Innovations

Examining Employees' Perceptions on the Compliance Level in the Implementation of the Pension Reform Act of 2014 by PFAs: Evidence from Federal Tertiary Institutions in North-East Nigeria

Ishaku, Ahmed Adamu[1], Paluri Sheela[2]

[1]Research Scholar, GITAM School of Business (GSB), Gandhi Institute of Technology and Management (GITAM), Visakhapatnam Campus, GITAM University, India
[2]Professor, GITAM School of Business (GSB), Gandhi Institute of Technology and Management (GITAM), Visakhapatnam Campus, GITAM University, India

Corresponding Author: **Ishaku, Ahmed Adamu**

Abstract

Problem: *The level of non-compliance with pension laws in Nigeria is becoming too worrisome to the various stakeholders involved. Despite the reform of pension Act in 2004, pension scheme was heavily punched on the head due to misappropriations and inherent corruption bedevilling the Nigerian state. Further, inefficiencies, frail, and ambiguity in the mode of operations of the Pension Funds Administrators (PFAs) seriously affect the smoot running of the pension scheme. As a result, the pension Act of 2004 was repealed and replaced by the Pension Reform Act of 2014 which oversees and controls the administration of the Contributory Pension Scheme (CPS) in both public and private sector organizations.* ***Design/Methodology:*** *Survey research design was adopted for this study, where data were collected using an online structured questionnaire from 189 respondents selected using snowball sampling technique across the Federal Tertiary Institutions (FTIs) in the six States of North-east, Nigeria. Descriptive statistics was used in analyzing the data collected.* ***Findings:*** *The study found that there is average compliance by Pension Funds Administrators to the Pension Reform Act of 2014 in their operations in FTIs in North-east Nigeria.* ***Conclusion:*** *It was concluded that the Pension Reform Act of 2014 is moderately complied by Federal Tertiary Institutions (FTIs) in North-eastern Nigeria. The study recommends that government should support the National Pension Commission (NPC) in sanctioning any PFA or employer that fails to fully comply with the requirements of the Pension laws.*

Keywords: 1.*Contributory Pension Scheme, 2.Compliance, 3.Federal Tertiary Institutions, 4.National Pension Commission, 5.Pension Funds Administrators, 6.North-east, 7.Nigeria*

1. Introduction

It has long been believed that savings for retirement is a survival strategy for employees after retirement. This cut across all states of the world, ranging from developed to emerging economies. Basically, pension programs are set in order to protect retirees and the elderly from risks and uncertainties at old age and scarcity of wealth. Moreover, the programs also serve as a promoter of 'saving attitude' between serving employees, and this inspires savings of resources for investment and other purposes (Hemming 1998; Krammer& Li, 1997). Though, in Nigeria, pensioners have over the years grieved seriously from the wounds of the non-contributory pension scheme (hereinafter, NCPS) that was principally ruled by the Pension Decree of 1979 (No.102) (fully funded by the government and termed as Pay-As-You-Go-PAYG). Under the NCPS, it was only the employer (the government in this case) that usually makes the contribution to the scheme, which eventually became unfunded due to huge costs associated with the scheme. Equally, Idowu and Olanike (2009) also identified some difficulties associated with the scheme that are but not limited to; highly dependence of the scheme on the unpredictable budget of the Nigerian government, pension funds not released as and when due that extremely affects payments of pension benefits and other retirement benefits, and large accumulation of pension liabilities among others.

Consequently, in the year 2004, the Nigerian government reformed the Pension Degree of 1979 due to its failure to attain its predetermined set objectives. The Pension Act of 2004 replaced the erstwhile pension decree of 1979 to ameliorate the inherent problems of the latter. The Pension Act of 2004 is based on a Compulsory Pension Scheme (CPS) (50/50 Scheme)), where the employer contributes fifty percent (7.5%) and the employee also contributes fifty percent (7.5%) to their personal Retirement Savings Accounts (RSAs). The revised Act (Pension Act of 2004) give private companies (Pension Fund Administrators-PFAs) the rights to administer and manage pension funds of employees in Nigeria (Okechukwu, Nebo, & Eze, 2016). In addition, the Act establishes a supervisory and regulatory body known as 'the National Pension Commission' (PenCom) to examine the management of pensions by PFAs in Nigeria. More to this, the reformed Act of 2004 directed the Nigerian Social Insurance Trust Fund (NSITF) to compete with the PFAs by creating a similar pension fund scheme.

Yet, despite the reform of pension Act in 2004, pension scheme was heavily punched on the head due to misappropriations and inherent corruption bedevilling the Nigerian state. Further, inefficiencies, frail, and ambiguity in the mode of operations of the PFAs seriously affect the smoot running of the pension scheme (Okechukwu*et al.*, 2016). Likewise, the pension scheme was also affected by ineffective supervision and failure of the PFAs to their duty of disbursing pension funds as and when due (Toye, 2014). Moreover, the CPS lacks consistency and it covers only a limited number among the organizations in the private sector after covering the public sector (Adigun, 2010). As a result, the pension Act of 2004 was repealed and replaced by the Pension Reform Act of 2014 which oversees and controls the administration of the CPS in both public and private sector organizations. Under the new 2014 Act, the employer and employee are required to make a minimum contribution of ten per cent (10%) and eight per cent (8%) respectively of the employee's monthly emoluments (Ahmad, 2015). Moreover, the new Act of 2014 enacts fines and penalties on PFAs that fail to fulfil their responsibilities to retirees (contributors) and any abuse of the provisions of the Act (Okechukwu*et al.*, 2016).

Still, regardless of the provisions of the pension reform Act of 2014 in Nigeria, there is still delay in compensating pension contributors (retirees) as at when due. More so, it is also notable that the delay surrounding the redeem of pension benefits after the death of a contributor still lingers even resulting from a delay in securing a 'Letter of Administration' (the legal authority granted by the Probate Registry/Court a person who will administer the estate of someone who dies without a will or intestate) (Olagunju, 2014).

Moreover, then federal government and states governments' non-compliance to the Pension Reform Act (PRA) of 2014 persists. This is in concordance with the report by Uzoho (2019) who states that despite the consistent engagement by the National Pension Commission (PenCom) with several trade unions, states, local governments, and related stakeholders on the effectiveness and merits of the Contributory Pension Scheme (CPS), yet, compliance with the provision PRA of 2014 is moving at a slower rate. This will consequently affect employees as they may end-up having less savings or nothing at the time of their retirement. More so, Pension Funds Administrators will be negatively affected because the regulator's goal to increase the Nigeria's pension industry may be hindered. Hence, this study seeks to assess the compliance level in the implementation of the Pension Reform Act of 2014 by Pension Funds Administrators (PFAs) from employees' perspectives in Federal Tertiary institutions in North-Eastern Nigeria. The study is divided into five parts. The first part is on introduction, which covers the background of the study. The second part is on literature review. Methodology of the study is covered in the third part. While results of data analysis and discussion are presented in the fourth part of the study. Whilst the final part covers conclusion and recommendation.

2. Literature Review

2.1 Pension Scheme (Fund)

Pension denotes an annuity paid regularly as benefit due to retired employee or serviceman in consideration of past service, originally and chiefly by a government but also by various private pension schemes. Pension is one essential system of a workers' important benefits which have positive effect on the workers' loyalty, self-control, and readiness to stay in the service of their employers, and obligation to the realization of goals and continued existence of their organizations (Okechukwu*et al*., 2016).

According to Ebegbunam (2015), pension scheme encompasses, strategies, processes, lawful, and managerial process of obtaining and setting aside of funds to accrue in order to satisfy the social commitment of care which managers owe their personnel on retirement, or their dependent relative should the employee die prior to retirement. Similarly, Idowu and Olanike (2010) viewed pension scheme as “a transfer programme that serve as a channel for redistribution income to the elderly or retiree, after a stipulated number of service years” (p.1).

2.2 Pension Scheme (Fund) Management)

Pension fund denotes “a pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits”. However, the process of planning, supervising, organizing, decision-making, and controlling of pension funds to achieve the predetermined goals and objectives of the pension fund managers. According to Tonks (2006), pension fund management is just a part of the enormous international investment management industry that embodies the administration of investment portfolios by professional fund managers. This portrays that there exists available deputized portfolio management like life assurance, unit trusts, and investment trusts. But what differentiate pension fund with these delegated portfolio managers is the long-due nature of pension funds.

It is worthy to note that the standards by which pension schemes should be management are mostly stipulated and regulated by government of every nation, which are reviewed from time to time. Yet, the way of utilizing such standards depend on the pension managers’ (Pension Fund Administrators-PFAs) managerial skill powers and strategies. In Nigeria, the management of pension fund is regulated by an Act known as the Pension Reform Act of 2014, which repealed and replaced the pension Act of 2004. Complying to the rules and regulations of pension fund management provided by PFAs implies how committed those pension fund administrators are, which may eventually attract employees to register with them. Parts of the 2014 Pension Reform Act are provided in the following subtitle.

2.3 Pension Reform Act of 2014 in Nigeria

It is important to highlight some of the provision in of the Pension Act of 2004 before highlighting that of 2014. Ahmad (2015) document that, based on the provision of the Pension Scheme of 2004, the amount to be deducted as government’s share and from the salary of each officer is as follows;

a. In the case of military staff, employer should contribute a minimum of 12.5% while the employee contributes a minimum of 2.5% of basic salary and allowances

b. For public service of the federation and federal capital authority, both the employer and the employee should contribute a minimum of 7.5% each respectively. This also applies to other cases not defined by the act.

However, in consideration to the reform Act of 2014, both the employer and employee in general, are required to make a minimum monthly contribution of 10% and 8% respectively of the employee’s monthly emoluments (7.5% of the employee’s monthly basic housing and transport allowances by both parties under the repealed Act). In this regard, the definition of ‘monthly emoluments’ has been expanded to mean to mean the total emolument as defined in the employee’s contract of employment provided it is not less than the total of the employee’s basic salary, housing, and transport allowances. That is, all items that are paid on monthly basis (in addition to basic, housing and transport) would form part of the base which the pension rates are applied.

Additionally, the pension Act of 2014 creates another condition in which a contributor may be allowed to withdraw from his retirement account. An employee who disengages from employment or is disengaged before the age of fifty (50) and is unable to secure employment within four months of disengagement is allowed to make withdrawals from the account, although not exceeding twenty-five per cent of the total amount credited to the retirement savings account (RSA). This has not been the case under the pension Act of 2004.

2.4 Compliance to the Pension Provisions in Nigeria

As earlier stated, compliance to the Pension Reform Act of 2014 by the various parties involved is still moving in sluggish manner. According to Nweke (2017), implementation of the Pension Provisions in Nigeria is faced with some serious challenges. For instance, the Federal government of Nigeria (FGN) found itself in a difficult situation to fully fund its pensions liabilities due to the economic recession witnessed since the year 2015. Likewise, the FGN was not able to meetup with the five percent statutory transfer of the total wage bill that is predestined to develop the Redemption Fund Account (FRA). According to Uzoh and Anekwa (2018), the Redemption Fund Account is “the fund that is designed to absorb the accrued pension rights of workers who transfer from the pay-as-you-go pension system to the contributory scheme. This development may explain inpart the worrisome concern of retirees who discovered only after retirement that their monthly contributions were never transferred to their PFAs by their employers”. This assertion is consistent with the years 2016 to 2018 quarterly reports of the PenCom which shows that there are issues of non-compliance to the provisions of the Pension law that include uncredited pension contributions, delay in payment of retirement benefits, and outstanding commitment (Odo*et al.*, 2019; PenCom, 2016, 2017, and 2018).

According to the result of a study conducted by Odo*et al.* (2019), there is a massive failure in implementing the provisions of the pensions law across the various Ministries, Departments, and Agencies (MDAs) in both Federal and State governments which occurs as a result of some factors like recession, legislative loopholes, supervisory negligence, and absence of sustained engagement of labour leadership with employers across the tiers of government (federal, states, and local governments). This is an indication that compliance to the pension laws in Nigeria across various Ministries, Departments, and Agencies and all other units is discouraging and at a lower rate. Hence, the need to undertake this study to examine the level of compliance with the Pension Reform Act of 2014 in the federal Tertiary Institutions in North-Eastern Nigeria. Hence, the need to undertake this study to examine the level of compliance with the Pension Reform Act of 2014 in the federal Tertiary Institutions in North-Eastern Nigeria.

3. Methodology

To achieve the objective of this study, a survey research design was utilized. Data were retrieved with the means of an online structured questionnaire distributed via emails of the respondents. The respondents are staff of Federal tertiary Institutions (FTIs) located in the six North-east States in Nigeria that include Adamawa, Bauchi, Borno, Gombe, Taraba, and Yobe. To arrive at the final sample in this study, a snowball sampling technique was adopted where identified participants assist the researcher in identifying other potential subjects. Initially, the researcher identifies at least one staff in all the FTIs in the six states in North-East, and send them the invitation to fill the questionnaire via email, afterwards, they were asked by the researcher to forward the link to the questionnaire to others they know. The participants were given one-week time to fill and submit the questionnaire, after which a total of one hundred and eighty-nine (189) responses were received. All the 189 responses were used for the purpose of analysis as there were no cases of missing data since the questions were structured to be required questions, which must be filled before a respondent can be able to submit the online questionnaire. In addition, the questionnaire was measured on a Five-point Scale, from Poor Compliance (1) to Full Compliance (5). Scores of 2 = Ineffective Compliance; 3 = Average Compliance; 4 = Satisfactorily Compliance. To analyse the data collected for this study, descriptive statistics was conducted using Statistical Package for Social Sciences (SPSS) version 22.

4. Results and Discussion

The results of data analysis in this study are divided into two; frequencies of the demographic profile of respondents and descriptive statistics of the compliance questions for compliance with the PRA of 2014 by the Pension Fund Administrators (PFAs).

4.1 Frequencies of Respondents' Profile

The frequencies of the demographic profile of the respondents are presented in the following table.

Table 1. Frequencies of Demographic Profile of the Respondents

Variable		Frequency	Percentage
Gender	Male	162	85.71
	Female	27	14.29
	Total	189	100.0
Age	21 to 30years	2	1.06
	31 to 40years	61	32.28
	41 to 50years	95	50.26
	51 to 60years	30	15.87
	Above 60years	1	0.53
	Total	189	100.0
Educ. Qualification	B.Sc.	32	16.93
	M.Sc.	98	51.85
	PhD	59	31.22
	Total	189	100.0
Work Experience	1 to 5years	19	10.05
	6 to 10years	71	37.57
	Above 10years	99	52.38
	Total	189	100.0

Staff Category	Academic staff	134	70.90
	Non-academic staff	55	29.10
	Total	189	100.0
States of Institution	Adamawa	60	31.75
	Bauchi	34	17.99
	Borno	21	11.11
	Gombe	29	15.34
	Taraba	25	13.23
	Yobe	20	10.58
	Total	189	100.0

Source: Author's Analysis, 2022.

From the frequencies of the demographic profile of the respondents in Table 1, it can be seen that 162 (representing 85.71 per cent) of the respondents are male, while the remaining 27 (14.29 per cent) respondents are female. In view of the Age category, the majority of the respondents, representing 50.26 per cent fall between the age of "41 to 50 years", followed by those that fall between the age bracket of "31 to 40years" who represent 33.28 per cent of the respondents. Still, there are only two respondents, representing 1.06 per cent that falls between the age bracket of "21 to 30 years". Whereas, only one respondent, representing 0.53 per cent that falls under the age bracket of "Above 60 years". For educational qualifications, the majority (98) of the respondents, representing 51.85 per cent have a Master's degree (M.Sc.), followed by those with a doctorate (PhD) that accounted for 31.22 per cent, while the remaining (32) respondents who represent 16.93 per cent have a bachelor degree (B.Sc.).

Another important demography of the respondents is 'working experience'. The frequencies from Table 1 show that 19 respondents (10.05 per cent) have a work experience of "1 to 5 years", 71 respondents represent 37.57 per cent have a work experience of "6 to 10 years", while the remaining 99 respondents (52.38 per cent) that form the majority have a work experience of "above 10years". For the category of staff, 134 (70.9 per cent) of the respondents are academic staff, while 55 (29.1 per cent) are non-academic staff. For the States where the institution of the respondent is located, the number of respondents from Adamawa are sixty (31.75 per cent), from Bauchi are thirty-four (17.99 per cent), from Borno are twenty-one (11.11 per cent), from Gombe are twenty-nine (15.34 per cent), while the number of respondents from Taraba are twenty-five (13.23 per cent), whereas the number of respondents from Yobe are twenty (10.58 per cent).

4.2 Reliability Test

For the purpose of testing reliability of questionnaire items, different types of method can be applied. However, the most popular method used by researchers to test the inter-item consistency and reliability is the Cronbach alpha coefficients (Sekaran & Bougie, 2010). It indicates the extent to which answers of the respondents to all the items are consistent. After running reliability test using SPSS v22 for Windows, it was found that the items had a high reliability standard0.852. This is in line with the criterion that a Cronbach alpha coefficient of 0.60 is considered an average reliability, while a coefficient of 0.70 or higher indicates that the instrument has a high reliability standard (Nunnally, 1978; Sekaran & Bougie, 2010). The result of reliability test is displayed in Table 2 thus:

Table 2. Result of Reliability Test

Scale Name	No. of Items	Cronbach's Alpha Coefficient	No. of items dropped	No. of items retained for main analysis
1. Compliance to Pension Reform Act of 2014 by PFAs	8	0.852	Nil	8

Source: Developed by the author for this study from $SPSS_{v22}$output

4.3 Descriptive Statistics: Compliance of PFAs with the Pension Reform Act of 2014

Table 3 below presents the level of compliance with regards to the PRA of 2014 by the Pension Funds Administrators in FTIs in North-east Nigeria.

Table 3. Compliance to PRA 2014 by PFAs

S/N	Items	Mean	Standard Deviation	Comment
1	Your PFA open Retirement Savings Account (RSA) for only employee with Personal Identity Number (PIN)	3.795	0.660	Averagely Complied
2	Your PFA follow the provisions of PRA 2014 when investing and managing pension fund assets	4.075	0.606	Satisfactorily Complied
3	Your PFA is credible in maintaining accounting books relating to all pension fund assets transactions	3.714	0.545	Averagely Complied
4	Your PFA share regular details on investment strategy, returns on market and other indicators with PenCom and RSA beneficiaries	3.634	0.610	Averagely Complied
5	Your PFA provide access to employees' account statements when demanded	4.106	0.615	Satisfactorily Complied
6	Your PFA is proactive in paying retirement benefits to employees as instructed by the PRA 2014	3.770	0.852	Averagely Complied
7	Your PFA regularly provide you with the information about your RSA (Retirement Savings Account)	3.781	0.795	Averagely Complied
8	Your PFA is optimally adhering to PENCOM regulation	3.561	0.800	Averagely Complied
	Overall Compliance (Total mean scores ÷ no. of items)	**3.805**	**-**	**Averagely Complied**

Source: Author's Analysis using SPSSv$_{22}$

From the descriptive statistics results in Table 3, the overall compliance score is 3.805, indicating that the level of compliance to the Pension Reform Act of 2014 is averagely complied. Specifically, with regards to opening of RSA to employees with PIN, it is averagely complied with. While for investing and management of Pension Fund Assets, it is satisfactorily complied. In consideration to sharing on information on investments and returns by PFAs, it is averagely complied. For access to employees' accounts statements, it is satisfactorily complied. With regards to the payment of benefits by PFAs, it is averagely complied. For sharing of information on Retirement Savings Account (RSA), it is averagely complied, and lastly, PFAs adherence to PenCom regulations is averagely complied. The overall result is an indication that the Pension Reform Act of 2014 is averagely complied with by PFAs in their operations in the Federal tertiary institutions in North-eastern States of Nigeria.

5. Conclusion and Recommendation

The objective of this study was to assess the compliance level in the implementation of the Pension Reform Act of 2014 by Pension Funds Administrators (PFAs) in Federal Tertiary Institutions (FTIs) in North-Eastern Nigeria. To attain this objective, data were sourced using an online structured questionnaire which was analyzed using descriptive statistics. Based on the overall result obtained, this study concludes that the Pension Reform Act of 2014 is averagely complied with the Pension Funds Administrators operating in Federal Tertiary Institutions in North-East Nigeria.

Based on the findings of this study, it is recommended that government should support the National Pension Commission in sanctioning any PFA or employer that fails to fully comply with the requirements of the Pension laws. Additionally, there should be more focused engagement strategy by the National Pension Commission on the benefits of adhering to the Pension laws and the consequences in non-compliance. This will in a long way assist in increasing the level of compliance to the Pension laws by all the parties involved.

References

1. *Adigun, (2010). Corporate Governance in the Pension Industry: A paper presented at the Adebayo Akerele Distinguished Lectures Series at the Faculty of Management Sciences, University of Benin in May 2010.*
2. *Ahmad, S. H. (2015). A Study Text on Government Accounting. Ahmadu Bello University Press Ltd. Nigeria.*
3. *Ebegbunam, P. (2015). Management of Pension Scheme in Nigeria, A Paper Delivered in a Workshop in Abuja.*

4. *Hemming, M. R. (1998). Should public pensions be funded? International Monetary Fund. IMF Working Paper 98/35/*
5. *Idowu, K.O. andOlanike, K.F. (2010). Pensions and pension reform in Nigeria. Pensions: An International Journal, 15(1), 11-24.*
6. *Krammer, G. and Li, Y. (1997). Reform of the Canada Pension Plan: Analytical Considerations. Washington DC: International Monetary Fund. IMF Working Paper 97/141.*
7. *Odo, C. O., Orga, C. C., &Ozoemenam, K. C. (2019). The Nigerian Contributory Pension Market: A Review of Compliance Status across the Federation. Journal of Financial Risk Management, 8(03), 163.*
8. *Okechukwu, E. U., Nebo, G. and Eze, J. (2016). Strategic management of pension scheme in selected private manufacturing organizations in South Eastern Nigeria. European Scientific Journal, 12(34), 338-357.*
9. *Olagunju, B. B. (2014). Challenges in the administration of pension reform Act, 2014 (1). Business Day Sept. 2014.*
10. *Sekaran, U., & Bougie, R. (2010). Research methods for business: A skill building approach (5th ed.). United Kindom: John Wiley & Sons Ltd.*
11. *Tonks, I. (2006). Pension fund management and investment performance. In the Oxford Handbook of Pensions and Retirement Income. Oxford University Press Oxford.*
12. *Toye, A. D. (2014). How Government can improve Pensioners fortunes, Guardian Newspapers, 16(7), 9.*
13. *Uzoh, B. C. and Anekwe, S. C. (2018). The Contributory Pension Scheme and the Fate of Retired and Retiring Nigerian Workers. International Journal of Academic Research in Business and Social Sciences, 3, 527-541.*

Corresponding Emai : [1]**aishaku@gitam.in** , [2]**spaluri@gitam.edu**