# CONTRIBUTORY PENSION FUNDS AND WORKERS FINANCIAL SECURITY IN OGUN STATE, NIGERIA

**Ajala, A. M.**
*Department of Accounting, Faculty of Management Science,*
*Nnamdi Azikiwe University, Awka, Nigeria*
ambamajala@yahoo.com

**Abstract**
*An employee who has worked for an organization for some years is entitled to some benefits which could be in form of gratuity and pension payable to such employee by its employer or an agent at the time of retirement or withdrawal of service. This paper examined how contributory pension funds contribute to the financial security of civil servants in Ogun State. The descriptive survey research design of the ex-post facto type was used for the study. The population of the study was made up of civil servants in Ogun State, Nigeria. Purposive and random sampling techniques were used to select one hundred and eighty respondents from five ministries/departments. The main instrument used was a self-constructed questionnaire tagged "Contributory Pension Fund and Workers Financial Security in Ogun State, Nigeria" with three sub-sections. Mean, Standard deviation and One-way Analysis of variance (ANOVA) were used to analyze the data collected at 0.05 level of significance. Findings of the study show the contributory pension scheme has a significant effect on workers' savings. Also, contributory pension scheme has significant effect on workers' investment. Based on these findings, recommendations are: pension fund administrators should educate the public more; especially the civil servants on contributory pension scheme so that they can have more implicit trust in the savings plans of the commission. Also, there should be an increase in investment outlets of pension funds to ensure that investible pension funds are not limited to few investment classes which might lead to diminution of income of employees.*

**Key words:** Contributory Pension Scheme, Workers, Financial Security, Ogun State and Nigeria

**Introduction**

An employee who has worked or is currently working in a given establishment has some number of years to serve his/her employer to deserve some benefits which could take the form of pension or gratuity payable to the worker by the employer at the time of retirement. Pension is a sum of money paid regularly to a person who no longer works because of old age, disability or retirement or to his widowed or dependent children by the state, former employers or from provident funds to which he and his employer both contributed (Edogbanya, 2013; Adeoye, 2015) while gratuity can be taken to mean a lump sum of money payable to retiring officer who has served for a minimum of 5years (Oyinlola, 2000).

According to Oyinlola (2000), pension is the monthly payment made by a governmental organization to a retired officer/worker until his death after serving for a minimum of 10years and reaching the age of 45years in consideration for the past services he/she rendered during his/her working life at the organization, not only for the purpose of enabling him to sustain himself at his old age but also to afford him the opportunities or facilities, essentials and non-essentials which he had been used to while in service. Adegbayi (2005) views gratuity as the payment of a lump sum to an ex-employee at the period of retirement while pension is the payment of monthly stipends to a person who has retired from active employment or business engagement.

Workers' financial entitlement at retirement lies on payment of gratuity and commencement of pension scheme. It should be noted that gratuity is a one-and-for-all lump sum of money paid to an employee on retirement. A retiring worker can be entitled to gratuity only or both gratuity and pension of the pre-2004 pension contributory pension based on the years of service.

Pension scheme in the public sector (civil service, public services and statutory bodies)were governed by Pension Act of 1979, which was later replaced by the Pension Act of 1990 as amended by the Pension Regulations of 1991 (Dostal, 2010). Before 2004, Nigeria had operated specifically in public sector a Defined Benefit (DB) pension scheme that was largely unfunded, non-contributory, and pension and gratuity were salary related and financed totally by the government budgeting provisions on Pay-As-You-Go (PAYG) basis (Odia and Okoye, 2012). The Nigerian pension industry was regulated by the Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM) and the Joint Tax Board (JTB) (Dostal, 2010).

The pre-2004 pension contributory pension schemes were forms of savings for employees that were made available to the concerned retirees to invest in the future endevours and for their upkeep and wellbeing. It was hoped that these pension and gratuity would sustain old age of retirees, maintain family needs and other essentials of life. However, the exits pointed out the major weaknesses of the pre-2004 pension reforms to include: large-scale arrears of unfunded entitlement of retirees; inadequate budgetary provisions coupled with rising life expectancy; increasing number of employers, wages and pensions; inadequate supervision and regulation of pension system and massive accumulation of unpaid pension and gratuity up to two trillion naira as at 2003 (Olanrewaju, 2011;Dostal, 2010).These shortcomings adversely affected payments of retirement benefits to retirees in Nigeria and employees financial security.

**Literature Review**

According to Adams (2005), pension is the amount paid by government or company to an employee after working for some specified period of time, considered too old or ill to work or have reached the statutory age of retirement. Similarly**,** Ozor (2006) explained that pension consists of lump sum payment paid to an employee upon his disengagement from active service. He further stated that pension plans may be contributory or non-contributory, fixed or variable, group or individual, insured or trustee, private or public, and single or multi-employer. This implication is that pension or gratuity, if well managed, has a significant impact on employees' savings and investment in the present and future situations.

Furthermore, according to Amujiri (2009) and Ugwu (2005), there are four main classifications of pensions in Nigeria, namely, retiring pension, compensatory pension, superannuating pension and compassionate allowance. Retiring pension is usually granted to a worker who is permitted to retire after completing a fixed period of qualifying service usually practi**s**ed in Nigeria between 30-35years.Compensatory pension is granted to a worker whose permanent post is abolished and government is unable to provide him with suitable alternative employment. Superannuating pension is given to **a** worker who retires at the prescribed age limit of 60-65 respectively and compassionate allowance occurs when pension is not admissible or allowed on account of a public servant's removal from services for misconduct, insolvency or incompetence or inefficiency (Ugwu, 2006; Amujiri, 2009). This suggests that all the forms of pension discussed are targeted at giving retirees their supposed savings for investment in their new life after work.

The bad scenario within the pension administration led the Nigerian government in the year 2004 to introduce a pension system they believed would be sustainable and has the capacity to achieve the ultimate goal of providing a stable, predictable and adequate source of retirement incomes for each worker. This led to states to key into the new pension reform 2004.

It should be noted that the pre-2004 pension reforms and its attendant problems led to its replacement by the Pension Reform Act (PRA) of 2004 which ushered in a Contributory Pension Scheme (CPS) that is fully funded, privately managed and based on individual accounts for both the public and private sector employees in Nigeria (PENCOM, 2005). The Act established the National Pension Commission (PENCOM) as the sole regulator and supervisor of all pension matters in the country. Under the new contributory system, the employees contribute a minimum of 7.5% of their basic salary, housing and transport allowances into a Retirement Savings Account (RSA) and 2.5% for the military while the employers shall contribute 7.5% in the case of the public sector and 12.5% in the case of the military. Employers and employees in the private sector will contribute a minimum of 7.5% each. The advantage of the new pension scheme (contributory pension scheme) is that participants are allowed to open individual retirement savings account where contributions are accumulated till retirement. The scheme also permits members to make voluntary contributions as an additional percentage of their salaries into their individual capitalized account. Similarly, the mandatory equipment for Pension Fund Administrations (PFA) to provide regular/periodic statement of accounts to Retirement Savings Account (RSA) holders ensures that close monitoring of the account which could also guarantee quick report and correction of the errors. The implication is that PRA 2004 is expected to help remedy the deficiencies in the old pension scheme and guarantee better living for retirees.

Of importance is the fact that the contributory aspect of PRA 2004 ensures that the saving culture is imbibed by workers, which led to accumulation of capital that is needed for societal development. The incentives provided by Contributory Pension Savings (CPS) in form of tax incentives for employers and employees as well as voluntary saving helps to enhance the buying of mortgage properties (Adetola, 2006) which are aspect of employees' security. Also, since pension savings is long term, it is useful as a macro-economic tool for national development by enabling money to be in circulation for long term investments and provides funds to develop financial market which in turn promotes economic expansion (Nyong and Duze, 2011) and guaranteeing of workers welfare.

Since the introduction of the contributory pension scheme in Nigeria, one still doubts whether the scheme has been able to address the problem of scarcity of funds for long term investment in Nigeria. The mandate given to Pension Fund Managers to invest Pension Funds, 10years after the introduction of CPS scheme, there are still doubt**s** whether CPS will be able to address the problem of scarcity of funds for long term investments in Nigeria. Balogun (2006) and Ogumike (2008) expressed serious optimism about CPS potentials of mobilizing savings. Although the new reform is guided by the key principles of sustainability, accountability, equity, flexibility and practicability, there is also this fear that RSA contribution could be mismanaged by the PFAs. Also, the risk of a given portfolios determines the return thereof. Some Pension Fund Administrators do not have the necessary risk management profile while some fail to pay regard to rating signals needed for making sound investment decision. Empirical studies have shown that only about 10% of the working population has signed into the scheme in Nigeria. Again, low coverage of the scheme suggests that the scheme is still operating far below its capacity. The problems of corruption, poor monitoring, evaluation and supervision of pension funds still characterise the contributory pension scheme.

Availability of fund for investment has been a major source of challenge to the Nigerian economic growth and development and this has led different governments over the years to keep calling on advanced countries to increase their investment in Nigeria's economy. The decision of investment managers of the pension fund administrators who are responsible for this process impact greatly on the contribution value due to employees (fund owners). Sound investment and efficient management of the huge pension fund assets has great implications on the economy. The spread of large accumulated funds to the capital and money markets are employment opportunities creation which the CPS is directed to invest in (Asekunowo, 2009).

The new pension reform in Nigeria adopted by Ogun State Government is contributory with the intent of ensuring that every person who has worked in either the public or private sectors receives his or her retirement benefits when due. The reform aims at serving as social welfare scheme for the aged. This is by ensuring that workers save to cater for their livelihood during old age. To adopted contributory pension scheme is a fully funded pension scheme that generates adequate funds through certain percentage of contributions from monthly earnings by both employee and employer through a form of savings. Therefore, the 2004 contributory scheme aims at guaranteeing workers' future financing management and welfare through the operations. It is against this background that this paper looks at the impact of Contributory Pension Funds on workers' financial security in term of savings and investment. The following hypotheses were raised for the research:

**Ho 1:** There is no significant relationship between contributory pension fund and workers savings.

**Ho 2:** There is no significant relationship between contributory pension fund and investment by workers.

**Methodology**

**The Research Design:** The research design used for this study is the descriptive survey research design of the ex-post facto type. This method is suitable because data are collected from respondents without manipulating any of the independent and dependent variables.

**Population of the Study:** The population of this study was made up of all civil servants of Ogun State, Nigeria who have been on the contributory scheme for over five years.

**Sample and the Sampling Techniques:** Purposive and random sampling techniques were used for the study. Purposive sampling inclusive criterion was that the respondent must be a civil servant who had been on the CPF for at least 5years. Clustering was done according to Ministries/Department. Five big ministries/departments were purposively selected based on their employees' size and they are Agriculture, Education, Health, Works and Housing, and Finance. From each ministry/department forty top and middle level staff was randomly selected to give a total of two hundred respondents.

**Research Instrumentation:** The major instrument used for this study was a self-constructed questionnaire tagged "Contributory Pension Fund and Workers Financial Security - CPFWFS" with three sub-sections. Section A of the questionnaire elicited demographic information such as age, sex, marital status, work experience and education status from respondents. Sections B and C measured "Workers savings perspective" and "Workers investment perspective" respectively. Participants were asked to respond to a five point likert scale ranging from Strongly Agreed (5), Agreed (4), Undecided (3), Disagree (2) and Strongly Disagreed (1). 20 respondents from Osun State, who were also on the contributory pension scheme, were used to determine the reliability of the instrument though they are not going to take part in the research. The reliability co-efficient of the instrument yielded Cronbach alpha value of 0.78.

**Administration of Instrument, Data Collection and Data Analysis:** The consent of respondents was sought and got before being served copies of the questionnaire. The principle of confidentiality was followed in the process of data collection. Out of the two hundred questionnaires administered, one hundred and eighty were properly filled and returned for data analysis. Frequency counts and percentage were used to analyse the demographic data while Pearson Product Moment Correlation Coefficient mean, standard deviation and one-way Analysis of Variance (ANOVA) were used to analyse the hypotheses at 0.05 level of significance.

**Results and Discussion**

**Table 1: Sex of Respondents**

| Sex | Response | Percentage (%) |
|---|---|---|
| Male | 100 | 56 |
| Female | 80 | 44 |
| **Total** | **180** | **100** |

Table 1 showed that out of 180 questionnaires returned, 100 respondents were Male which gives 56% while 80 respondents were Female which gives 44%.

**Table 2: Rank and Level of Respondents**

| **Level** | **Response** | **Percentage (%)** |
|---|---|---|
| Senior Level | 75 | 42 |
| Middle Level | 95 | 58 |
| **Total** | **180** | **100** |

Table 2 showed that out of 180 questionnaires returned, 75 respondents are officers at senior level which give 42% while 95 respondents were middle level officers which give 58%.

**Table 3: Years of Experience in service of Respondents**

| **Years in Service** | **Response** | **Percentage (%)** |
|---|---|---|
| 11 – 20years | 50 | 28 |
| 21 – 30years | 70 | 39 |
| 31years and above | 60 | 33 |
| **Total** | **180** | **100** |

In terms of the years spent in the service, table 3 showed that 50 respondents had worked for 11-20years which gave 28% but 70 respondents had worked for 21-30years which gave 39% and 60 respondents had worked for 31years and above which gave 33%. The breakdown of the above showed that all the respondents were qualified and experienced in contributory pension scheme hence could take part in the research work.

**Hypothesis 1**: There is no significant relationship between contributory pension fund and workers' savings

**Table 4: Correlation between contributory pension fund and workers' savings**

| Variable | Mean | Std. Dev. | N | r | P | Remark |
|---|---|---|---|---|---|---|
| contributory pension fund<br><br>workers savings | 23.2944<br><br>28.5000 | 7.5596<br><br>10.8223 | 180 | .969 | .000 | Sig. |

It is shown in table 4 that there was a positive significant relationship between contributory pension fund and workers' savings ($r = .969$, $N= 180$, $P < .05$). This means that the null hypothesis is rejected. This hypothesis was further tested using one-way ANOVA. The findings showed that contributory pension fund has significant effect on workers savings ($F_{15, 164} = 1273.474$; $p < 0.05$)

**Table 5: Effect of contributory pension fund on workers' savings**

| A N O V A | | | | | | |
|---|---|---|---|---|---|---|
| Model | Sum of Squares | DF | Mean Square | F | Sig. | Remark |
| Between Groups<br>Within Groups<br>Total | 20786.538<br>178.462<br>20965.000 | 15<br>164<br>179 | 1385.769<br>1.088 | 1273.474 | .000 | Sig. |

**Hypothesis 2**: There is no significant relationship between contributory pension fund and workers' investments

**Table 6: Correlation between contributory pension fund and workers investments**

| Variable | Mean | Std. Dev. | N | R | P | Remark |
|---|---|---|---|---|---|---|
| contributory pension fund<br><br>workers investments | 23.2944<br><br>28.0278 | 7.5596<br><br>9.7782 | 180 | .966 | .000 | Sig. |

It is shown in table 2 that there was a significant relationship between contributory pension fund and workers investments (r = .966, N= 180, P < .05). This means that the null hypothesis is rejected. The hypothesis was further tested using one-way ANOVA to test the effect of contributory pension fund has significant effect on workers' investments. ($F_{15, 164} = 356.805$, $p< 0.05$)

**Table 7: Effect of contributory pension fund on workers' investments**

| A N O V A | | | | | | |
|---|---|---|---|---|---|---|
| Model | Sum of Squares | DF | Mean Square | F | Sig. | Remark |
| Between Groups<br>Within Groups<br>Total | 16606.015<br>508.846<br>17114.861 | 15<br>164<br>179 | 1107.068<br>3.103 | 356.805 | .000 | Sig. |

**Discussion**

The results (table 4 and 5) showed that contributory pension fund has impact on workers savings. Since the saving component of CPF is a direct deduction from employees salary plus employers percentage contribution are forwarded to PENCOM which subsequently are set to RSA and employees are notified immediately, employees are always happy that their saving for the future is guaranteed. The implication is that at retirement, there is hope for quick and regular payments of pension for their livelihood. The findings further showed that workers have seen the need for savings from their salary rather than wait on government for future payment of entitlement and that the issue of ghost workers collecting pension has been removed. This finding is negated by the findings of Musibau(2012) that there is no significant relationship between contributory pension scheme and savings. This finding is corroborated by Sule and Ezugwu (2009), that contributory pension scheme was a significant factor in enhancing the employee savings benefits.

The results in table 6 and 7 indicated that contributory pension fund has impact on workers investment. The investment package is a direct reflection on the employee that receives information on how the funds with the administrators are being used giving prompt information at regular times when investment is made on their behalf. The employee knows the interest and investment that are been done by PFA with internet account information. This finding is in line with Ahmed, Abayomi and Nureni (2016) that there is significant relationship between contributory pension fund and investment of workers. Furthermore, this finding is corroborated by Adeoye (2015) that contributory pension fund contributed by employees and employer has improved investment in the economy. This finding negates the findings of Achebe(1998); TI(2012); Essien(2012); Ettah and Michael (2014) that corruption of administrators of pension fund has affected the investment rate of clients over the years. However, the finding was also corroborated by Nwanne (2015) that pension savings has boosted capital market development.

On the whole the research found that employees at Ogun State were comfortable and satisfied with the introduction and implementations of the contributory pension scheme because contributory pension funds had significant effects on workers savings. Also, there was a significant relationship between contributory pension funds and workers investments.

**Conclusion**

The findings showed that majority of the respondents prefer to save in the contributory pension scheme in order for them to have a great retirement rest. The reasons are simple. Workers now have trust in the PFA and their future is in the hands of the pension fund administrators who manage their savings and invest same. Furthermore, findings shows that workers have been seen the need for savings from their salary and the issue of ghost workers collecting fund is not possible with CPF, this allow employee to have good savings for old age.

**Recommendations**

The following recommendations are made:

Pension fund administrators should educate the public more, especially the civil servants on contributory pension scheme so that they can have more implicit trust in the saving plan of the commission. Also, Pension Fund Administrators (PFAs) should be transparent and accountable in their dealings with their clients through regular update of their customers' account status. Finally, there should be an increase in investment outlets of pension funds to ensure that investible pension funds are not limited to few investment classes which might lead to diminution of income of employees.

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