

**APPRAISAL OF THE IMPLEMENTATION OF THE 2004 CONTRIBUTORY
PENSION POLICY IN LOCAL GOVERNMENTS OF SOUTHWESTERN
NIGERIA**

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ABSTRACT

This study appraised the institutional framework for the Pension Policy of 2004 contributory pension scheme; it also examined the perception of workers on the implementation of the policy in the selected Local Government Areas and the effect of the policy on the workers' attitude to work in the selected Local Government Areas and analysed the challenges of the implementation of the pension policy in the selected Local Government Areas. These were with the view to determining the relationship between workers and government in the implementation of the 2004 contributory pension policy.

Primary and secondary data were used for this study. Primary data were generated from the respondents through the use of questionnaire and interview guide. The study was carried out in Southwestern Nigeria. Multi-stage sampling technique was adopted. At the first stage, Southwestern Nigeria was stratified into three axis: Lagos/ Ogun, Oyo/ Osun and Ondo/ Ekiti due to their geographical closeness. At the second stage, Lagos, Ondo and Osun were selected using random techniques due to their proximity to the researcher and the zone being predominately a Yoruba speaking area; while at the third stage, 18 Local Government Areas were selected (two Local Government areas each from the three senatorial districts of the chosen states representing one urban and one rural). A population totaling 16,000 in the study area comprised both Senior and Management staff selected within the selected Local Governments. Using Yaro Yamahe Method based on the total workforce in each state, a sample size of Lagos (140), Ondo (125) and Osun (135) totaling 400 respondents was selected. Also, interviews were conducted in the three states for six of the officers in the pension management offices and six members of staff above GL 14 in the Local Government Service Commission (LGSC). This was because they were knowledgeable about the pension policy. Secondary data were derived through relevant government publications, books, journals, articles, magazines and the

internet. Data collected were analysed using appropriate simple percentages and chi-square analysis.

The results showed that the institutional framework for the pension policy of 2004 contributory pension scheme was weak and ineffective (56.05%). The results showed that there was no significant relationship between the implementation of the policy and perception of workers in Lagos urban areas ($\chi^2 = 2.098$, $p > .05$) and Lagos rural areas ($\chi^2 = 0.909$, $p > .05$) and Ogun State urban areas ($\chi^2 = 0.739$, $p > .05$) and Ogun State rural areas ($\chi^2 = 0.357$, $p > .05$). However, it was significant in Ondo State urban areas ($\chi^2 = 6.459$, $p < .05$). The results also showed that the policy had no effect on workers' attitude to work in Lagos State urban areas ($\chi^2 = 1.360$, $p > .05$), Lagos State rural areas ($\chi^2 = 0.179$, $p > .05$), Ondo State urban areas ($\chi^2 = 0.060$, $p > .05$), Ondo State rural areas ($\chi^2 = 1.219$, $p > .05$) and Ogun State urban areas ($\chi^2 = 2.903$, $p > .05$), Ogun State rural areas ($\chi^2 = 1.969$, $p > .05$). The results further showed that there were inconsistent and irregular remittances from employer's contributions (73.42%), unnecessary delays (56.05%) and long duration of time in processing payment of pension (54.47%).

The study concluded that there was poor implementation of the 2004 contributory pension policy in Local Government areas of the Southwestern Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Pension scheme and its management remains a Global issue. Thus, in Nigeria, pension management scheme faces a lot of setbacks such as poor documentation, lack of funding, insufficient subventions and grants, release of pension funds directly to the underwriters, accumulated arrears of pensioners, failure to make use of appropriate investment portfolios, lack of accountability, corruption, and embezzlement of funds, Fapohunda (2013). Other problems include burdensome clearance procedures, incompetent and amateur staff, abysmal human relations, lack of etiquette and simple courtesy. Resultantly, employees' loyalty and commitment to an organization are negatively affected (Oarewaju, 2011 and Ayegba, 2013).

Thus, in recent decades, pension-related issues keep captivating the attention of more countries including Chile, Britain, Mexico and Bolivia. For instance, in his work on World Bank, Robolino (2006) ascertains that many countries have opted for different forms of contributory pension schemes which enable employers and their employees to save certain percentages of their monthly earnings to a Retirement Saving Account (RSA). It is from this account that they would be drawing their interest after retirement (Sule, 2009 and Sterns, 2006).

Smart (2015), Ayegba (2013) and PenCom (2016) note that, before 2004, most public organisations used a Defined Benefit Scheme also known as Pay-As-You-Go, and that the final entitlements were determined by service length and terminal emoluments. The Defined Benefit Pension Scheme in Nigeria was affected by many problems. The problems included poor

funding shortage of budgetary release subjected to benefits resulted into unprecedented and unsustainable outstanding pension deficit estimated at over two trillion naira before 2004.

The new pension scheme named Funded Contributory Benefit Scheme (FCBS) was established in July, 2004. It is meant for Federal Public Service employees, Federal Capital Territory employees, State Government employees and employees of private sectors, and the scheme houses National Pension Commission (PenCom), Pension Fund Administrators (PFAs), Closed Pension Fund Administrators (CPFAs) and Pension Fund Custodians (PFCs). Because it is a contributory scheme, minimum of 7.5 percent of employees' basic salary, housing and transport allowances are to be contributed, and employers are expected to contribute the same amount. This will make the total minimum monthly contribution of all employees under the scheme 7.5% i.e. 15% (fifteen percent) of their basic salary, housing and transport allowances though it was later reviewed to 18% 10% of the employer and 8% of the employee's basic salary, housing and transport allowances (PenCom 2004; World Bank, 2015; Balogun, 2006; Isah, 2014; Ayabei, 2010, Oadiipo, 2011, Armstrong, 2010, Smart, 201 and Ayegba, 2013).

Nigeria adopted a Defined Benefit Scheme (Pay-As-You-Go) before the advent of the new pension scheme, and it was burdened with a lot of problems. Oadiipo (2011) associated the failure of Defined Benefit System of pension to problems such as inefficiency, maladministration, lack of funding, etc. Because of the aforementioned problems, it became necessary to reform the pension scheme so that retirees' benefit is catered for. These identified deficiencies necessitated the introduction of a new pension scheme – Contributory Pension Scheme (CPS). According to Ahmad (2006), contributory pension scheme serves a number of purposes which include ensuring that every worker receives his or her retirement benefits as and

when due to cater for their livelihood after retirement when old age is expected to have set in, regulating the standard for the administration of pension matters and securing compliance (Aja, 2014, Robolino, 2006, Agba, 2010, Ayegba, 2013 and PenCom 2014).

National Pension Commission (PenCom 2004) was established to ensure the regulation, supervision and effectiveness of pension matters. Hence, the Commission is authorized under the Act to *inter alia*, establish standard rules for the management of pension funds, approval of license, regulation of PFAs, PFCs and CPFAs, management of national data bank on pension and imposing sanctions or fines on erring employers. The Commission also ensures that payment and remittance of contributions are made and beneficiaries of Retirement Savings Accounts (RSAs) are paid at the appropriate time. The investment of pension assets was outlined in the Act, subject to enforcement by PenCom (Oarewaju, 2011 and Sule, 2009). The scheme provides that:

National Pension Commission (PenCom) shall regulate, supervise, and ensure the effective administration of pension matters in Nigeria. The powers of the Commission shall be to formulate, direct and oversee the overall policy on pension matters in Nigeria, to fix the terms and conditions of service including remuneration of the employees of the commission. Request or call for information from any employer or pension administrator or custodian or any pension or institution on matter relating to retirement benefit charge and collect such fees or penalties. These are specified by the Commission which establishes and acquires offices and other premises for the use of the Commission in such locations as it may deem necessary for the proper performance of its functions under this Act, establishes standard rules and regulations for the management of pension funds under this Act (NPC, 2004, PenCom 2004 & 2014, Enu, 2011 and Idowu, 2006).