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# PENSION REFORM, PUBLIC WORKERS' PRODUCTIVITY AND WELFARE IN NIGERIA: LESSONS FOR SOME OTHER AFRICAN COUNTRIES

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**Abstract**

*The Contributory Pension Scheme (CPS), introduced by the Nigerian Federal government in June 2004 as part of government's administrative reforms, is gradually changing the tempo of pension administration in Nigeria. The authors of this paper have done some studies on it* vis-à-vis *the former pension scheme – Defined Benefits Pension Scheme (DBPS). We have highlighted the values, such as assured funds for pension payment and challenges, such as inadequate information from pension fund administrators (PFAs) and considered the implications of these for the public workers' productivity and welfare. Using the bench mark and survey approaches, the paper found that the CPS seems to be of more benefit to the government than the employees and retirees. Opinion survey of respondents revealed that Nigerian workers prefer the DBPS to the CPS. The paper gave some reasons for the development, including the fact of non-participation of the workers in the decision processes leading to the establishment of the CPS and the hardship that the contribution of a percentage of salary tends to inflict on workers. And of course, there is the issue of the lower monthly pension benefits than what obtains in DBPS. For the scheme to succeed and enhance its acceptability, the public workers' productivity and welfare, some suggestions have been proffered. These include involvement of stakeholders in the review of the scheme so as to streamline it, upgrading monthly pension payment, and removing other grey areas. Thus, some African countries can benefit from Nigeria's experience.*

***Key words:*** *Pensions income replacement, Pension income redistribution, Low risk investment, Prudential attributes, Deepening of decentralization and participation, and monolithic pension scheme.*

## INTRODUCTION

Pension (for retirement or old age and survivors' benefits arising from death) is one of the solid security attributes approved by the International Labour Organization

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(ILO) Convention No. 102 which has worked hard on social security matters since 1919 and more so since 1966. Against all arguments that have been advanced, including the freedom of the individual worker to live his life the way he deems fit with his hard earned money without being burdened with pension issues, pension scheme has become accepted in most, if not all the countries of the world. This is because there is overwhelming justification/ rationale for pension as we shall show below. However, the modalities for paying pension have been fraught with damming distortions and limitations or challenges in many countries. These have persisted especially in the less developed countries (LDCs) with particular reference to Nigeria, until the new concerns of the government on the matter.

No doubt worried by the devastating sufferings of the vast majority of public sector pensioners who have served the nation meritoriously, the Federal government of Nigeria decided to do something positive about the matter. The dehumanizing suffering of the pensioners has been widely reported in the electronic and print media. Scholarly publications have also focused on the plight of pensioners regarding inadequacy, shoddy and irregular payment of their pension entitlements, among other problems (Ogunbameru, 1999; Elumilade, 1999; and Idowu, 2006). There is also the employment of the voice options, including grievance investigation through the mechanisms of Ombudsman, public opinion programmes and servicome or the conduct of service delivery surveys (Olowu, 2002:). The television stations and newspapers have repeatedly shown or written on how pensioners, who are no longer in their prime on many occasions, queued for long hours, waiting to be attended to by civil servants (see; The Punch, 2005). Some of them have collapsed in the process. Some other woeful experiences of pensioners had been reported to include offering bribe to civil servants, so that their files could be located and processed. It is against the above background that Omiunu (2001) aptly described civil servants as enemies to their retired colleagues. All of the above have been to the detriment of productivity, retired public servants, their dependants and a tell tale on the image of the government. The whole problem has been predicated on the inability of the government to continue to maintain its solely or fully funded defined benefits pensions scheme (FFDBPS). This is in spite of the rather small percentage of old people in Africa and Nigeria in particular, compared to other parts of the world, as exemplified by Table 1 below.

It is saying the obvious that people who have worked productively and successfully and retired from service should be enabled to enjoy their retirement with adequate funds and hence with positive ripple effects. Such a situation can only be obtained from the existence of a satisfactory pension scheme. A satisfactory pension scheme has proved difficult for governments across the world, in both the more developed countries (MDCs) and more so in LDCs. Hence as Chang and Jaegar (1996) noted, various governments have been engaging in pension reforms, so as to reduce their financial commitments, while at the same time fulfilling their social corporate responsibility to their retired persons and their dependants.

The positive thing that the Federal government of Nigeria has done about pension reform matter is the introduction of the contributory pension scheme (CPS) through the pension reform Act 2004 which commenced in June 2004 (Nigeria, 2004). The CPS requires a civilian employee who is not a daily paid or casual worker, and the employer in either the public or private sector organization to contribute to the scheme. The employee and the employer are to contribute a minimum of seven and a half per cent (7.5%) each of the employee's consolidated monthly emoluments (or the employer alone can contribute the minimum fifteen per cent (15%) to the employee's pension fund. For the armed forces, the government contributes twelve and a half percent (12 ½%) and the armed forces personnel contributes two and a half percent (2 ½%). Those exempted from the scheme are the Chief Justice of Nigeria, a Justice of the Supreme Court, President of the Court of Appeal, a Justice of the Court of Appeal, 'who retires at or after the age of sixty-five years' (Nigeria, 1999:s.291). They retire with their salaries. The scheme replaced the pay-as-you go or defined benefit pension scheme (DPBS) (Pension Decree, No. 102 of 1979), which was a non- contributory, solely or fully funded scheme by the employer, that is, the government with respect to all public employees in Nigeria. In the old scheme, academic staff in Universities who retired after fifteen years as Professor, or at the age of sixty-five years, from 1991, retired with their salaries. The new scheme did not make such provision, except for judges.

Our purpose in this paper is to critically examine some of the justification for the scheme as part of its values. The dominant provisions and issues in the pension Act 2004 are also examined, so as to determine their implications for and impact on federal public servants' productivity and pensioners' welfare in Nigeria. We are also interested in determining federal public servants' opinions about critical aspects of the CPS. This is with a view to ascertaining public servants' disposition (positive and negative) to the scheme, including their hopes, aspirations, enthusiasm, identification and ownership of the scheme – all of which will no doubt impact on its sustainability or otherwise. There are also the aspects of the challenges of the scheme. The lessons from the Nigerian experience, which will no doubt be useful for some other African countries that have similar problems in the operation of pension scheme for public service workforce cum pensioners, are also provided.

Methodology for this research took the form of serious bench work through reviews of extant literature and a survey of some serving federal public servants comprising academic or teaching and non-teaching staff of some universities and some federal ministries. The study was situated in the South West and South-South geo-political zones of Nigeria. The number of serving federal employees sampled was eight hundred (800) in the University of Benin, Benin City and two hundred (200) from the Federal secretariat complex, Benin City, both in South-South geo-political zone of the country. Three hundred and fifty (350) staff were surveyed in Obafemi Awolowo University, Ile-Ife in the South-West geo-political zone of the country. The rationale for the use of the three institutions and two geo-political zones only was the lean resources available to the researchers for field work. Hopefully, with the CPS being only about seven years old, the matter is relatively young and topical. Therefore, there is hardly any doubt that more researches will be conducted to expand the frontiers of empirical knowledge on this matter.

It is to be observed that the private sector employees have been excluded from our sample. This had earlier partly been explained away by lean resources. Additional reason is that those employees and employers are yet to significantly key in to the Federal government's CPS. They have operated their long standing pension scheme successfully and it has included the defined benefits and contributory pension schemes. They have not necessarily involved the Pension Fund Administrators (PFAs).

Structural lay out of the paper is as follows. Section one is on introductory matters and methodology adopted for the research. This is followed in section two by some conceptualizations, literature review and theoretical scheme. Section three briefly examines the history of pension administration and reform in Africa, in particular Nigeria and the associated values and problems. The rationale/values or justifications for the 2004 CPS Act, the challenges and presentation of respondents' opinion on some critical aspects of the operation of the CPS are discussed in section four. Section five is on presentation of some suggestion or recommendations and lessons for some African countries.

## LITERATURE REVIEW

As improvement in personnel administration and management had been assuming increasing importance, pension matters have also, although belatedly, been similarly gaining much more attention for the employees and employers alike. This is to say that pension issue has tended to lag behind other aspects of personnel administration such as recruitment, training, compensation and other conditions of service. In MDCs, in general, the proactive nature of their governments to reduce retirees' pension problems has for fairly long led to increased attention paid to pension matters. For example, the Canada Pension Plan (CPP), a contributory, earnings – related social insurance programme, one of the two major components of Canada's public retirement income system was established in 1966 (Wikipedia, 2009). In the United States of America, after observing the loss of pension benefits by persons who transferred from one company to another, the US Congress passed a law in 1975 to prevent the loss of rights to pension consequent upon disengagement from previous companies before retirement age. The law also gives permanent or vesting right to an employee to enjoy pension even if he is not with a particular company at the time of his retirement. The law equally sets funding regulations to ensure that a pension agent has money for payment of pension benefits (Dale, 1978., US Government, 1998). Conversely, in the LDCs, the agitation of pensioners, because of dehumanizing conditions and severe limitations that they have been subjected to for quite some time, informed the pension reforms.

In spite of the proactive premise on which we have based pension reform in the MDCs, it is still a relatively recent phenomenon dating largely to the 1960s and 1970s. This contrasts with the body of personnel administration/management that has received increasing and positive attention largely since the early 20th century. In the LDCs such as some Latin American and Asian countries, where pension reforms followed in the heels of the MDCs, such reforms started in the 1990s. Other LDCs, such as Nigeria, were generally to follow in the 21st century.

It is interesting to note that the literature on pension reform has been growing steadily and it has been reporting a number of researches that have been examining different aspects of pension matters. These have included the nature, types or classifications, effects, challenges and prospects of pension reforms. Contributors to pension reforms literature across the globe have been numerous, including MacGreenvey (1990), World Bank (1994), Kotlikoff (1996), Chang and Jaegar (1996) Ogunbameru (1999), Orszag and Orszag (2000), Masha (2001), Duflo (2003), Lindbeck and Persson (2003), Bertrand, *et al.* (2003), Shiller (2003), and Idowu (2006).

Generally, justification for pension reforms is legion as they are interesting and informative, that it is tempting to reproduce them all here. But only a few are presented below. First, pension reform, if properly managed, can ensure a sustainable pension scheme that helps to motivate workers and give a decent life to a pensioner and his dependents (Lindbeck and Persson, 2003). He will not live from hand to mouth, or be a liability or pitiable lot or social burden to his children or relations. Sustainable pension reform, researches have shown, is about the only mechanism which can change the wealth of a contributor to a pension plan, and only the apparently known exception to life cycle theory as we shall discuss below. Second, being an actively, lively healthy person, following the social benefits of adequate pension reform or scheme, a pensioner can continue to be useful to his community for quite sometime. This could be in terms of participation in the community's activities, where he could put at their disposal his wealth of experience which could help in adequate management or deployment of the community's scarce resources more usefully.

A third justification of pension reform is that it has led to structural reform, especially in the LDCs, which in turn has led to the establishment of new structures to remove the nagging problem of pension administration from the over burden government which nonetheless is largely known in many polities to be a non-prudent manager. In other words, pension reform has enabled governments in LDCs to key in to the contemporary market economy of financial infrastructure. Fourth, pension reform has also been justified on the ground that it can guarantee financial durability of the pension system, while in the past, pension finances could be arbitrarily used to alleviate the output loss on certain segment of the population (Shiller, 2003). Fifth, pension reform also helps to put in place proper economic incentives to improve compliance with obligations, reduce labour market distortions, increase savings and accelerate financial market development (Idowu, 2006). Finally, even though initial or pre-funding cost of a pension reform may be high, such funding is regarded as an investment which will eventually yield returns on investment. In this case, the cost of future funding would be so drastically reduced as not to impact significantly on national budget (Orszag and Orszag, 2000). Another return on investment is the acceptance and productivity impact it can have on workers.

There is obviously no system that is perfect. Therefore pension reform has some limitations. One major challenge is that benefits from contributors' funds investments are not explicitly linked to contributions (Idowu, 2006). Therefore there are bound to be distortions in the payment of benefits to pensioners.

## CONCEPTUAL AND THEORETICAL ISSUES

The concepts for clarification in this study are pension scheme, pension income or income replacement, pension income redistribution and participation.

*Pension Scheme:* Many definitions of pension scheme have been offered but they all point basically to the same thing-the social security of a retired person and his dependants. For example, Bertrand*, et al.* (2003) defined pension as a programme to improve the living standard of the elderly people who have outlived the labour force group. For Idowu (2006), pension scheme is a social security as well as a welfare package for the old or retired people who are in their years of labour inactivity. As for us, a pension scheme is a financial package which legally specifies its organization and operation, so as to provide rest of mind to workers, sustain or spur them to more productivity and ensure that a pensioner and his dependants live a decent life.

Many types of classifications of pension schemes have been identified. These include defined benefits scheme (DBS) or pay-as-you go (PAYG) or defined contribution (DC), fully funded scheme (FFS) (Kotlikoff, 1996); notional defined contribution account and fully funded contribution scheme (MacGreenvey, 1990). Other classifications are defined contribution and defined benefit, funded and unfunded, and actuarial and non-actuarial pension schemes (Lindbeck and Persson, 2003). There is also the defined benefits pension scheme (DBPS) without defined contribution. And, of course, the CPS.

From the above classifications, different countries now operate different pension reform schemes. Some have multiple pension schemes. But the Nigerian government approved only a single tier scheme which is contributory or partly funded by both the employee and employer, since June 2004. It is commonly referred to as contributory pensions scheme (CPS).

*Pension Income/Income Replacement:* The monthly or quarterly (or whatever arrangement is agreed upon for the collection of pension) receipt by the pensioner for his up-keep constitutes the pension income or replacement. It 'is a major link to … poverty alleviation' (Masha, 2001: 30) if the income is adequate for the pensioner. The constitution of the pension scheme and its management therefore are jointly over riding for it to be truly a source of poverty alleviation. In the Nigerian CPS, the mode of pension income collection by the pensioner is an individual choice between the monthly or quarterly payment.

*Pension Income Redistribution:* This has to do with the assets investment earnings made or obtained by the PFA on behalf of the persons registered with the PFA. The income is proportionately distributed among the contributors or registered persons. Since investment is commonly made by the PFA on behalf of a group of contributors, logically the earnings are also commonly harnessed and distributed, following the regulatory framework on it. The investment earnings which are generally subject to macro economic framework of the country would also be subject to investment portfolio, honesty, accountability and probity of the PFAs. The contributor or pensioner has impact on the PFA to the extent that he can question the PFA for clarifications, petition the PENCOM, the government's chief or direct regulator of the CPS, report to the law enforcement agents over alleged irregularities, and change from a perceived poor performing PFA to a better one, when PENCOM provides the regulation on change. On the regulatory side, PENCOM and the Central Bank of Nigeria (CBN) are the direct and indirect regulators respectively, while other institutions such as the Economic and Financial Crimes Commission (EFCC) are the regulatory watch institutions.

*Participation*: The concept of participation in decision making process and hence ownership of the decision has become prominent since the Tennessee Valley Authority project of the 1930s in the United States of America. Participation in decision making has since then grown to be accepted as a useful concept in development studies and practice. It has since then effectively contrasted the management or administrative principle of the classicists, that decision making is the purview of management. Decision making has been found to be a complex phenomenon, such that the inputs into it are so enormous that management alone cannot afford to provide nor process the vast amount of information required for effective decision making. It requires a team approach. (Littlejohn, 1983) to arrive at the most rational decision which can elicit legitimacy and acceptance.

Controversy about the effectiveness of participatory decision making has been lean, meaning that only a handful of writers have raised any doubts about it. Even then, the controversy is not negative. It is actually 'not intended to rule out the search for participatory systems, only as an antidote to over-optimistic assumptions as to the effectiveness and to the difficulties associated with their operation' (Brett, 1996: 17). The controversy is also intended to caution on the need for expertise, information, appropriate governance structures, monitoring and sanctions as some of the driving variables of successful participatory systems (Brett, 1996).

For the CPS, the participation of workers would mean their involvement in the decision making processes regarding the establishment, types, nature, operation, benefits, regulations, information dissemination, grievance procedure, etc. With all these, workers would experience a sense of purpose, pride, acceptance, ownership, defence and protection of the scheme. How far were the Nigerian workers involved in the decision making process of the CPS, so as to exhibit the above attributes, will be determined by the questionnaire analysis.

### Extant Theories

Many theories have been developed in relation to pension reform across the globe. Three of them that are practically germane to our study are utility and preference, life cycle, and productivity theories of pension. We explore each of them very briefly below.

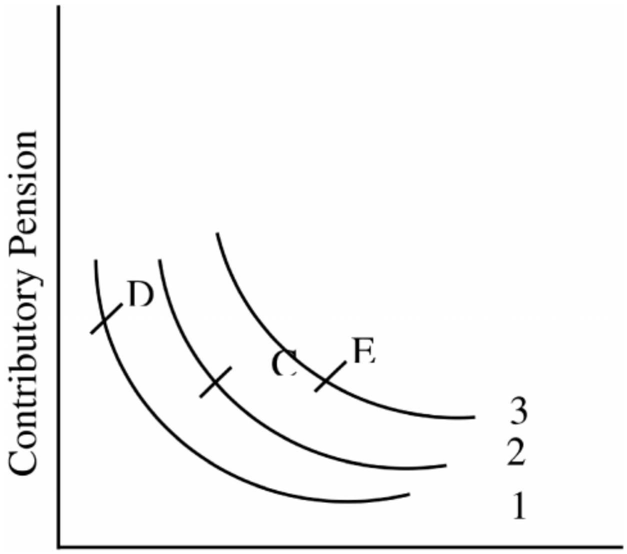
### Theory of Utility and Preference

The theory of utility and preference recognizes that it is not always possible to obtain all necessary data, for example, in monetary terms, to develop all alternatives to decision making. The theory posits that some decisions can be appropriately taken partly on subjective valuation.

Utility and preference theory states that a high risk, untested decision, which does not enjoy consumer or user or beneficiary acceptance, in spite of its potentialities, is not assured. However, preference would be given to the high risk decision in which utility, that is, inherent quality or value, is potentially more assured to be constant than the low risk decision in which utility is not assured.

An indifference curve for a constant utility, high risk decision could be represented as in figure 1.

**Figure 1: An Indifference Curve, High Risk Utility and Preferred Decision**




Defined Benefit Pension Scheme

*Source:* Adapted from Hicks and Gullett (1975).

In figure 1, the indifference curves 1, 2, and 3 are in ordinal form or determined. While indifference curve 2 represents a higher utility than curve 1, curve 3 represents a higher utility than 2, simply because of ordinal choice or preference. It means that every point in indifference curve 3 is preferable to indifference curves 2 and 1 respectively; as the curve to the right is generally preferred. 'Indifference curves (which are least double) generally are drawn as negatively sloped, concave from above, everywhere dense, and non-intersecting' (Hicks and Gullett, 1975: 349).

In indifference curve, utility need not be cardinally measured. Ordinal measurement is sufficient for decision making purposes. That is, it is necessary only to know that all parts along curve 2 are preferable to all parts along curve 1. Similarly, all parts along curve 3 are preferable to all parts along curves 2 and 1 respectively.

Therefore, it may be rightly argued that one of the merits of the indifference curve theory is the fact of the admission of qualitative rather than heavily quantitative content. It is also easily appreciable, interpretable, and understandable by administrators. Conversely, the theory is rather weak as a subjective decision choice.

*Theory of Life Cycle:* It is related to the consumption pattern and saving decision of the individual who is involved in administering a plan. The theory is mainly associated with Modigliani and Brumberg cited in Idowu (2006). It states that consumption is a function of life time wealth at one's disposal. This wealth (financial, real assets and expected value of future income) is not affected by changes in the pattern of income that comes to one over time and hence the pattern of consumption is not also affected.

However, the theory makes one exception to the above postulation, holding that there is one ground in which consumption can be affected. It is that pension reform plan can change the wealth of a pension plan participant. The life cycle theory believes or argues that pension reform can affect saving rate of a pension plan participant by affecting the average wealth of the person. This is because a sustainable pension plan can grow huge financial resources for further investment earnings which can cause significant redistribution of income, leading to increased wealth to pension participants. This can encourage increased or sustainable saving propensity.

While the theory implicates the power of huge income creation and redistribution to participants or contributors, leading to increased wealth, its proviso is that the pension plan be institutionalized and sustainable. Hence the pension reform has the power to change or affect the life cycle. However, the reliability of the PFA, the regulatory bodies and security agents is thus brought to the fore. The last point is an indication of a caveat that the theory is not impervious to economic depression such as world economic recession and management.

## Productivity Theories of Pension

Productivity theories of pension are of two sides: the demand and supply sides. Both sides of the theory are, however, agreed that pension schemes are established as incentives and motivation to encourage workers to increase their productivity or output or performance. The demand side of theory posits that employers make payments to employees' pension funds because workers are keen or prefer pension savings to cash payments to their emoluments. This is because of the attaching benefits. These include reduction in income tax of the employee, the retirement benefits, such as social security from the employer's contributions, interest earnings and dividend earnings on pension fund investment or assets that are not taxed. Others include the prospect of future enhanced and acceptable pension benefits, from awards or (increases as may be offered by the government from time to time. Yet another benefit is an insurance cover of sorts against risks that pension provides.

The demand side of the pension productivity theory also states that employees, especially the high income earners, prefer pension to cash payments because of a possible annuity (fixed amount of money paid at regular intervals) for as long as the pensioners lives. There is the shifting of risk of poor asset or investment performance to the employer in defined benefit pension scheme (DBPS), which is not exactly so in the CPS where there is a PFA. In the CPS, it is the asset earnings that are distributed to contributors or pensioners. Thus, risk shifting is easier to operate in a DBPS where there is a promised or defined benefit than in CPS where the value of the benefit is a function of the value of the asset or pension fund performance. Finally, on the demand side, there is the potential of improved performance or output of the employee merely by the institution of a pension fund or scheme. The implication of this is that the pension scheme must be well articulated; involve the workers in the decision processes, well funded and sustainable, such that it can motivate the workers or employees.

The supply side of this theory posits that employees' gain from pension tends to raise the level of workforce productivity and reduce labour costs. This is because the employers' investment in the training of the workforce, improved conditions of service, provision of adequate resources, etc. are greatly off-set by the workforce's improved output or productivity. There is also the perspective that the supply side to the theory serves as an incentive for personnel to remain in the organization for a long time. This means that there is reduced personnel turnover as DBPS penalizes organization quits. In all this, the organization tends to gain, however, because of large workforce's high productivity and attachment to the organization. This benefit inheres more in DBPS than CPS.

A synthesis or relevance of our conceptual and theoretical issues includes the following. First, the concepts and theories show application in varying degrees of the values and challenges of both the DBPS and CPS, but more positively in the CPS. There is the issue of acceptance of a particular pension scheme to the workforce for the sustainability of the scheme. The third point from the concepts and theories is the positive effect of a good pension plan which can enhance the average wealth of a pensioner, especially when the assets can be invested to generate large income for redistribution to participants. The theories and concepts also inform that a good pension scheme can motivate the workforce or staff to put in their best in the work place as they look forward to a rewarding retirement period. Such enhanced work output or productivity will, of course, benefit the organization, the workforce and the larger society by implication.

## RATIONALE/VALUES OF CPS

In spite of what is written above in this paper, the values of CPS to the government and the individual workers /contributors/retirees and their dependants can be highlighted here.

For the government they include first, that it has enabled the Nigerian government (and it can have the same effect in any other African country) to weather the storm of embarrassment that it used to be subjected to because of its inability to pay the DBPS. This is in spite of the fact that the percentage of retired public servants in Nigeria, as Table 1 exemplifies, is quite lower than what obtains in many countries of the world.

**Table 1**
**Demographic Indicators of Persons Over 60 Years Old Across Countries in the 1990s**

| *Area* | *Percentage of Population* | | | *Dependency Ratio* | |
|---|---|---|---|---|---|
| *Africa* | *Over 60 years* | *Over 65 years* | *Over 75 years* | *Over 60 years* | *Over 65 years* |
| | % | % | % | % | % |
| Nigeria | 3.8 | 2.3 | 0.5 | 9.8 | 4.4 |
| Tunisia | 6.5 | 4.1 | 1.2 | 14.3 | 7.0 |
| Zambia | 3.6 | 2.3 | 0.6 | 10.0 | 4.7 |
| *OECD* | | | | | |
| France | 18.9 | 13.8 | 6.5 | 35.3 | 20.8 |
| Japan | 17.3 | 11.9 | 4.7 | 30.9 | 17.1 |
| UK | 20.8 | 15.7 | 6.8 | 38.8 | 24.0 |
| USA | 16.6 | 12.3 | 5.0 | 30.3 | 18.7 |
| *LATIN AMERICA* | | | | | |
| Argentina | 13.1 | 9.0 | 3.2 | 26.9 | 14.8 |
| Chile | 8.7 | 5.9 | 2.1 | 17.0 | 9.3 |

*Source:* Adapted from World Bank (1994)

Table I shows that the percentage of people who are between 60 and 75 years of age (i.e., the range which pensioners fall within) in some African countries including Nigeria, ranges from 0.5 in Nigeria to 6.5 in Tunisia of the percentage of total population. The percentage range is between 4.7 in Japan to 20.8 in the United Kingdom, exemplifying OECD countries. In Latin American countries, it is exemplified by 2.1 in Chile to 13.1 in Argentina. Clearly, it is much less in Africa and particularly in Nigeria, yet the government had been found wanting in the payment of the DBPS which was even lagging behind inflation rate and the fiveyearly review period (Nigeria, 1999: s. 173). For now the PFAs are to accommodate the pressure from pensioners that used to be the government's lot.

Second, the government can now devote some of its attention to other pressing needs of the society. For example, government can now preoccupy itself with adequate public policy process (formulation, implementation, impact evaluation and feedback assessment). It is expected to ply its entire savings from leakages on account of payments to ghost retirees to the common good of the society.

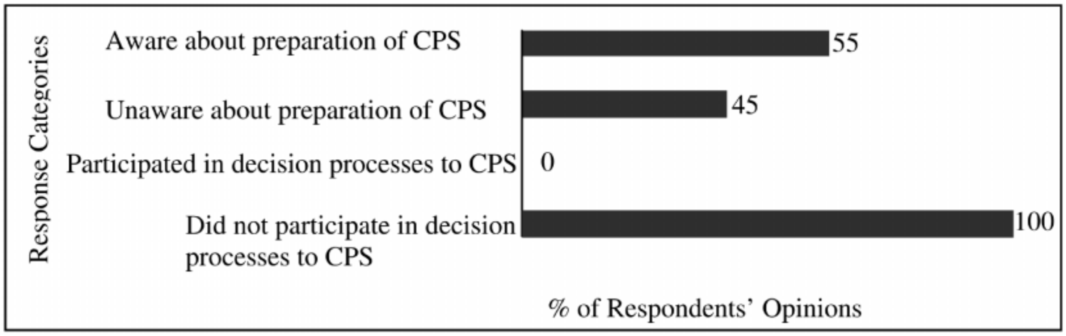
On the workers' and pensioners' side, the rational/values include first, the choice and change (only once a year) of a PFA by the individual worker (Nigeria, 2004: s. 11), who exercises his personal judgment on the matter. He takes responsibility for the judgment. (However, the regulation on the change of PFA is yet to be published by PENCOM, upwards of six years after the commencement of CPS). There are other areas in which the individual exercises his personal judgments in the CPS. These include a retiree deciding what lump sum of money, out of his total pension fund, he wishes to take out at once as his gratuity. The remaining sum of money is to be paid to him on monthly or quarterly basis, as he chooses, as pension. The law, however, does not allow a retiree to take a lump sum of more than 50% of his total pension fund. He could however, take less than 50%.

In spite of the value just highlighted, our investigation has revealed that contributors or workers and pensioners are dissatisfied with their level of involvement in the decision making process of the CPS. The variables we investigated were awareness of and actual participation in the decision processes of the CPS.

Figure 2 indicates that 55% of the respondents were aware of the preparation of CPS, while 45% stated unawareness.

On the other hand, figure 2 shows that none of the respondents indicated that he participated in the decision processes leading to the establishment of the CPS. All the respondents denied participation. The implication of figure 2 is clearly that awareness of the preparation for the CPS is not as important as real participation

**Figure 2: Awareness and Participation in Decision Processes of CPS (Percentage)**




*Source:* Field Survey

in the decision processes. It also indicates that the workers like to participate in the decisions processes.

To assist the individuals and PFAs in the decision making processes, at least at this early stage of the operation of the CPS, PENCOM has provided a template for use by all the PFAs. It is used to calculate the distribution of the retiree's fund, with the merits of fairness, equity, and reduction in subjectivity, bias, and the promotion of error – free calculations. But the snag, according to some persons (including professors in Business Administration and Accounting Departments in Nigerian Universities) who have obtained the template, is that it is so complicated that it defiles understanding. How the retiree's lump sum or total pension fund is calculated or obtained is not explained. Neither the PFAs nor PENCOM, according to them, is prepared to explain the complicated or complex template to retirees or contributors.

An additional opportunity for participation is that the individual can take part in the choice of investment opportunities or products (on the guidance of professional fund managers) for his pension fund. This is, however, done within the general regulatory framework of low risk investment of a pensioner's funds, while assuring certainty for the fund.

The opportunity to change a perceived poor performing PFA which is inherent in the CPS, is an additional impetus for the PFA, who is thus encouraged to be more competitive and relevant, and hence ensure its effectiveness and efficiency in the interest of the worker/depositor/ pensioners and their dependants. However, the regulatory procedure for change of a PFA is yet to be provided by PENCOM.

There is the fact of increased employment generation with the CPS in operation. This is so because, in addition to the public servants in the ministries and parastatal organizations in Nigeria, who are in charge of pension matters, the CPS has enabled employment generation in the form of regulators, operators, contractors, participants, advisers, etc. The ripple effect of this could be a general boost in the economy or what Leigh (2009) called the potential to generate positive economic externalities as the financial assets have since been put at over ₦1 trillion. For Masha (2001: 58) the new pension reform can result 'in financial deepening… (and) increase in the stock of financial savings, which are available for investment and impacts positively on growth', thus enabling more employment. Increased employment also has the potential of enabling more people in the society to live more decent lives. Pension Act would help to facilitate the growth of several sectors of the nation's economy (Mbanugo Udenze reported in Ezem, 2006).

People are engaged in different professions. Thus there are fund managers, stock brokers, accountants, lawyers, engineers, etc. Aire (1974) argues that even if individuals were willing to provide for their own needs, most people do not have the sophistication and the information required for profitable long term investment of their savings. In addition most people do not have the time. This forms one of the rationale for involvement in CPS in which the individual will be able to pick up some prudential attributes, financial calculations, discipline, positive attitude to savings and a more determined stride to retirement security.

The establishment of CPS is a creation of additional necessary economic structure in the society and the deepening of decentralization and professionalism in the Nigerian social system. Hence the growing of pension institutions which are different from banking institutions - all of which however are in the same financial system. Decentralization and professionalism will only take time in Africa, especially Nigeria, as they are inevitable in the current globalization, to which early reconciliation through transparency, accountability and competitiveness is advisable.

There is the argument that government is a bad manager of business. Hence the many state owned enterprises (SOEs) that were enthusiastically established in many African countries at independence did not largely flourish. Many of them have collapsed as a result of massive corruption, excessive bureaucratic procedures, government arbitrary policies, etc. (Gbeja, 1992; Edigin, 1996; Otobo, 2002). Hence the Nigerian government decided that the 2004 pension reform be driven by the private sector PFAs and Pension Fund Custodians (PFCs), under the regulatory guidelines provided by the PENCOM. The PFAs and PFCs are registered by PENCOM. All their remunerations are met from the pension fund/asset management.

The CPS has the value of harmonizing pension system for both the private and public sector workers and hence capable of facilitating intersectoral movement of personnel. This problem had been highlighted in Nigeria during the fundamental Public Service Review Commission Report, 1974, popularly referred to as the Udoji report (Nigeria, 1974). Much as intersectoral movement was noticed as a problem following the report, no viable solution was offered as a panacea (Fagbulu, 1979). The CPS is a workable and sustainable solution to intersectoral movement, applicable anywhere because of its straight forwardness and simplicity.

Another rationale for the CPS is that it has laid to rest all the vicissitudes that some organizations used to expose their staff to when it came to pension matters. In order to attract officers, all organizations, especially in Nigeria used to build-in pension matter into their conditions of service. Some used clear, and others ambiguous, language to couch pension matter in the conditions of service. In many cases the ambiguity of the language of pension reared its ugly head when some organizations' staff indicated intention to retire or actually retired and wanted to be paid their pension entitlements. It was then that they found that 'the so-called rights to pension or gratuity (in their employment letter) may be hollow' (Emiola, 1982: 83). The hollow pension language usually gave rise to series of litigations, some of which Emiola (1982) reported. As in the USA as Dale (1978) has noted, the Nigerian CPS has now guaranteed that pension operators have money for payment of pension benefits and therefore no hoax in the matter.

In many cases, following such hollow language the retired workers lost out. This is one of such examples. In the case of Morakinyo v. Ibadan City Council, the question to be determined by the court was whether a right to pension means 'a right to be granted pension or a right to receive pension once it has been granted'. The court ruled that in its view, 'the context shows that the phrase (in the appointment letter/conditions of service) bears the first context' (Emiola, 1982: 84). The retired staff lost out because of the ambiguous language in which the right to pension was couched in the appointment letter/conditions of service. It was clear that the ambiguous language was a pointer to the precarious nature of pension matter in the DBPS. The CPS has now ruled out such opportunity to employers of labour in Nigeria to issue ambiguous letters of appointment to workers, with the intention to attract them to the organization but deny them their pension entitlements on retirement. With the CPS, unlike the DBPS, to which a worker had made his contributions, he does not need any letter on retirement, to grant him permission to receive his pension after necessary clearance formalities with his employers. He only needs a letter of clearance and information to his PFA. This is especially so because of the Constitutional provision which guarantees the right to pension in Nigeria in section 173, as well as the supremacy of the Constitution over any other law, as entrenched in section 1 (Nigeria, 1999).

## CHALLENGES ASSOCIATED WITH CPS

The values of the CPS as highlighted above have the reverse side of the coin or the challenges. One of the striking challenges is that the pension plan in Nigeria is a monolith, approved for all organizations in the country, both public and private. This contrasts with what obtains in more developed economies such as the OECD countries. For example, in the United Kingdom, or Britain, there are not less than three types of pension schemes from which choices could be made by an organization or individual. Similarly, the major types of pension schemes in Canada are not less than three aside the private pension schemes (Wikipedia, 2009). They have differing operational guidelines and offer varying services, values and, of course, contain different challenges. Also, the availability of more pension schemes in many MDCs offer retirees more pension funds for their comfort and ability to meet their basic needs.

With a monolithic pension scheme, pensioners in Nigeria, for example, may not be able to take adequate care of their families in spite of the CPS values discussed above, and also cater for their dependants. This is sequel to the fact that the pension scheme may yield only marginal returns to investment in sluggish and poorly regulated economies in many African countries, especially Nigeria. It is the return to investment that PFAs distribute to their contributors in CPS. This must have formed part of the reason for the apt call by the World Bank (1994) to impending old age crisis especially in the LDCs, which must be taken seriously in African countries. As Tables 1 and 2 show, African countries are projected to experience life expectancy with many more people that are expected to live beyond 60 years of age increasing by more than 50% every decade between 2010 and 2050. The increase will have its corollary – increase in dependency ratio. The increased life expectancy will be no doubt a function of increased health care delivery but with precarious food security. This will take a toll on pensioners in African countries, especially Nigeria with a monolithic pension scheme.

**Table 2**
**Projected Percentage of Population Over 60 Years in Selected African Countries (1999 – 2050)**

| | *1999* | *2000* | *2010* | *2020* | *2030* | *2050* |
|---|---|---|---|---|---|---|
| Nigeria | 3.8 | 4.0 | 4.4 | 5.1 | 6.5 | 11.7 |
| Tunisia | 6.5 | 7.3 | 7.4 | 10.5 | 14.9 | 23.1 |
| Zambia | 3.6 | 3.2 | 3.0 | 3.4 | 4.4 | 8.9 |

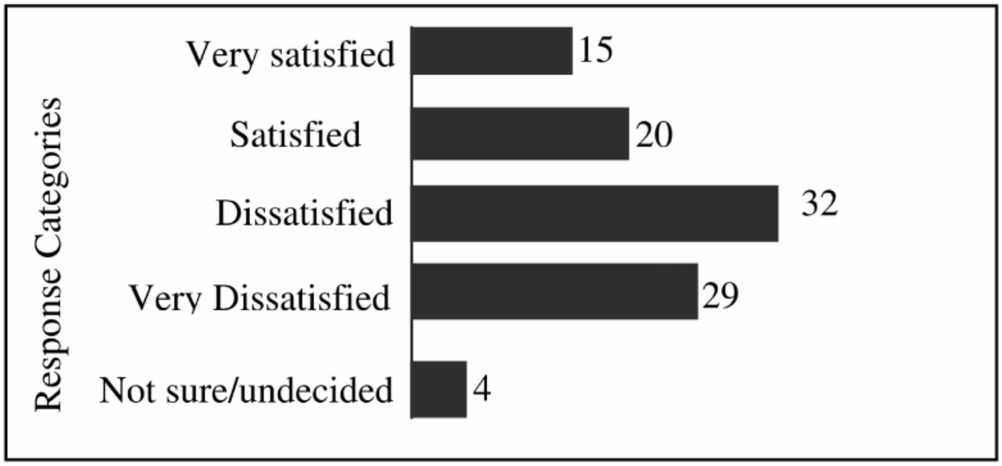
*Source:* World Bank (1994)

The other problem that contributors experience is the inadequate investment returns. In some cases, contributors are able to view their assets with the PFAs, only to find that the investment returns are too meager for comfort or that the asset did not make any return at all, that is, zero profit. Yet the PFAs have the statutory guidelines or template, on how to take their commission from all contributors' assets. Some contributors have found that while their assets did not make any profit, PFAs deducted their commission from the contributors' assets, not from the returns on investments. The implication of this mode of operation is that the commission for the PFAs is a constant or guaranteed, while the return on investment for the contributors or pensioner is left to the vagaries of market forces. This means that the PFAs can grow richer at the expense of the pensioners or contributors. Aptly, this is what Academic Staff Union of Universities (ASUU) in Nigeria had described as the possibility of high overhead cost consuming the savings or contributions of contributors (ASUU, n.d.) .

An additional challenge of the CPS is the fact that it only earns returns to investment for the contributor. The advantage in DBPS in which there is income redistribution from the rich to the poor has now been reduced for the poor and instead increased for the rich. This is because the tax payers' money makes contribution in commensurate amount to a public worker's contribution to his pension or retirement fund. Therefore the less the contribution a public worker makes monthly to his pension asset, following the statutory contribution, the same amount of contribution is made from the tax payers' money to his pension fund and *vice versa.* Income redistribution from the tax payers' money is therefore against the poor or low income worker and in favour of the high income earners who also makes higher monthly contribution to his pension fund.

Our respondents as shown in figure 3 expressed dissatisfaction with returns to investment which they have obtained from their PFAs.

**Figure 3: Rate of satisfaction with Returns to Investment (percentage)**




*Source:* Field Survey

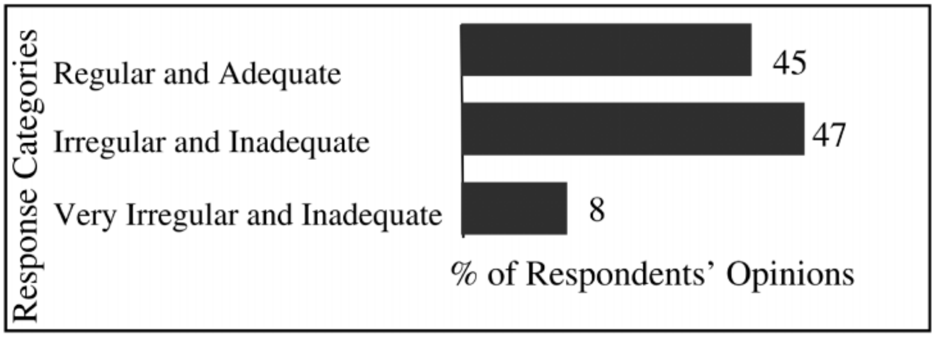
Figure 3 indicates respondents' rate of satisfaction with returns to investment offered by PFAs, which is directly linked with contributors' asset funds and hence retirees' pension income. It shows high level of respondents' dissatisfaction (61%) with returns to investment. 35% of the respondents however expressed satisfaction with returns to investment, while 4% were unsure or undecided about their opinion on returns to investment. Public officers' attitude to the CPS and hence its motivation to them will no doubt be affected by the expressed dissatisfaction.

There is the challenge of delayed pension payment made to "retirees in the CPS unlike the automatic pension that retirees enjoyed in virtually all federal organizations during the operation of the DBPS. But in the DBPS there was delay in the payment of gratuity, during which time a retiree processed his clearance. If he was indebted to the organization, the money was recovered from his gratuity.

The delay in the CPS is now occasioned by the fact that the retiree has to undertake his clearance and obtain a certificate to the effect before he can receive his pension and gratuity benefits together. This procedure is informed by the fact that the employer in the CPS, through the clearance system, ensures that the retiree is not indebted to the employer organization before he is given a clearance which enables him to proceed to his PFA for his pension benefits. All the same, this clearance process in the CPS causes varying length of delay to the retirees before they can receive their pension benefits.

There is also the challenge of the scanty or inadequate information that some contributors/retirees receive from their PFAs which are located at their headquarters at the Federal Capital, Abuja and Lagos. All the PFAs have field offices which are about mere contact or liaison offices between the headquarters and the individual contributors. While some of the PFAs, from our questionnaire (see figure 4) send regular and adequate information to their contributors, others send irregular, scanty and sterile information to their contributors.

**Figure 4: Nature of Information from PFAs (Percentage)**

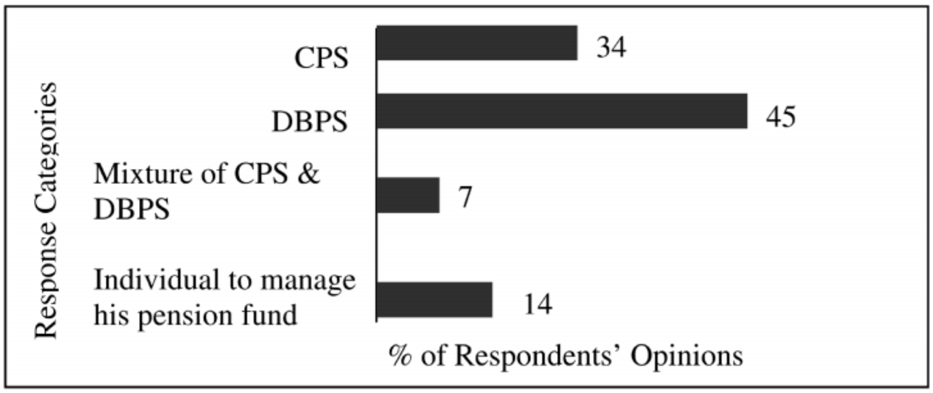



*Source:* Field Survey

Figure 4 shows that 45% of our respondents are of the opinion that their PFAs send regular and adequate information to them, while 55% of the respondents indicated that they receive irregular or very irregular information from their PFAs. In the same vein, some PFAs are open to their customers or contributors by opening their telephone lines, according to some retirees we interviewed. Other PFAs do not open their telephone lines to their contributors. On the contrary, in the American pension administration system, one of the guidelines issued by the regulators is that operators must ensure that contributors have up-to-date information about their assets performance. And it is specifically stated that the information should be presented in the language that contributors can easily understand (US Government, 1998).

All the above challenges have culminated in what we have described as a preference by our respondents for the DBPS than CPS as shown in figure 5

**Figure 5: Preference for a Particular Pension Scheme (Percentage)**




*Source:* Field Survey

45% of the respondents in figure 5 prefer the DBPS, while 34% of the respondents prefer the CPS. 7% of the respondents opted for a mixture of both systems, while 14% indicated preference to manage their pension funds themselves, even though this is against the law. This preference therefore raises serious problem which should be carefully handled by PENCOM. The problem is the acceptability and motivation of the CPS in Nigeria.

## PENSION REFORMS IN AFRICA, IN PARTICULAR NIGERIA

Pension processes and procedures in public organizations in Sub-Saharan African (SSA) countries have been virtually similar in the various countries following similar colonial experiences. Examples of such SSA countries are Ghana, Sierra Leone, the Gambia, Nigeria, Kenya, Tanzania, South Africa and Zimbabwe. References in this article, therefore, will be basically made to public servants in Anglophone SSA countries, with particular reference to Nigeria.

One of the few things that the British government did in the home country, Britain, and also similarly did in its SSA colonial countries was the fact that it did not burden public servants to contribute directly financially to their pension benefits. Thus, the British colonial government organized a non-contributory and fully funded defined benefits pension scheme (FFDBPS) for colonial and public servants, the way the colonial administrators enjoyed some pension benefits in their country (Aire, 1974). Perhaps the British Government could afford this policy in Anglophone SSA countries because only very few public servants retired during the colonial administration and the government's financial involvement was rather minimal. However, the policy was enthusiastically accepted at independence by the emergent SSA countries for two basic reasons. One was the fact of the few public servants retiring at that time, a factor we have already alluded to above. The second basic reason was the fact of the nationalist feeling that the people had been oppressed and underdeveloped by the colonial masters and hence they needed massive governmental involvement in all spheres of human endeavours. This was to accelerate the much denied development by the colonial government, but much needed development by the independent governments of former Anglophone SSA countries.

In Nigeria, pension administration toed the trend presented above. The British colonialists introduced the FFDBPS for public servants the way it was virtually operated in Britain. The first pension Act was the pension ordinance of 1946 which was later enacted as Pensions Act, Cap 147 of 1958. It was operated for permanent and pensionable employees in the public service with different conditions specified in the emerging pension scheme. These included the minimum number of years of service to qualify for pension, gratuity and retiring age.

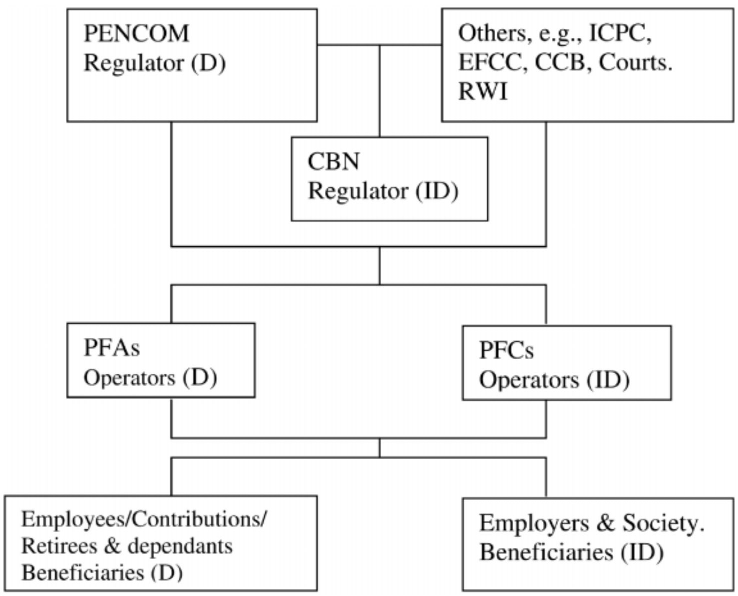
Yet, the right of public servants to pension was however precarious in Nigeria. In some cases public organizations ambiguously included the right of public servants to pension in their conditions of service and letters of appointment as had been shown by Emiola (1982), only for the public servant to face pension challenge on retirement. The Pension Act of 1979 did not help matters until pension matter was driven into the 1979 Nigerian Constitution – s. 159 (Nigeria, 1979b). Since then, all the succeeding Nigerian Constitutions have had a provision each guaranteeing the right of the public servant to pension. It says, for example, in the 1999 constitution section 173 as follows:

> Subject to the provisions of this Constitution, the right of a person in the public service of the Federation to receive pension or gratuity shall be regulated by law. Any benefit to which a person is entitled in accordance with or under such law … shall not be withheld or altered to his disadvantage except to such extent as is permissible under any law…. Pensions shall be reviewed every five years or together with any Federal civil service salary review…. Pension in respect of service in the public service of the Federation shall not be taxed (Nigeria, 1999).

The above was basically the situation when pension matter was reviewed in Nigeria in 2004 (Pension Act 2004), (see Nigeria, 2004) not only for the Federal public servants but for all employees in Nigeria provided they work in organizations employing more than five persons. The 2004 Act established a common framework for pension administration in Nigeria as shown in figure 6.

Figure 6 shows that the 2004 CPS structure has a common regulator – PENCOM, which has direct (D) responsibility to regulate the scheme. It is responsible for the

**Figure 6: CPS Framework in Nigeria**




*Source:* Adapted from Ahmed (2004)

Key: PENCOM – Pension Commission; PFAs – Pension Fund Administrators; PFCs – Pension Fund Custodians; ICPC – Independent Corrupt Practices and Other Related Offences Commission; EFCC – Economic and Financial Crimes Commission; CBN – Central Bank of Nigeria; CCB – Code of Conduct Bureau; D - Direct; ID – Indirect; RWI – Regulatory Watch Institutions.

initial interpretation of the Act and issuance of all guidelines, monitoring, etc; to the operators. The Commission is assisted by the CBN as an indirect (ID) regulator and other regulatory watch institutions (RWI) as shown in figure 6. These other RWI include the ICPC, EFCC and, of course, the regular courts, amongst other institutions.

Figure 6 also shows the direct (D) operators of the CPS as the PFAs who handle pension assets, fund investment, administer retirement savings account (RSA) maintained by the contributor, pay retirement benefits and so on (Nigeria, 2004: s. 45). The contributor has no direct access to the account (Nigeria, 2004: s. 11). The PFCs are indirect (ID) operators in the sense that whilst they ensure the custody of contributed funds, they do not invest. The contributed funds include dividends and other returns on investment. PFCs notify the PFAs about the contributors' total funds/assets and report to the PENCOM (Nigeria, 2004: s. 47). Figure 6 also indicates the employees/ contributors/retirees and their dependants, on the one hand, as well as the employers and society, on the other hand, as direct (D) and indirect (ID) beneficiaries respectively. The employees/contributors/retirees and their dependants enjoy direct monetary benefits and social security, while the employers and society take their benefits indirectly in the form of high performance or productivity and loyalty from employees on the job with spill-over effect to the society. This is consequent upon the desire of employees to secure their tenure and have retirement security as well.

For the purpose of easy appreciation we have provided in Table 3 a graphic representation of the structure of pension schemes in Nigeria since colonial times, with the first Pension Act of 1958.

**Table 3**
**Structure of Pension Scheme in Nigeria**
**(1958 – 2010)**

| *(1) Various Acts* | *(2) Institutions Covered* | *(3) Individuals Covered* | *(4) Years to Quality* | *(5) Voluntary Retirement Age* |
|---|---|---|---|---|
| 1958 Act | Government Ministries and Agencies | Holders of permanent and pensionable appointments | 10 | 45 |
| 1979 Act | -do- | -do- | 15 | 45 |
| 1990 Act | -do- | -do- | 10 | 45 |
| 2004 Act | All public and private sector institutions / organization | All employees in public and private organizations with 5 or more persons | 50 | Withdrawal from RSA at age 50 |

**Table 3**
**Structure of Pension Scheme in Nigeria (1958 – 2010) Continued**

| *(1) Various Acts* | *(6) Mandatory Retirement Age* | *(7) Mandatory Years of Service for Compulsory Retirement* | *(8) Funding Structure* | *(9) Retirement Lump Sum / Gratuity* | *(10) Retirement Monthly / Quarterly Pension* |
|---|---|---|---|---|---|
| 1958 Act | 55 | 35 | FFDBPS | 2/3 of retirement salary multiplied by 12½ | 2% of pensionable earning multiplied by pensionable years |
| 1979 Act | 60 | 35 | -do- | Defined % of final pay. Min. 100% Max. 300% | Defined % of final pay. Min. 30% Max. 70% |
| 1990 Act | 60 | 35 | -do- | Defined % of final emolument. Min. 100% Max. 300% | Defined % of final pay. Min. 30% Max. 80% |
| 2004 Act | 60/65/70 | 35 | 7.5% of monthly emoluments from each employee and employer | Withdrawal of lump sum, leaving not less than 50% of total fund of individual in RSA | Programmed monthly or quarterly or annuity withdrawals. Not less than 50% of monthly emoluments. |

*Sources:* Nigeria (1958); Nigeria (1979a); Nigeria (2004).
*Key:* RSA – Retirement Savings Account; FFDBPS – Fully Funded Defined Benefits Pension Scheme; Min. – Minimum; Max. – Maximum.

Table 3 shows the attributes of Pension Acts 1958, 1979, 1990 and 2004 that have been passed in Nigeria. It informs that only the mandatory retirement years of service has remained constant at 35, while the other attributes have varied. Table 3 also indicates that attributes of the 2004 Act have deviated more than any other from previous Acts. For example, the mandatory retirement age in the 2004 Act accommodates 60/65/70 years for regular civil or public servants, academic staff of universities and some judges respectively. Funding is now 7.5% contributory by both employee and employer respectively (section 9), which seems more realistic than the previous FFDBPS. This is so in the face of dwindling government resources and high level, or crippling, corruption in Nigeria.

The employee in the 2004 Pension Act as shown in Table 3, is entitled to his gratuity which can be a lump sum which is not defined. It will be based on a retiree's total pension funds or asset. The collection of a lump sum by a retiree is, however, subject to a mandatory left over in his RSA of not less than 50% of his total fund asset (section 4). The left over will be programmed for him monthly or quarterly pension, or based on annuity for life or as may be requested by the retiree.

One offensive feature in the 2004 CPS Act is the fact that the retirees' monthly percentage pension is lower than the percentage pension that retirees in the DBPS receive. In the CPS a retiree is expected to receive not less than 50% of his total monthly emoluments while in service, while a retiree in the DBPS receives 80% of his salary while in service. The CPS retirees are obviously short changed and their reaction is captured in their preference for DBPS as indicated in figure 5. In practice, according to some CPS retirees we interviewed, they receive monthly pension of less than one quarter (1/4) of their monthly salary while in service. The PFAs have maintained that whatever they pay is from the template provided by PENCOM, which also gives final approval before payment is made to each retiree. This makes the matter worse for CPS retirees, who therefore receive far less than DBPS retirees. The workers are certainly aware of this as ASUU reaction earlier referred to and figure 5 indicate. Hence the workers are obviously hardly motivated by the CPS.

We have also highlighted the challenges to the scheme *supra* in this paper. These are unfortunately expected to be significant in a country such as Nigeria, where the enforcement, operative and regulatory institutions, as presented in figure 6, are weak consequent upon the low level of governance development.

In all, the success of the CPS is dependent on the attributes in figure 6, including the other indirect regulatory and watch institutions. The investigation of their relevance and potential contributions is outside the scope of this paper. Suffice it to state here that they can help to make or mar the successful operation of the CPS. These attributes are complemented by those in figures 2 – 5. We are at this juncture interested in presenting the suggestions that can enhance the prospects for the successful implementation or operation of the CPS, so that it can be worthy of emulation by some other African countries.

## SUGGESTIONS / RECOMMENDATIONS

These recommendations flow from the general understanding that pension benefits are assets to workers on retirement. So pension provisions should not only be continued, but dynamically so. There are a number of recommendations competing for presentation in the CPS, but only the critical ones are highlighted below. The critical areas needing some suggestions to enhance the workability of the CPS are participation, enhancement of pension benefits, multiple pension system, provision of regulation on change of PFA, respect for constitutional provisions on pension, checkmating the CPS operators against potential fraud and enhancement of retirement benefits for professors.

*Participation* – Our discussion and analysis of respondents' opinions to one of our questions shows that the Nigerian workers prefer the DBPS to CPS. This is partly because they were not taken into confidence in the decision making processes leading to the enactment of the CPS, so that they could have made inputs. Since the scheme is still at the early stages and in fact there is need to operate it dynamically, the government should invite opinions or perceptions of workers to enhance its acceptability, workability and motivation. It will create more participation, acceptance and ownership of the scheme by workers.

*Enhanced Pension Benefits* – The government should revisit the pension benefits accruing or payable to retirees, for enhancement purposes. If the government can pay 80% of workers salary while in service as pension to DBPS retirees, it is illogical for retirees who contributed to their pension funds to receive less than their FFDBPS counterparts. By their contributions, they relieve the government of some financial burden. The retirees under the CPS should receive either the pension that those in the DBPS receive or more than that, because of their part funding of pension assets.

Professors who retire at the age of 65 years or after 15 years of professorship should either retire with their full salary or be given 80% of their salary as obtain for public servants in the DPBS. Like judges, professors are distinguished public servants.

*Multiple Pension System* – We have described Nigeria's CPS as a monolithic pension system which is likely to yield only marginal returns, at times, and perhaps no returns, at times, because of Nigeria's slow and sprawling economic system. For the pensioners' social security, that could leave a bitter taste in the mouth. We have also discussed a real possible problem, taking a cue from Tables 1 and 2, which are based on the World Bank's projected life span for African countries up to 2050, that the monolithic CPS might not be able to provide adequate social security for pensioners. We therefore recommend a revision of the CPS to give way or accommodate a multiple pension system like what obtains, for example, in Britain and Canada. Towards this end, stakeholders should be widely consulted by the government. The ASUU had actually studied the CPS and made a position paper which the Obasanjo administration characteristically used the State apparatus to rail road. The involvement of stakeholders could increase the acceptance of the scheme.

*PENCOM and Regulations Guiding CPS Operations* – We have discussed in this paper the shoddy operations of some PFAs, for failing to give adequate, regular and timely information, etc., to their contributors. We recommend that the PENCOM should make the operation of the CPS more business-like and competitive. It is not enough to get private sector companies to operate it. One of the ways PENCOM can make the operation more competitive is to determine, after upwards of over six years delay, the provisions for change of PFA, without any loss of funds. This will ensure that any contributor that feels dissatisfied with a particular PFA can easily change to another, in the interest of his money, desire for speedy, excellent services and assurances of his social security.

*Respect for Constitutional Provisions* – The CPS should be operated under strict Constitutional provisions that state that pensions should be revised every five years or whenever workers' salaries are increased. The pensioners should no longer sleep on their rights because they have hardly insisted on government's consistent and sustainable enforcement or implementation of the Constitutional provisions on pension. With these provisions, it is trite for any head of State, like President Goodluck Jonathan did in July 2010, to announce that pensioners would henceforth get increases in their pension benefits when workers get pay rise.

*Checkmating the CPS Operators* – We recommend very strict, close and regular checking of the operations of the PFAs and PFCs in the CPS, in order to continue, unequivocally, to ensure that the contributors' money is safe. Experience in Nigeria's banking sector from 2005 and especially from 2009, in which some chief executives of some banks over enriched themselves, has been worrisome. They were involved in giving out non-performing loans to the disadvantage of their depositors and creditors. This must not be allowed to happen to pension funds. The inadequate CPS benefits (statutory 50% of monthly emoluments which is far less than that in practice) about one quarter in relation to the DBPS benefits (80% of monthly emoluments) should not in any be jeopardized.

## LESSONS FOR SOME AFRICAN COUNTRIES

Like the topical issue of democracy, the pension reform scheme, to be operated in the tripartite interest of the workers/retirees and their dependants, the individual institutions or organizations, and the government and larger society, is another topical issue in Africa. It is one in which Nigeria can give adequate and encouraging leadership to some SSA countries. Very few African countries, such as South Africa, Ghana, Senegal and Lesotho may be reforming their pension schemes. The vast majority of African countries that are unfortunately as corrupt as Nigeria are merely busy with how to perfect poor governance in the leaders' selfish interest or, what Jean – Francois (1993), in the analysis of governance in Africa styled, the politics of the belly. Such SSA countries that have not grappled with positive administration or governance, let alone interest themselves in pension reforms, are in the majority. They include Angola, Botswana, Ethiopia, Sierra Leone, Liberia, Malawi, Benin Republic, Democratic Republic of the Congo, Zaire and Zimbabwe. However, in spite of the teething problems, Nigeria has weathered the storm and forged ahead with pension reforms, which is a good pointer to some African countries to emulate.

Some of the areas in which some African countries can benefit from Nigeria's pension reform experience are the involvement of stakeholders in the pension reform processes, mandatory and continuous setting aside of pension fund money by government, elimination of ghost retirees from government's pay roll, promotion of public – private partnership (PPP), a mechanism for generating financial resources for direct investment, and promotion of inter sectoral movement especially between public and private sectors.

*Involvement of Stakeholders* – We have shown in this paper that the CPS is a pension scheme that Nigerian Federal Government public workers and pensioners are not enthusiastic about, in spite of the many rationale/values we highlighted in its favour above.

The reasons for Nigerian workers' preference for the DBPS may not be unconnected with inadequate information at their disposal, the fact of their non-involvement in the decision processes leading to the establishment of the scheme, (see figure 2) and the immediate monetary value that they are denied by their contribution of a part of their salaries to pension fund. The other reason is the fact that they are paid far less than their counterparts in the DBPS system. Other African countries should not allow this disparity and should also take care of the other challenges.

The need to ensure workers' participation or involvement in pension policy determination that affects their lives, so they can impact their opinions, information and influence for the enhancement of the emerging scheme can only be under-emphasized. It is a very serious lesson for some Africa countries. The fact that monthly or quarterly pension benefits in CPS are not as high as in DBPS (80% in DBPS and legally not less than 50% in CPS, which is far less in practice, about one quarter of the retiree's monthly emoluments while in service) is also worth noting. It may have contributed to Nigerian workers' rejection of the CPS (see figure 5). This confirms our discussion in the theory of utility and preference, in which we stated that a high risk, untested decision which does not enjoy consumer or user acceptance, in spite of its potentialities, is not assured.

*Mandatory and Continuous Setting Aside of Pension Money by Government* - CPS forces government, through different public organizations that employ staff, to make permanent arrangement to release matching funds to the workers' percentage contribution (7.5% of monthly emoluments in Nigeria) to the pension fund asset. Before the emergence of the CPS, Nigeria like many African countries, such as Zimbabwe and Sierra Leone, used to wake up to an employee's pension benefits only when he retired. According to Agere and Chiwaro (2002), the Zibabwan government has always found itself unable to obtain adequate funds to meet severance payments, including pension payments. Since the CPS forces the Nigerian government to make payments to pension funds of workers, the government has been alive to its responsibility, which has consequently partly enhanced its domestic and international image. It has stopped the fire brigade approach to pension matters, thus signaling a good lesson for some African countries.

*Elimination of Ghost Retirees* - A cursory examination of public service reforms in Africa will reveal that one of the perennial problems is how to tackle the issue of ghost workers and retirees. This problem has been revealed by many researches on civil or public service reforms undertaken by many scholars, including M. Laleye (2002) L.A. Picard (2002), O. Adamolekun and A. Mvula (2002), and A. Beyene (2002), all published in Adamolekun (2002). Even though Nigeria's CPS may not be able to make any impact on the challenge of ghost workers, it definitely comes in handy in tackling the problem of ghost retirees. In the CPS as discussed above, no person or employee can benefit from pension funds without making the mandatory contribution, thus completely eliminating ghost retirees under the scheme. Thus, the money government used to pay ghost retirees and expended in undertaking repeated screening of retirees in order to fight the monster of ghost retirees can now be safely ploughed to more profitable projects.

*Promotion of Public – Private Partnership (PPP)* - Another lesson for some African countries is that the CPS keys in to the recent public – private partnership initiative that is fast gaining ground consequent upon government's poor or deficit management of business outfit or organization. In the process, government gives confidence to the private sector, which helps to create wealth and labour opportunities thus reducing unemployment.

*Generation of a Pool of Financial Resources for Direct Investment-* CPS is an assured mechanism for generating financial architecture and resources for funding development projects by both the public and private sector organizations, provided that funding investment is made in low risk ventures. It took Nigeria less than four years to generate financial savings of over one trillion Naira (₦1 trillion), which is more than the annual budgets of all the 3b States in Nigeria. It encourages prudential savings therefore and adds value to the money market of an economy, thus reducing dependence on foreign loan. This is significant in view of the abysmal saving rate in Africa, 'which is less than 15 per cent in Sub-Saharan Africa (as against) more than 30 per cent in East Asia of gross national disposable income,' as reported by Loayza, *et al.* (2000: 393).

*Inter-Sectoral Movement* - CPS promotes inter-sectoral movement of employees, which is a development boost for any economy. Inter-sectoral movement used to be a serious challenge in Nigeria, until the emergence of the CPS. It is worthy of emulation by some other African countries.

### Full Implementation of the Act

The Act should be fully implemented. For example, section 4(1)(c) of the Act provides that after the withdrawal of a lump sum of money to be paid to a pensioner as gratuity, the amount standing to his RSA credit should be sufficient to pay him an annuity of 50% of the last salary he received before retirement. In the case of a shortfall, section 12 (1) (b) provides that the 'shortfall shall immediately become a debt of the relevant employer' who shall 'issue a written acknowledgment of the debt to the relevant employee (retiree) and take steps to meet the shortfall' (Nigeria 2004). This provision should be fully implemented, so that all retirees under the CPS can, at least, receive 50% of the last salary they received before retirement.

## CONCLUSION

Pension reform is one of the administrative measures being executed by results – oriented governments in the LDCs that are concerned with the motivation of the workforce and overall benefit of their retirees. This study has highlighted the values and challenges in the reformed pension scheme – the CPS implemented by the Nigerian government with effect from June 2004. The values of the scheme have been found out in this study to be more in favour of the government than the workers and the retirees. Hence the workers, from our study, do not largely support it. The paper, however, found that the CPS has positive potentials over the DBPS and has, therefore, proffered suggestions to enhance the workability and acceptance of the CPS. These are clearly discussed in the paper to warrant recounting here. It is hoped that government will carefully study the recommendations with a view to adopting them to refine the scheme for its better application in the interest of retires, their dependants, the government, the larger society and adoption by some African countries.

## *Note*

1. s. means section

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