scheme exposes the employee to accrual risk (the risk that funds set aside today, do not accumulate at the expected rate of return) to the firm, given a workers earnings history retirement benefits are certain (Orszag & Greenstein, 2000). Furthermore, defined benefits plan raises many financial reporting complications. The main complication relates to the amount to be charged to pension expense in each year while the covered employees are working. Another complication results from the fact that only the benefit formula is specified and not the benefit amount. Given the complicated nature of the defined benefits plans, the question to ask is how accurately and efficiently could organizations determine what the periodic pension expense should be over the span of the employees' working careers. In search of an answer to this question, Revsine, Collins and Johnson (2002) stated that the following factors should be estimated:

a) What proportion of the workforce will remain with the organization long enough to qualify for benefits (vesting) under the plan?
b) At what rate will salaries rise over the period until eventual retirement?
c) What is the anticipated life span of covered employees after retirements i.e. over what length of time will the pension benefits be paid?
d) What is the rate of return to be earned on the investments made with the cash contributed by the employer to fund the plan?
e) What is the appropriate discount rate that should be used to reflect the present value of the future benefits earned by employees in the current period?

ii. Defined Contribution (DC) pension plans

Under the Defined Contribution (DC) plan, the employer and often the employees make contributions to a fund or a plan at intervals and in specified amounts. The fund or plan generates earnings that enhance its value (SAS 8). In Defined Contribution (DC) plans, the final benefit depends on the value of the participant's accumulated account balance. Thus, by definition DC plans are always fully funded and the investment risk is entirely borne by the employee (Rabelo, 2022). The pitfall in this case is that due to irregular or small contribution or poor investment returns the participant may not accumulate a sufficient amount of money to provide for an adequate replacement rate in retirement. Another problem with the defined contribution plan is that it transfers risk to those who may be least qualified to manage it. Mullainathan and Thaler (2000) cautioned that individuals may not be well placed to make the strategic investment decisions this greater responsibility entails. For instance, Watson Wyatt (2001) study found that the returns of pension plans with employee-directed investments lagged professionally managed funds by some 2% per year on average.

Other writers have suggested that the defined contribution pension system is a crisis waiting to happen when current generations, having made minimal (or no) contribution to their defined contribution plan, retire with inadequate pension asset balances. Furthermore, Revsine, Collins and Johnson (2002) and Forker (2003) listed two main sources of risk associated with defined contribution plans. One source is the uncertainty about rates of return on investments in the defined contribution accounts. Employees may be uninformed about their investment choices,

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lack the confidence to manage their own retirement money, or suffer from poor stock market and bond returns. The other source of uncertainty relates to variability in future earnings. defined contribution plans have payouts based on a worker's average earnings over a whole career but lack explicit mechanisms to pool earnings risk across workers. From the foregoing discussion we discern that the defined contribution seems to better than the DB pension plan option. This view is anchored by the fact that in recent years there have been significant shifts to the defined contribution pension plan in other parts of the word, including UK and US. The same conclusions were reached by Mullainathan and Thaler (2000) and Byrne (2003). In the employee retirement benefits, the following are valuable. They are:

1. **Determination of retirement cost and benefits**

The methods developed by actuaries to determine a contribution level are referred to as either actuarial funding methods or actuarial cost methods (Rabelo, 2022). These methods are analogous to depreciation methods, in that they allocate a given amount over a specified period of years. The principle of actuarial pension funding is to derive a time series of annual pension fund contribution that will accumulate to produce a projected pension fund balance sufficient to meet the cost of projected pension benefits (Byrne, 2003). Paragraph 33 of SAS 8 states that while some actuarial cost methods assign to subsequent years the cost arising at the adoption or amendment of a plan. Other methods assign a portion of the cost to years before the adoption or amendment of a plan and assign the remainder to subsequent. However, paragraph 37 of SAS 8 provides that the actuarial cost methods that should be used are those that measure the retirement benefit of employees systematically from year to year.

The standard warns that any methods that result in huge differences between actual employees' annual remuneration and actuarial calculations are to be avoided. Wolk, Tearney and Dodd (2002) noted that under the actuarial cost methods, funding becomes more complex in three situations, namely:

a. When a plan is started and past service credit is given to employees;
b. When amendments are made that alter benefits level, and the amendments are made retroactive for past years of service credits; and
c. When actuarial assumptions differ from the subsequent experience of the plan (a situation giving rise to actuarial gains and losses).

Various actuarial cost methods exist for accruing periodic pension expenses and determining the funding of defined pension plans. These methods have been classified into two broad categories namely: (1) accrued benefit cost method; and (2) projected benefit cost method. We explain the two methods in turn below:

a. **Accrued benefit cost method:** Under this method, the amount assigned to the current year usually represents the present value of the increase in present employees' retirement benefits resulting from that year's service. The method incorporates increases in the benefits of the individual employee as he approaches his retirement age. In most plans, the retirement benefits may be related to salary levels, which may increase from year to year. The aggregate retirement cost for the work force increases with any increase in its average age.

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b. Projected benefit cost method: Under this method, the amount assigned to the current year usually represents the level of amount that will provide for the estimated projected retirement benefits over the service lives of either the individual employees or the employees' group. Costs computed under this method tend to vary year-by-year depending on the actuarial assumptions made. Empirical researches conducted to determine the best schemes or methods that best approximate terminal pension benefits seem to support accrued benefit cost methods. For example, actuaries Tepper (2011) and McGill (2014) recommended for the adoption of accrued benefit cost based methods because the methods enhance the security of the benefits of pension plan participants by accumulating more assets in the pension plan than the benefit based methods. Similarly, Watson (2001) analytically found that the assets of accrued cost based methods lead to accumulation of a larger amount of resources for the satisfaction of promised pension benefits than do benefit based methods.

2. The benefits of the new pension scheme

Retirement is known to be an important period in the life of any worker, as he/she should be assured that they can have security in retirement at the old age after years of labour. But in Nigeria, poor and corrupt management of pension schemes over the years had left sour taste in the mouth of many senior citizens (Babatunde, 2022). The sight of aged, frail and pathetic looking senior citizens waiting on endless queues for endless verification exercises has been a clear indictment on our bureaucracy. Hence, those who have the responsibility to manage the present scheme must ensure that the mistakes and misdeeds that led to the failure of previous programmes do not repeat itself (Fanimo et al., 2007). Thus, the new Pension Reform has brought some ways of hope in the management and administration of Pension Scheme in Nigeria. The new Pension Scheme as embedded in the Pension Reform Act 2014 was designed to among others, provide a system that is financially sustainable, simple and transparent, less cumbersome and cost effective as well as encourage savings among workers.

This is to ensure that every person who has worked would be able to receive his or her retirement benefits as and when due. This would prevent the vagaries of poverty and hardship in old age and retirement. That would ensure that workers receive benefits generated by the own savings in addition to government contribution (Zubair, 2016). To further buttress this reform in the Pension System has the tendency of positive impact on the level of job satisfaction that an employee is likely to experience. In this support, a Pension Scheme that makes it easy for retirees to access the Retirement Savings Account (RSA) anytime they wish; accumulate pension funds even while in active service; and guarantees an enjoyable retirement life, will result in higher levels of job satisfaction and by extension, increased productivity and pension scheme as enshrine in the Pension Reform Act 2014 is more likely to favour workers who salaries are relatively high than workers on a low-level salary strata (Bunmi & Obaro, 2007).

Also, advocates of social security underscored that the new Pension Reform will bring about economic and social benefits. However the most important benefits is probably the ability to avert a financial insolvency of the social security system and to continue the provision of pension and other long-term benefit (Micah & Obah, 2016). Hence, Pension Reform under the new Contributory

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Pension Scheme will be better off in the pension of adequate and sustainable benefits. Moreover, as Pension Reform is the promotion of well managed funded scheme that will be able to cope with the problem of progressive demographic necessitate a shift from an unfunded to a largely funded system (Omankhanlen, 2007). This relatively depicts that the new Pension Scheme is expected to generate over N60 billion in contributions every year. This will make the growing and stable long-term liquidity that results would lead to the crashing of lending rates and bring yields on treasury instruments down.

This tendency would also be strengthened over time as reduced pension obligations progressively reduce the borrowing requirements and treasury operations of the federal government (Ibe, 2005). The stock brokers stand to benefit from the higher business volumes which will increase transaction on retirement bonds, corporate bonds and equities consequent upon the higher capital market operations that increased pension funds would engender. The availability of substantial pension funds has considerable usefulness for the modernization and improvement of information disclosure (Davis, 2002). Similarly, mortgage and property development firms would experienced greater profitable long-term benefits for their real estates and commercial property development schemes as an increased build-up of pension funds forces pension fund managers to seek more and safer inflation proof outlets for their funds by investing in these schemes.

Factors Affecting Pension and Retirement Benefits of Employees

The basic factors affecting pension and retirement benefits of employees are pension policy, corruption, and pension management. They are discussed thus:

1. **Pension policy:** The effectiveness of public policy determines the extent of its implementation. According to Eme and Onwuka (2011), policy is an action plan and a blue print that guide the activities and programs of individual, organization and or government. One of the finest definitions of policy is that offered by Carl Friedrich as cited in Ahmed, Abayomi and Nureni (2016). He considers policy as:

> *…a proposed course of action of a person, group or government within a given environment providing obstacles and opportunities which the policy was proposed to utilize and overcome in an effort to reach a goal or realize an objective or a purpose (Friedrich, 1963).*

The contributions of public policy cannot be neglected. Adeniran (2000) goes on to consider the public policies of the government system to be "the official actions or courses of action that are goal oriented, taken by public officials' presumably in the public interest and in view of some immediate or long-range objectives. Contributory pension scheme is one of the public policies in Nigeria. The goal of pension policy, as it concerns contributory pension scheme is to make workers to have good retiring period and enjoy their retirement time. However, Farayibi (2016) have criticized the contributory pension and said that the government ought to contribute more in the policy and workers need to contribute less, even below 5% of their monthly earning. Diamond (2015) said that all the categories of employees should be favoured the way and manner the security agencies are favoured in the contributory pension scheme; hence the scheme is highly discriminatory against civil servants in the public sector. Not only that, many employees have benefited effectively from contributory pension scheme on their understanding and ability to pay above 7½% minimum as their contribution.

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For Ahmed, Abayomi and Nureni (2016), there is need to amend the contributory pension policy and make more favourable to the workers so that the government will live up to the expectation. Historically, the Nigeria's pension policy scheme started in 1951 when the colonial British administration established a scheme through an instrument called Pension Ordinance. It however, had a retroactive effect from 1946 and applied only to United Kingdom officials posted to Nigeria (Sule & Ezugwu, 2009). The 1951 Pension Ordinance was the first legislative act on pension in Nigeria followed by the National Provident Fund (NPF) in 1961 to cater for pension issues in the private sector. In 1979, the Pension Act No. 102 was promulgated and the Armed Forces Pension Act No. 103. Subsequently, the Police and other government agencies pension scheme was established under Pension Act No. 75 of 1987. Similarly, in 1987, the Local Government Staff Pension Board was established to take care of pension matters among local government employees.

According to Ayegba, James and Odoh (2023), the shortcomings and associated impediments of the previous scheme heralded the National Social Insurance Trust Fund (NSITF) in 1993 to address pension and retirement issues in the private sector. Pension schemes in Nigeria over the years have always come from budgetary allocations, non-contributory and not fully funded thereby creating all sorts of problems including series of deaths at retirement as a result of delay or lack of payments after retirement. These issues led to the 2004 pension reform known as the Contributory Pension Scheme (Ayegba, James & Odoh, 2023). Prior to Pension Reform Act of 2004, civil servants bore no direct responsibility, by way of payroll tax, for the provision of pension; instead pension benefits were paid through budgetary allocation kept in the Consolidated Revenue Fund. More so, social security pensions provided on the basis of pay-as-you-go are usually subject to political risks (Abdulazeez, 2015). The risks contemplated take three forms; the first relates to the tendency of politicians eager to capture the votes of the electorates to offer fabulous pension increases that they are either not going to pay or which may fall on regimes other than theirs.

The second aspect of the risk refers to the fact that the pension account in not being distanced from political control falls easy prey to politicians who dip hands into pension funds to cushion temporary fiscal shocks. The third relates to the socio-political indifference to the plight of pensioners by politicians (Odewole & Oladejo, 2017). Furthermore, the way records of pensioners in the public sector are kept and the procedure for payment of pension create avoidable problems. In some establishments, no accurate record of actual pensioners exists. This kind of situation engenders corruption which breeds more in the absence of facts and figures. Another weakness found in the public sector system concerns the less than dignifying manner in which retirees are treated (Ozor, 2006). They are compulsorily required to travel long distances to the point of pension payment. Worse still, they are left under inclement conditions for long hours and sometimes for days before they can collect their pay. Some pensioners were claimed to have died while standing in a queue waiting to receive pension money.

Nigeria pension policy sector features an organized ecosystem of participants with distinct roles and all under the regulatory ambit of National Pension Commission (PenCom). They include Pension Custodians (PFC), Pension Fund Administrators (PFA) and Closed Pension Fund Administrators (CPFA). In 2004, Nigeria copied the 1981 Chilean pension reform and established a funded pension system based upon personal retirement saving accounts (Abdulazeez, 2015). The

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new system was made to be appropriate for a country such as Nigeria, meet the aspirations of improving pension coverage and help economic growth and development. The current financial and economic recession has hit the scheme in so far as it hits stock values underlining the pension assets. However, more important has been the negative real interest rates that are earned on government bonds and on bank deposits where the majority of contributions are invested.

Bank scandals and rising fiscal deficits do not breed confidence in the system or the government's ability to deliver meaningful benefits in old age. Most of the reforms involve restructuring of government institutions, the creation of new systems, procedures, and functions that are expected to promote transparency, efficiency and responsiveness (PenCom, 2005). The issue of pension had become a major attraction to policy makers all over the world ultimately in a bid to actualize a privately funded retirement saving by the workforce because of the inability of the government to cope with the increasing burden of pension. For instance, as at 1999 the pension liabilities of the Nigerian federal government had accumulated into N1.787 trillion huge unpaid pension liabilities resulting to unprecedented embarrassment to governments and much discomfort to the social welfare of retired persons.

Under the 2004 Pensions Reform Act arranged according to the Chile pension reform model, Accrued Retirement Benefits (ARB) (gratuity & pension) up to June 30, 2004 were recognized (Anohu-Amazu, 2015). Contractual obligation of the payment of these gratuity and pension preserved, backed by regular funding by the Federal Government through 5% of monthly wage bill set aside at the Central Bank of Nigeria. National Pension Commission (PenCom), has identified some of the operational and regulatory challenges facing the pension industry in the country to include coverage of the Contributory Pension Scheme (CPS), dearth of investment products, inadequate technological capacity as well as inadequate knowledge and skills on the part of Pension Fund Administrators (PFAs) to conduct due diligence on developmental projects.

2. **Corruption:** One of the major difficulties in conceptualizing corruption is that while it is difficult to disappear it has a capacity to take on new forms. Tanzi (2018) cited The United Nations Global Programme Against Corruption (GPAC) and defines corruption as "abuse of power for private gain". The Transparency International has chosen a clear and focused definition of the term as "the abuse of entrusted power for private gain". It can also be defined as a pervasion or change from the general accepted rules or laws for selfish gain. Agbu (2013) observed that public office can be abused for personal benefit even if no bribery occurs, through patronage arid nepotism, the theft of state assets, or the diversion of state resources. Given this development therefore, corruption connotes any behavior that deviates from an established norm with regards to public trust. It also means theft of public trust whether the person concerned is elected, selected, nominated or appointed and it does not matter whether the person affected holds office or not since anybody can be corrupt.

Corruption has been one of the major challenges hindering the effectiveness of the contributory pension scheme. According to Eke and Onafalujo (2015), some workers have complained that on their retirement, the government is not actually contributing its statutory requirement of 7½%. Kalu and Attamah (2015) said that many workers who contributed effectively through contributory pension scheme in some cases are not given their required benefits because of incidences of

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corruption and ineffectiveness in the system. Micah and Obah (2016) analyzed the difficulties many families face in their effort to get the retirement benefit of their parents who lost their lives or became inactive. The situation above indicated high level of corruption as it concerns contributory pension scheme.

The need for pension reform was necessitated by the myriad of problems that plagued the defined benefit arrangement in the Public Sector and other forms of pension systems like occupational schemes, mixture of funded and defined benefit schemes that operated in the private sector. One of the challenges of the defined benefit was its dependence on budgetary provisions from various ties of government for funding. Here, Micah and Obah (2016) stated that corruption at these levels hinder effective implementation. The scheme became largely unsustainable due to lack of adequate and timely budgetary provisions. This was the reason for soaring gap between pension fund obligations and revenues, which threatened not only economic stability but also crowded out necessary investments in education, health and infrastructure. It was worsened by various increases in salaries, which ultimately led to increase pensions and hence undue pressure on government fiscal responsibilities (Idowu, 2006).

Pension administration had been largely weak, inefficient and cumbersome due to poor staffing and equipping that led to poor record keeping as a result, pensioners had to spend years before their retirement benefits were paid. The exit phase was quite challenging where payment procedure was often very tedious, sometimes the pensioners had to wait for months and years, to collect their entitlements (Smart, 2012). Similarly, the reimbursement process for the split of pension and gratuity payments in public service was very clumsy, untidy and sometimes fraught with bribery and corruption. The Private sector schemes were characterized by very low compliance ratio due to lack of effective regulation and supervision of the system (Omoni, 2013). However, most of these schemes were akin to provident fund schemes which did not provide for periodic payment of benefits. Even at this, many private sector employees were not covered by any form of pension scheme.

3. **Pension management:** Organizations all over the world are managed to achieve definite objectives. For this reason management focuses on effective and efficient utilization of human resources, financial resources, technological resources and other resources of the system to achieve an overall objective in the system. For Ohadinma (2005), the concept of management focuses on the overall activities of all organizational stakeholders – specifically the employer(s), the management and the employee. It is the efforts of the members of the organization as planned, organized, controlled, motivated and coordinated by the manager(s) and or the head(s) of the organization that guarantee the achievement of the organizational goals. According to Amah (2011), management is a process whereby a suitable environment is created for effort to be organized to accomplish desired goals. In this case, the overall responsibility of management can be seen as the attainment of the given objectives of the organization. In the same vein, Ohadinma (2005) defined management as the process of utilizing the resources of the firm (human and material) to accomplish designated objectives.

Contributory pension scheme cannot effectively work if the entire management team who should be highly engaged in the management of pension are not doing their job well. In view of Samwick

and Skinner (2018), some management teams in pension in most cases do not effectively advice, implicate and enlighten employees on the requirements of the contributory pension scheme. This situation has led to poor understanding of many workers, poor planning and inability to adhere to policy standard. Kotun, Adeoye and Alaka (2016) stated that it is the duty of the management team to educate, inform and enlighten the employees on the requirements and need for effectiveness in the contributory pension program. There are four key operators (or management) under the contributory pension scheme including the regulator. Each of the operators or management carries out its functions efficiently and effectively in a well-organized and professional manner. The successful role of these four operators is important and key in achieving the desired success of the scheme. Functions of these key players are:

i. **National Pension Commission (PenCom):** The duties of PenCom as reflected in PenCom (2004) include:
   a. Regulation and supervision of effective administration of pension matters in Nigeria.
   b. Approval, licensing and supervision of all pension fund administrators.
   c. Establishment of standards, rules and issuance of guidelines for the management and investment of pension funds under the act.

ii. **Pension Fund Administrators (PFAs):** The Pension Reform Act (2004) provides that from the commencement of the plan or scheme, pension funds shall only be managed by Pension Fund Administrators (PFAs) licensed by PenCom under the act to perform the following functions:
   a) Open Retirement Saving Account (RSA)
   b) Invest and manage pension funds and assets in accordance with the provision of the Act.
   c) Maintain books of account relating to pension funds managed by it.
   d) Provide regular information on investment strategy, returns and other performance indicators to PENCOM and employees
   e) Payment of retirement benefits in accordance with the provision of the Act.

iii. **Pension Fund Custodians (PFCs):** PenCom Act 2004 stipulates that pension funds and assets are to be held solely in custody for the Pension Fund Administrators (PFAs) by an independent Pension Fund custodian (PFC). The PFC has the following responsibilities:
   a. Receiving the total contributions remitted by the employer within 24 hours and notifies the PFA of same and holds the pension assets in safe custody on trust for the employee and beneficiaries of the RSA.
   b. Settling of transactions and undertaking activities relating to the administration of pension fund investments including the collection of dividends.
   c. Executing relevant proxy in favour of the PFAs for the purpose of voting in relation to the investments. The PFCs provides some control over the activities of the PFAs and provides a hedge against unauthorized access or trading. The custodian is in no way empowered to utilize any pension fund assets in its custody to meet its own financial obligations or that of the third party.

iv. **Life Insurance Company (Annuity service provider):** The Life Insurance Company is to underwrite or handle the group life policy to provide a benefit/cover of a minimum of three hundred percent of the total annual emolument of an employee in the event of

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death of an employee whilst in service. The group life cover is usually an annual contract and come into force upon payment of the applicable premium. The schedule of members covered and the benefits payable for each employee must be clearly stated in the policy document. The contract is renewable at the anniversary date of the policy (Smart, 2012). The proceeds of the death benefit payment should be in the name of the PFA/PFC of the deceased employee and given to the employer for remittance appropriately in deceased retirement savings account. Also the provision of annuity, which is an option in the Act, as a method of payment of monthly pension to a retiree in as much as he lives after retirement (Annuity for life) is done by the Insurance Company. The life Insurance Company (or composite of Insurance Company) is licensed and supervised by the National Insurance Company (NAICOM).

Herzberg's Two Factor Theory

The two facto theory resulted from a research conducted by Fredrick Herzberg, Bernard Mausner and Barbara Synderman etc in 1957. Herzberg and his associates were interested in establishing the relationship between job and productivity. They asked the participants to record times when they felt exceptionally good and times when they feel exceptionally bad about their jobs. They were equally asked to state the factors that were responsible for the two extreme feelings. The finding of the research was indeed very interesting. It completely discredited the widely held notion that satisfaction and dissatisfaction were different sides of the same coin.

The participants identified completed different work conditions for the two findings. The absence of what made a worker happy with his job does not necessarily make him unhappy with the job. Likewise remedying the condition that makes him feel very unsatisfied with his job may not necessarily make him feel satisfied with it. It was based on this that, Herzberg postulated that variables that determine motivation and satisfaction on the job are different from the variables that cause dissatisfaction and lack of motivation. Herzberg (1959) states that the two separate and distinct variables that caused satisfaction and dissatisfaction are known as the two factor model. The factors that lead to satisfaction were labeled satisfier, while those that lead to dissatisfaction were labeled hygiene factors or dissatisfiers.

Application of the Theory to the Study

This theory was used because the satisfiers relates to the content while the motivators are intrinsic, the hygiene factors are intrinsic. Herzberg further explained his theory with the concept of job enlargement and job enrichment. Workers desire job enlargement – like retirement benefits in order to make their job more interesting and less monotonous. It is therefore suggested that managers who desire to motivate their workers should enlarge their job and offer employee benefits like pension. Job enrichment is related to motivator because it is concerned with work content and benefits after retirement. One of the strategies of achieving the effectiveness of the staff is through proper pension management and realistic implementation of the contributory pension scheme (which if properly done will add positive value to employees during their retirement). For that, there is need for the organization to focus on its job enrichment to make their workers happy by adhering to the policy establishing pension scheme, effective and proper

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management of the pension scheme programmes, and avoiding all forms of corruption in the administration/ management of contributory pension scheme.

CONCLUSION

Every employee especially those in public sectors know that one day they will retire and face other things. However, there worry is not retirement but life after retirement; hence the introduction of contributory pension scheme. In this direction, it is necessary for the effectiveness of contributory pension so as to achieve benefit retirement benefits for the workers. This study therefore discovered that inadequate pension policy, poor pension management and corruption hinder the effectiveness of contributory pension scheme and employee retirement benefits. On the basis of the above, this study concludes that employee productivity in public sector and overall organizational growth depends on the extent to which there is effective and efficient contributory pension management which will make workers to feel at home, feel relax and therefore perform their functions well; hence enjoying benefit after retirement.

RECOMMENDATIONS

The following recommendations were made.

1. There is need for the amendments of the pension policy to make it favourable for the employees; hence making the government to effectively pay retirement benefits to retiring staff.
2. There should be high level of transparency, accountability and probity in the pension management so as to identify and stop all forms of corrupt practices.
3. The pension managers should carry reorientation sensitization exercise so as to educate the employees on the nature of pension programmes.

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