PENSION REFORM IN NIGERIA: AN OVERVIEW

OMANKHANLEN ALEX EHIMARE

DEPARTMENT OF BANKING AND FINANCE
COLLEGE OF BUSINESS AND SOCIAL SCIENCES
COVENANT UNIVERSITY
OTA , OGUN STATE

Abstract

This paper examines the new Pension Reform Act 2004. Evidence of experience of other countries' pension reform and the problems of the pre-reform era are provided. The objectives and benefits of the new reform are highlighted. The papers among others recommend that the National Pension Commission should be well funded, equipped and manned for it to be able to perform its functions.

Introduction

The failure of pension schemes in the country have been attributed to poor pension fund administration, outright corruption and embezzlement of pension fund as well as inadequate build-up of funds and poor supervision.

The systems for providing financial security for the old are under increasing strain especially in developing countries like Nigeria. Most employees neither have any meaningful retirement benefits nor earn enough during their working life to cater for their retirement. It was the opinion of Onifade (2002) that the extended families and other traditional ways of supporting the old are already weakening under the pressure of urbanization, industrialization and increased mobility. Indeed, the Pay As You Go Defined Benefit Scheme in the public sector is burdened with a lot of problems and has increasingly become unsustainable.

Statement of problem

Managing and administering pension funds have continued to pose a major challenge to government in Nigeria. Yet, pension which guarantees an employee certain comfort in his or her inactive year is critical to the sustenance of the life of the individual and the society (Nkanga2005).

In our society today, most workers are not covered by any reasonable form of retirement benefit arrangement while the few schemes suffer from poor management. As stated by Adegbayi (2005) Nigeria must avoid minor pension reforms that are repeated periodically because of political problems associated with such adjustments. Once defined Benefits Schemes are frequently redefined, they only create uncertainty of retirement benefits. It is for these reasons that a major and comprehensive pension reform was undertaken.

According to Komolafe (2004) the Nigerian pension system in general, is very much

fragmented, lacks an adequate overall policy, a legal and regulatory framework and an empowered coordinating body to supervise it. Existing programs cover only a small share of the labour force leaving most Nigerians to rely on family support for old age income.

Objective

The objective of this paper is to examine the management of pension funds in Nigeria. What led to the problems of the previous schemes. The present pension reform, its objectives and benefits will be examined. In addition, recommendations will be given to make the scheme succeed.

This paper makes an attempt to contribute to the benefits to be derived from the new pension reform in Nigeria especially in helping to solve the problem of pension management in Nigeria. To achieve this paper is structured into four sections, with the foregoing introduction as section 1. Section 2 discusses the literature in pension management. Section 3 presents pension management in the pre-reform era and its problems. Section 4 discusses the pension reform act 2004, its objectives and benefits. While section 5, contains the summary of findings, conclusion and recommendations.

SECTION 2: LITERATURE REVIEW

The exact origin of pension schemes in Nigeria is arguable. The first significant measure in the opinion of Oyetunji (2004) was not taken until 1946. Before then, there was no legal obligation on employers in the public sector to provide for the welfare of their employees on retirement. The colonial pension law made the granting of pension at the pleasure of the Governor-general of the country. Pension was not therefore the automatic entitlement of a retiree. Under the 1951 pension ordinance, pension could be withheld from an officer if he is found guilty of negligence or misconduct. The pension ordinance of 1946 as mended stipulated the scales of retirement pension, gratuities and death in service benefits for civil servants. The compulsory retirement age then was 55years for both male and female employees and was wholly financed by the government out of its current reserve. There was no provision for employees in the private sector as regards retirement benefits. At this time, private sector employees were unorganized as there were no registered trade unions in the country before 1943.However, the Trade union congress (TUC) became the first trade union to be registered in 1943.

Pension can be defined as payment of a stipend to a person who has retired from active employment or business engagement. It can also be regarded as a form of an annuity regular both in quantum and in time of payment. Uzoma (1987) defined pension as "a series of regular payments provided by a former employer to a retired employee". While he defined pension fund as the money accumulated to meet pension payment. But the income tax management act (ITMA) 1961 under its section 17 paragraph 2 of the fourth schedule define pension fund as any society fund, contract or scheme, the assets of which are held under irrevocable trust and any scheme established by a law in Nigeria or elsewhere but the main object of which are, on the joint tax board the