

Evaluation of Private Sector compliance to Contributory Pension Scheme in Nigeria from 2018 to 2022

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Abstract

This paper evaluates the level of private sector compliance to contributory pension Scheme in Nigeria. It highlighted the benefits and the implications of noncompliance to contributory pension by the private sector. Five years review of the quarterly report of pension was used to determine the compliance level. The review shows that the response of the private sector compliance is still low at its nosedive. We therefore callon government to help in alleviating the rate of suffering and challenges to noncompliance by the private sector.

Key Words: Contributory, Pension, Compliance, private sector.

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Introduction

Contributory Pension scheme is a system where the employees and the employers are involved in contribution into an employee's retirement saving account (RSA) by the employer (who contribute 10%) and the employee (who contribute 8% of his/her salary). When such an employee has reached a certain age or number of years in service, the agreed amount will be paid to him or her by the pension funds administrators. Contributory pension is tax free and workers can change his/her PFA once in a year, encouraging compensation and efficiency among the administrators. Olanrewaju (2011) and Odewale (2017) stated that there is adequate representation of relevant stakeholders in the board of the National pension commission.

The major objectives of contributory pension scheme is to improve efficiency and accountability in pension administration with emphasis on protecting pension contributions (Eme, Uche, and Uche 2014). Comas, Christopher and Kenneth (2019) opined that the new pension scheme owes its origin to the need to bequeath Nigerians as an entirely new pension market that not only process pension of both private and public sector workers but guarantee a framework that delivers regular pension income for retired workers Umar and Emmanuel (2012) See contributory pension scheme as system or tool for economic development in Nigeria. The reform was to serve as socio welfare scheme for the aged, by ensuring that workers save to cater for their livelihood during old age (Sule, 2009).

The pension industry in Nigeria currently operates using Contributory Pension Scheme (CPS). This scheme requires Pension Fund Administration (PFA) and the Pension Funds Custodians (PFC) to be responsible for keeping the custody of pension asset on trust, on behalf of the contributor's contributions.

The new pension reforms Act (2014) section 2(1) states that the provision of this bill shall apply to any employment in public service of the federation, capital Territory, the state, local government and private sector.

Section 2(2) in case of private sector, the scheme shall apply to employee who are in the employment of an organization in which there is fifteen (15) or more employees

Section 2(3) notwithstanding the provision of the subsection (2) of this section, employee as well as self-employer pension shall be entitled to participate under the scheme in accordance with guideline issued by the commission. Ethics (2020) opined that are permissible and include maximum exposure limits for each asset category. The compliance is mandatory for all the organizations listed in section (2) of the pension Act (2014) and organization who intend to bid for government contracts or solicit for businesses from any Federal Government ministry and agencies.

It is quite unfortunate that a lot of private sectors, irrespective of the number of their employees and financial strength have not thought or dreamed of being a member of the scheme except the private companies that is interested in getting government contracts are in compliance. Some of the private sectors that enrolled are making full remittance of the employer and employee contributions, while others remit employers and employee in an inconsistent manner. Some of the companies remit only the employee contribution and others contributes when they like and others contribute and make up their lapses only when the are seeking for government contract and seize contribution after the company goal is achieved.

The life of the employee in private sectors at retirement is at the mercy of God and love ones. Most of them find life very harsh and miserable to cope with at retirement age. Some die as a result of illness, hunger, lack of care, depression and heart broke because of lack of money to meet their basic needs. Independent Newspaper Nigeria (2022) stated that it is unhealthy for any state government or any employer of labour, whether in the public or private sector to delay enrollment of contributory pension scheme.

Fags (2023) pointed out that it is good sign of irresponsibility for private employers not to remit pension deducted to worker retirement funds.

Based on the negligence's of the private sector employers the grave implication of these violations is that the workers youthful efforts and hard works are without rewards at retirements. The workers die without life insurance cover that guarantee death benefit for their dependents.

This call for urgent attention by the labour leaders, government, pension commission to fight against this unlawful act done against the private workers and also ensure that the private workers or employee understand the benefit of contributory scheme and devices a way to make them enroll and save the workers from not getting benefits at retirement.

Benefits of Contributory Pension Scheme

The Contributory Pension Scheme (CPS) was introduced following the enactment of the pension Reform Act 2004. The new system allows contributors access to their account balance through the internet and other technology driven platforms. It is user friendly.

Efficient customer service and good investment returns are at the heart of the scheme and Pension Fund Administrators (PFA) have to put systems in place, as well as personnel and services that will ensure that contributors can gain easy access to their accounts, maximize returns to be earned on their retirements benefit over time, and receive their retirement benefits with ease, Business day (2014). The scheme is to ensure that every person that worked in either the public or private sector in Nigeria receives his/her retirement benefits as and when due.

The scheme have a unique benefits for the Nigerian workers, it eliminate queues and the absence of travelling long distance in other to get their pension payments or even to present themselves for periodic pay parades since pension payments are made directly to retirees, accounts, through banks of their choice on a monthly basis. In addition PFAs are required to have offices across the nation to enable client have easy access to them.

Social and Economic Benefits: The new scheme enhances labour mobility, as workers can move freely from one employer to another without their retirement being negatively impacted. The pension Reform Act (2004) has instilled a savings culture among Nigeria's which has created a pool of long term investible funds for the development of the financial markets and the economy as a whole.

Invested funds are secures: The PRA (2004) stipulates investment guideline for the management of pension fund assets and requires the PRAs to adhere strictly to their guidelines which generally specify the broad asset categories.

Table 1: Pencom update on compliance by private sector for five years.

S/No	Year	No. Applied	No. Cleared	No. Rejected	No. of Employee	Quarter under reviewed	Amount Realized
1	2018	3046	2044	1002	966,155	4 th	#7.426b
2	2019	2540	2005	535	24,224	4 th	#3,125,770,339.31
3	2020	1900	1877	23	41,923	4 th	9,878,025,459.10
4	2021	1800	1526	274	15,603	4 th	4,047,499,080.84
5	2022	1100	957	143	12264	4 th	#3,552,977,608.29

Source: compiled by the researcher from 4th quarter report by National Pension Commission from 2018 -2022.

From the table above compliance by the private sector was high in 2018 and 2019, but in 2020 to 2022 it went down, probably as a result of Covid 19 that affected business activities and the economy. The number of companies cleared as against the companies rejected is on the upward trends. This may be as a result of the companies seriousness and responsive to the requirements of the pencom approval.

However on a general observation from the table, the response of the private sector compliance is still low as it can be observed that the number cleared continue to nosedive. This clearly shows that more needs to be done to improve the compliance of the sector under review.

Reasons for Low compliance by private sectors in contributory pension scheme

The contributory pension scheme has been in place for 19 years, however, several employers of labour and their employees are yet to key into the scheme. Ebele (2016) reported that enforcing compliance present as major challenge for the National pension commission. Many private

sector in Nigeria did not enroll into the scheme, not that they are ignorant or lacked interest but because of the following reasons.

1. Low pay: most of the employees in the private sector receive salary below the agreed minimum wage, most of them receive low payment, which amounts to nothing and low to procure a pension package at retirement.
2. Inadequate enforcement by pension regulation: over the years of existence of CPS, majority of the private firms have failed to abide with the pension laws and regulation by enrolling their workers, which is the sign of the regulatory weakness and inconsistency in checkmating the private sector activities and pension culture.
3. Low level of awareness: some of the private sector especially those that are not into government contracts are not aware of the CPS and all the benefits it possess. This contributed seriously to their non compliance.
4. Lack of support from Government: Private sectors in Nigeria often lack strong support from the government. The government does not support them by financing their businesses and making provisions for required resources they needed in operating and growing their business as a result of these most of them find it difficult to believe in any government programmes or participating in it.
5. Hostile business environment: Great number of the private sector operate their business in hostile environment as an impediment to their business growth, these includes poor infrastructure, bad economic situation, bribery and corruption, high exchange rate, high cost of living etc. all these challenges and bottle necks contribute to poor compliance.
6. The CPS regulations and Policies: The CPS regulation and policies contribute to some of the causes of non compliance by the private sector. First some private sectors find the bureaucratic nature of the scheme too tedious and difficult to assess the necessary certificate, license, registration and other permits needed to run the policy.
7. Insecurity:- Insecurity in the nation have reduced the rate of profit margin raised by the private sectors on daily transaction in various states. Some of these businesses have been shot down, some trade within three to four day in a week. Some of the business owners

no longer move from place to place to purchase, supply or provide services for their customers because of insecurity in the nation

The implication of noncompliance of Contributory Pension to both employer and employee

The implication to the employee is that many of these retirees would have to depend on their families for survival if they were not able to make other kind of savings while in employment or become a nuisance to the society.

The workers will not enjoy retirement comfort and financial security at retirement. In most cases most of them find it difficult to maintain family unity as the employee at retirement will turn to be a begger.

Private workers die without life insurance covers that guarantee death benefit for their dependents. Also majority of the employee of the private sector died as soon as they retired because of frustration, financial stress, illness and heartbreak while regretting their youthful productive years without retirement benefits.

The implication of noncompliance of contributory pension to the employer is as follows.

1. The employers will not be awarded of compliance certificate by the pension commission
2. The private sector that fail to comply will not be able to gain government contracts and supports of any form
3. Some of these companies may end up spending the money deducted from the employer's pension for their personal issues.

Conclusion

The private organizations that are yet to fully embrace the pension scheme must remember that it is mandatory for all the sector of the economy to contribute towards the retirement scheme. Though the commission is making good efforts to see that all the workers who have reached the retirement age, both in government and private sector enjoy their retirement benefits provided by pension. Government also need to provide all the necessary support by ensuring that our business

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environment is free from all manner of evils and difficulties that hinder the progresses and achievements of the private sectors, that contributed immensely to low compliance to contributory pension scheme. The private sector employees need a better life at old age. Government, commission and all the employer of labour in both government and private sector should put all hands on deck to ensure that those concerned are enrolled and make regular contribution for better and happy retirement age/benefits.

Recommendations

Contributory pension scheme Act (2014) is a well come development with multi benefits to the employees and employer in federal, state local government and private sectors in Nigeria. The management of the CPS needs to strengthen the scheme by adopting the following steps.

1. Proper enforcement of pension regulatory system:- The commission needs to train and empower competent and active supervisory teams to ensure effective compliance by the private sector. Also the penalty as prescribed in the paragraph (b) of subsection (5) of this section shall be implemented on any defaulter.
2. Improve awareness: Most of the private sectors in the country are not aware of the scheme and benefits they stand to gain as member of the CPS. Therefore the commission needs to devise a better means of educating the private sectors in all the state. They can achieve this by organizing radio and television programme, organizing seminar and internet adverts to make sure that their information get to every single employer in private sector, irrespective of their locations.
3. Government support: Private sectors in Nigeria need strong support from the government in area of funding and resources to improve productivity. These will enable them pay their staffs and make proper funding as required by the commission without irregularities.
4. Improve security in the state of the nation: Any Nation without good security to lives and properties of the citizen will go down the drain.

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The government should ensure that adequate security measures are put in place in all the state, local government and towns, to enable the private sectors operate their business and functions normal without fear of death, injuries or loss of properties as a result of insecurity.

The contributory pension, policy and registration: the commission should make sure that the CPS regulation, policies and registrations are less tedious and strenuous. It should be made in such away that the process involved in registration will be very easy and policy terms and conditions simplified for easy interpretation and understanding.

Improve the business environment: The Government should put in the practice of making out business environment look like that of the developed countries of the world. The government should improve on our infrastructure, power supply, strengthen the economy, tackle bribery and corruption and reduce high cost of living by subsidizing products in other to make the basic items needed by the citizen affordable. If 60% of all these challenges in our environment are modified, the private sector will find it very easy to contribute to the scheme effectively without delay.

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