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EMPIRICAL ANALYSIS OF PENSION REFORM ACT 2004 AND THE PROVISION OF SOCIAL SECURITY IN NIGERIA

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Abstract
The 2004 Pension Reform Act, which was a contributory system, was designed to address a plethora of problems associated with the previous schemes and improve social security in Nigeria. The objective of this paper is to appraise the implementation of the New Pension Act and ascertain the extent it has improved social security in Nigeria. Both primary data, generated through a survey method with the instrumentality of structured questionnaire, and secondary data through documentary observation, were used for the analysis, while Systems theory as propounded by David Easton, was adopted as a theoretical framework. It was observed that the New Pension System has not guaranteed prompt and regular payment of pension benefits to retirees, many establishments are yet to adopt the system; it marginalized millions of Nigerians who are not public servants; some pensioners still die on verification queues; diversion and mismanagement of pension fund was still prevalent; while social security has remained a far cry in Nigeria despite over 11 years of the implementation of the New Pension Act of 2004. It is recommended that immediate over-hall of the New System, adequate funding of the scheme, removal of all bureaucratic and legal bottle-necks, imposition of sanctions against defaulters of the new scheme, as well as enlightenment of the populace for improved active participation of a significant percentage of the citizenry on the New Pension Scheme.
Key words: Accountability, Active participation, Good governance Social security, Transparency and Welfare,

Introduction

Social security is one of the features of any modern state, whether democratic or dictatorial, as it underpins the fundamental objective of the social contract of the state with her citizens. The Social Contract theorists, namely, Thomas Hobbes, John Locke and Jean Jacques Rousseau were in agreement that one of the major fallout of the social contract which men in the state of nature made was the uncompromising obligation of the state to provide basic social services, including social security to the citizens. Sabine [1982] notes that the state, being an amorphous entity delegated this power to the government, which is today saddled with not just the responsibility of guaranteeing security of lives and property of the citizens, but also ensuring quality of life of its citizens in a secured environment. Social security is a derivative of the social contract which imposes great responsibility on the state of not only providing basic social services for its citizens, but also safety nets that would further protect the citizens from the shocks of retirement from active service, loss of jobs, outright unemployment, old age and other mishaps that tend to prevent an individual from active participation in the production process of the society. Chard [2014] sees social security as protection provided by the society to its members against providential mishaps over which a person has no control. The underlying philosophy of social security is that the state shall make itself for ensuring a minimum standard of material welfare to all its citizens on a basis wide enough to cover all contingencies of life. In order sense, social security is primarily an instrument of social and economic justice. Similarly, ILO [1952] sees a social security as a government programme that helps workers and retired workers and their families achieve a degree of economic security. It is a form of protection by society through measures.

A clear understanding of the concept is provided by William [2013] when he defines social security as a means of securing an income to take the place of earnings when they are interrupted by unemployment, sickness or accident to provide for the retirement through old age, to provide against loss of support by death of another person or to meet exceptional expenditure connected with birth, death, or marriage. The purpose of social security is to provide an income to a minimum standard and also medical treatment to bring the interruption of earnings to an end as soon as possible.The components of Social Security [Minimum Standards] Convention [No.102] adopted by the ILO in 1952 include medical care, sickness benefit, unemployment benefit, old age benefit, employment injury benefit, family benefit, maternity benefit, and survivor's benefit[cited in Egesi, 2016].

In Nigeria, the various systems of providing financial security for old age and other impaired or physically challenged persons have been under strains, transforming from the National Provident Fund [NPF] to National Social Insurance Trust Fund [NISTF], through the Retirement Savings Account [RSA] under the Pension Reform Act [PRA] 2004 [Ahmad, 2008] Similarly, Demaki [2004] observes that as a result of the global changes and challenges of the modern population dynamics evidenced in the pressures of urbanization, industrialization, democratic mobility, and information and communication technology, the traditional ways of supporting the old in Nigeria appears to have come to a near-collapse.

The surest way through which the elderly who have retired from active work life can solve their financial and other problems in Nigeria could have been through their pension pay packets, but unfortunately these are not usually made available to them as at when due because of the way and manner government and other employers of labour handle pension issues. They subject pensioners to all sorts of strenuous and stressful conditions associated with the multiple screening exercises to qualify to draw pensions in Nigeria. It has been observed that it takes years to process pension papers and to make available the money to the pensioners' claims [Regina, 2005]

The Pension Reform Act 2004 was designed to strengthen social security in Nigeria, as it is more accommodating and flexible than the previous schemes. Section 1[1] of the Act provides that ''there should be established for any employment in the Federal Republic of Nigeria, a Contributory Pension Scheme [in this Act referred to as the scheme] for payment of retirement benefits of employees to whom the scheme applies this Act.'' Section 2 of the Act further provides that ''subject to section 8 of this Act, the scheme shall apply to all employees in the public service of the Federation, Federal Capital Territory and the private sector.'' This work is designed to analyse the extent the implementation of the Pension Reform Act 2004 has addressed the problem of social security in Nigeria.

Theoretical Frame work

The Systems theory as propounds by David Easton is adopted as the theoretical framework of this work. According to Easton [1965] every system is made up of sub systems, which though different and diverse in functions, still strive for unity and the survival of the system. Every system performs two basic functions, namely, the input and output functions. The input functions comprise the demand and the support. The demand consists of all the requests, appeals, and criticisms of people among others made on the system by the citizens. The various channels, such as, the mass media, parliamentarians, prominent traditional rulers, community delegations, among others, through which the demands are made are called the support. Both the demands and the support are injected into the bureaucratic system for conversion and processing into the political outputs inform of policies, programmes and projects, which are regularly injected into the society. The citizens' reactions to these policies, programmes and projects get back to the system through the feedback mechanism.

An unresolved and persistent threat to the system may cause stress, which if not properly resolved may lead to system break down which ultimately leads to lawlessness, chaos and crises in the society when authoritative allocation of values is no longer possible. As a framework of analysis, the systems theory is relevant in analyzing the effect of the implementation of the Pension Act 2004 on the provision of social security in Nigeria.

Social Security in Nigeria

There is no agreement among scholars, researchers and practitioners on the exact meaning of social security. Altmeyer [1952] shares this view when he observes that social security is, by its very characteristics, a dynamic concept, which is completely based on the evolving ideas of the responsibility of the state to provide and improve the welfare of the people. As the state continues to accept its obligation to improve the well-being of the people, the concept of social security will always change. Chard [2014] echoes this view when he states that social security varies from country to country with varying political ideologies. Similarly, Giri [1972] sees social security as one of the dynamic concepts of the modern age which is influencing social as well as economic policy. It is the security that the state furnishes against the risks which an individual of small means cannot, today, stand up to by himself or even on private combination with his fellow countrymen.

In a broader perspective, the International Labour Organization, ILO [2004] defines social security as a form of protection provided by the society through public measures. It is a government programme that helps workers and retired workers and their families achieve a degree of economic security. The programme also helps to pay the cost of medical care for people aged 65 or older and for disabled workers. Social security is a means of an income to take the place of earnings when they are interrupted by unemployment, sickness or accident to provide for the retirement through old age, to provide against loss of support by death of another person or to meet exceptional expenditure connected with birth, death, or marriage. The purpose of social security is to provide an income up to a minimum and also medical treatment to bring the interruption of earnings to an end as soon as possible [William, 2013] Determined not to be left out of the wave of social security now sweeping across the globe, the Nigerian government joined the crusade for social security. The Nigerian government has bought the idea and encouraged and encouraged workers at all levels to the newly adopted reform pension programme as a hedge against loss of income as a result of retirement, unemployment, disability or death. It also helps workers and retired workers and their families achieve a degree of economic security [Egesi, 2016]

Section 17[1] of the 1999 Constitution of the Federal Republic of Nigeria stipulates that the state social order is founded on ideals freedom, equality and justice. Section 17[3a] of the same Constitution additionally provides that the state should ensure that ''the State should direct its policy towards ensuring that all citizens, without discrimination on any group whatsoever, have the opportunity to secure suitable employment.'' Section 17 [3c] further stipulates that the state should ensure that '' the health, safety and welfare of all persons in employment are safeguarded and not endangered or abused.''

In Nigeria, successive regimes have adopted different pension schemes to address social security challenges. Some of these pension schemes include the National Provident

Fund [NPF], National Insurance Social Trust Fund, NISTF, the Retirement Savings Account, [RSA], among others, to bridge the yarning gaps created by the social security challenges in the country. Despite those schemes, Regina [2005] has noted that it ʹʹ takes many years to process pension papers and make available the money to the pensioners, some of whom would have died while waiting for the maturity of their pension claims.ʹʹ It was against this challenge that the Federal Government floated the 2004 Pension Reform Act, whose unique selling point [USP] is its contributory feature.

Pension Reform Act 2004

The Pension Reform Act 2004 has the following objectives [a] Ensure that every person who worked in either the Public Service or the Federation, Federal Capital Territory or private sector receives his retirement benefits as and when due; [b] Assist improvident individuals by ensuring that they save in order to cater for their livelihood old age; and
[c] Establish a uniform set of rules, regulations and standards for the administration and payment of retirement benefits for the Public Service of the Federation, Federal Capital Territory or private sector.

In order to achieve the above objectives, Section 4[1] of the Act stipulates that ʹʹa holder of a retirement savings account upon retirement or attaining the age of 50 years, whichever is later, shall utilize the balance standing to the credit of his retirement saving account for the following benefits: [a] programmed monthly or quarterly withdrawals calculated on the basis of an expected life span; [b] annuity for life purchased from a life insurance company licensed by the National Insurance Commission with monthly or quarterly payments; and [c] a lump sum from the balance standing to the credit of his retirement savings account: provided that the amount left after the lumps sum withdrawal shall be sufficient to procure an annuity of fund programmed withdrawal that will produce an amount not less than 50 per cent of his annual remuneration at the date of his retirement.

Section 4[2] of the Act further provides that ʹʹwhen an employee retires under paragraph [c] of subsection [2] of Section 3 of this Act, the employee may, on request, withdraws a lump sum of money not more than 25 per cent of the amount standing to the credit of the retirement savings account: provided that such withdrawals shall only be made after six months of such retirement and the retired employee does not secure another employment. The Act equally made a provision to protect the interest of any savings account holder, who dies. Section 5[1] of the Act stipulates that ʹʹwhere an employee dies, his entitlements under the life insurance policy maintained under section [3] of section 9 of this Act shall be paid to his retirement savings account.ʹʹ

The scheme, whose major feature is contributory, makes provision for its funding. Section 9 [1] of the Act stipulates that ʹʹthe contribution of any employee to which this Act applies shall be made in the following circumstance relating to his monthly emolument:

[a] in the case of the Public Service of the Federation and the Federal Capital Territory-[i] a minimum of seven and half per cent by the employer;[ii] a minimum of seven and half per cent by the employee; or [b] in the case of the military- [i] a minimum of twelve and a half per cent by the employer; [ii] a minimum of two and half per cent by the employee; [c] in other cases- [i] a minimum of seven and half per cent by the employer; and [ii] a minimum of seven half per cent by the employee.

To further ensure the success of this scheme, Section 9[2] provides that ʼʼ notwithstanding the foregoing, an employer may agree or elect to bear the full burden of the Scheme, provided that in such case the employer's contribution shall not be less than15 per cent of the monthly emolument of the employee.ʼʼ Similarly, Section 9[3] further stipulates that ʼʼ in addition to the rate specified in sub-section [1] of this section, employers shall maintain life insurance policy in favour of the employee for a minimum of three times the annual total emolument of the employee.ʼʼ The Act equally specifies that, upon agreement between the employer and employee the contributions could be revised upward, from time to time, subject to formal notification of the Commission. Also, an employee may voluntarily make further contributions to his retirement savings account, which should be domiciled with his pension fund administrator [PFA].To further ensure the smooth operations of this scheme, Section 11[1] stipulates that ʼʼevery employee shall maintain an account; [in this Act referred to as 'retirement savings account'] in his name with any pension fund administrator of hi choice.ʼʼ

Similarly, Section 11[7] provides as follows: Any employer who fails to remit the contributions within the time prescribed in subsection [5b] of this section shall, in addition to making the remittance already due, be liable to a penalty shall not be less than 2 per cent of the total contribution that remains unpaid for each month or part of each month the default continues and the amount of the penalty shall be recoverable as a debt owing to the employees retirements saving accounts as the case may be.The Act further mandated the Accountant General of the Federation, on request of the Commission, effect the deductions mentioned in sub-section [8] of the same Act- that is, to release the government contributions to the employees of the Public Service of the Federation and the Federal Capital Territory from the Consolidated Revenue Fund. This presupposes that the account general of a state shall do the same function in respect of state public servants. The provisions were made to guarantee effective operations of this contributory pension scheme, as opposed to the previous pension defined benefits scheme. After many years of operations, it is imperative to assess the functionality and efficiency of this new contributory scheme in order to justify its existence.

Analysis of the Pension Act 2004

Primary data were collected from 224 retirees in the Federal Capital Territory, FCT, Abuja, who were selected through the stratified random sampling method with the instrumentality of the structured questionnaire. They were asked how long they queued up during the verification of their documents for payment. Responding, 91 which was 40.63 per cent said they queued up for between one and six hours; 75 which was 33.48 per cent said they queued up for between six and eight hours; while 58, which was 25.89 per cent stated that they waited more than eight hours before being attended to.

On the extent of stress, they suffered before their pension was processed, 93 respondents, which constituted 41.52 per cent said they experienced much stress; 76 said the stress was bearable; while 50 which was 22.32 per cent stated that the process was relatively simple and less stressful depending on the time visited and the calibre of the processing officers on duty. However, five respondents, which formed 2.23 per cent said they were indifferent to the whole exercise.

The above result is similar to the findings of a similar study conducted by Nyong and Duze [2011] which was aimed at finding out whether the implementation of the Pension Act 2004 had eliminated the trauma, pains and untimely death associated with the previous scheme. In a survey of 3000 federal and state public secondary school teachers, 1235 respondents, which constituted 41.17 per cent said the contributory scheme had eliminated their pains and trauma. Concerning the duration, the whole exercise lasted before the first payment was made to them, 146 respondents, which formed 65.18 per cent said they received their payment within the first six months after completing their verification; 54 which was 24.11 said it lasted more than six months before first payment was made; 20 [8.93%] said they did not remember the period it lasted; while 4[1.79%] did not express any opinion.

The above result is similar to the findings of Benetez-Silva and Yin [2009] study which sought to find the effects of social security reforms on benefit claiming behaviour and receipt using public use administrative microdata by the office of the social administration in the United States of America. The study revealed that in the past few years, the social security old age and survivors' insurance benefit system in the United States has experienced some of the most significant changes since its establishment.

However, while it is safe to state that the implementation of the Pension Act 2004 may have addressed some of the problems associated with the defined benefit scheme, it created new challenges occasioned by some fraudulent practices of some pension administrators and pension custodians. Some of them do divert pension funds to other purposes, thus deliberately delaying pensioners from accessing their pension. Also, a number of retirees have complained that the Pension Act 2004 is not flexible enough to accommodate new salary or minimum wage increment, as any beneficiary of the scheme is limited to only the contribution the pensioner had made while in active service. Furthermore, the new contributory scheme marginalized the self-employed artisans, professionals, traders, and a host of others who do not earn salary. A good social security programme should be able to accommodate all members of the society' who strongly indicate their willingness to operate the scheme. This s not the case with the Pension Act 2004, which exclude a large chunk of the population, including the self-employed, artisans and professionals.

The adoption of the Systems theory as the theoretical frame work of this paper is to highlight the importance of every sub-system to the overall performance of the system. The exclusion of any sub system in any analysis is a clear pointer that the scheme is not for every member of the system as it is not all embracing. Egesi [2016] noted that '' a significant proportion of retirees now receive their pension first payment within six months of retirement with the implementation of the pension reform.'' The study further observed that ''the Pension Reform Act 2004 has not been able to address the social challenges of retirees as a majority of them still cannot pay for their social needs or survive solely on their retirement payment.'' Okonowo [2006] has stated that the objective of the scheme is to ensure that every pensioner who is in either the public service of the federation, Federal Capital Territory, or private sector receives his retirement benefit as and when due. The 2004 contributory scheme has not been able to achieve this objective despite some recorded improvements as many retirees in the state public service of the federation, as well as the private sector are yet to be fully covered.

Conclusion and Recommendations

The Pension Act, 2004 was a major step towards addressing social security issue in Nigeria as it has significantly reduced the trauma, frustration and suffering occasioned by long queues and uncertainties being encountered by pensioners under the defined benefit scheme. A significant number of retirees now receive their first pension payment within the first six months of retirement. Many retirees now look towards retirement with a modicum of optimism that part of their retirement benefits would be paid to them within the first six months of retirement, as the reformed scheme appears better and sustainable.

Despite the appreciable progress, the contributory scheme has not been able to address the social security challenges as the retirement benefits are hardly enough for most retirees to take care of their rents, medical bills, family feeding and other family pressing needs. For an improved and result oriented pension scheme that will address social security in the country the following measures should be taken: Expansion of the scheme to cover all workers in both public and private sectors, including the artisans, other categories of self-employees, professionals and politicians, among others.

Prompt payment of retirement benefits to people immediately they retire from service without exceeding one month in order to fill the vacuum of the monthly salary they hitherto receive. This prompt payment would help them adjust and plan to contain the new phase of life. Provision of additional social service scheme to supplement the retirement benefits in order to enable the retirees cope with the new realities occasioned by inflation, currency depreciation, increasing cost of living, among others.

Government provision of basic social amenities, such as, electricity, portable water, good road network, health services, among others, in all parts of the country, including the rural areas so that a number of retirees may even relocate to their villages in order to save or reduce the high cost of living. Effective monitoring and supervision of pension fund administrators and pension fund custodians to prevent diversion or fraudulent management of pension funds. The sanitation of these institutions will improve the operational efficiency of the contributory pension scheme, thus improving the social security programme in the country.

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