TITLE PAGE

AN EVALUATION OF CONTRIBUTORY PENSION SCHEME IN NIGERIA, PROBLEMS AND PROSPECTS. A CASE STUDY OF SIGMA PENSIONS LIMITED, JALINGO.

BY

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DECLARATION

This is to certify that this project title an evaluation of contributory pension scheme in Nigeria, problems and prospects with particular reference to Sigma pensions Ltd as case study was written out by Salisu Ali Hamza in accordance to the stipulated standard set by the management concerned.

APPROVAL PAGE

This project thesis entitled ***"*An Evaluation of Contributory Pension Scheme in Nigeria, Problems and Prospects. A Case Study of Sigma Pensions Limited, Jalingo *"*** meets the regulations governing the award of a Postgraduate Diploma in Management of the Modibbo Adama University of Technology, Yola and is approved for its contribution to knowledge and literary presentation.

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DEDICATION PAGE

I dedicate this project to my offsprings (Halimatu and Fadimatu), So that it can be useful to you and your types the time you come of age. May your life be blessed by Allah, the great. Ameen.

ACKNOWLEDGEMENT

In the name of Allah, the Beneficent the most Merciful. Praise is due to Allah, the Lord of the universe, who has made it possible for me to write this project. In Him I trust for His grace in my life, inspiration and strength bestowed on me through the duration of this programme. May His peace and blessings be upon Prophet Muhammad.

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Eventually, I also request from Allah (S.W.A) to help me start and give me opportunity to finish the M.B.A. I intended to read.

My Allah guide us. (Ameen).

SALISU ALI HAMZA

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ABSTRACT

The main essence of writing this project can be traced to the problem faced by pension fund administrators relating to contributory pension scheme in Jalingo (particularly) and entire nation as a whole. This has been immensely causing the retard in growth with nation's economy since old pension scheme failed as a result of insufficient funds to pay benefits to retirees. The choice of Sigma pensions Ltd as case study is due to the fact that, as at 31st October, 2010. The company has opened over 500,000 RSAs, with over N100B (One Hundred Billion Naira) total asset under management. Hence a good determining position of knowing what new pension reform Act 2004 is all about. It is worthy to note that, the contributory pension scheme will instill a saving culture among Nigerians, which will create a pool of long term invested funds for the development of our financial markets and economy as a whole. Thus had a vital role in lifting the level of national income and wellbeing. The mechanisms employed in collection of data for analysis were survey and questionnaire. This seems most appropriate as respondent were given ample time to think very well before answering question put across them. It is part of the findings of this research project that, low income workers may never accumulate enough in their pension accounts to support themselves in their old age and early generations retirees are also not protected because it takes many years for enough pension capital to build up. More so, solution recommended to solve the bottleneck that hinders smooth pension fund administration relating to new pension reform in Jalingo (particularly) and Nigeria as a whole is figure out.

CHAPTER ONE

1.0 INTRODUCTION:

Pension scheme around the world have undergone and are still undergoing reforms in response to some challenges faced by governments and employers world wide in providing for the needs of retirees.

Challenges amongst others include:

i. Demography, arising from the increasing agedness of the working population;

ii. The trend towards pension system maturity;

iii. The economic and political consequences of a global slowdown in the rate of economic growth.

iv. Problems of high payroll taxes and tax evasion;

v. Misallocation of resources.

Around the world, most pension schemes are publicly managed and financed by payroll taxes on a Pay As You Go (PAYG) basis, with existing workers paying for the pension of the retirees.

In countries like Nigeria for example, the retirement benefits promised under the PAYG scheme have become a huge fiscal burden for the Federal Government in addition to the existing unsustainable outstanding pension liabilities estimated at N2 trillion. Reforming pensions would stem the growth of these liabilities and free up resources for government to develop other areas of the national economy.

Based on the major types of pension schemes and their underlying philosophies: how benefits are calculated, how benefits are financed, and who manages the system, several reform options exist for various countries based on their particular challenges and level of development. On this account, the federal government of Nigeria signed the pension Reform act into low on 25th June, 2004.The Act was essentially modeled after the contributory pension scheme (CPS) that had been in existence in Chile since 1981. It's major features include:

(i) Contributory
(ii) Individual accounts
(iii) Defined contribution
(iv) Fully funded
(v) Separation of custody of pension assets from investment management, and
(vi) Privately managed.

However, the above mentioned features of the 2004 pension reform does not exist prior to 2004.

Eventually, since the act affects workers, employers, other economic agents and the entire economy, it has become more important now, than ever before to analyze the contributory pension schemes from inception to date, in order to asses its impact on the Nigerian economy with hope of overcoming its problems in the near future.

1.1 BACKGROUND OF THE STUDY

The development of pension schemes in Nigeria can be traced to the beginning of organized workforces in the private and public sectors in the colonial era of the mid 20^{th} centaury. The first pension law in Nigeria was known as the pension ordinance of 1951 and provided for the full pension rights of colonial administrators and partial rights, granted at the discretion of the colonial Governor General for Nigerian workers in the colonial civil service at the time.

This ordinance transformed into the pension Act of 1958. In the immediate post-independent era, pension schemes in Nigeria were also guided by four other laws/ rules for certain categories of workers as follows:

- Non-Government certified Teachers superannuation scheme rule of 1968;
- Standard Directions for the Grant of Retirement Benefits to native Authority staff for Local Government Servants in Northern Nigeria.
- Uncertified Teachers superannuation scheme rules of 1973 and
- Federal Ministry of Establishments circular N0. 5. Of 1973 on Non-pensionable public servants.

Government employees in statutory corporations and state owned enterprises, such as central Bank of Nigeria (CBN), National Electric power Authority (NEPA), were covered by the pensions Act of 1958 and circular N0. 5 of 1973, while other commercialized enterprises like NICON Insurance and Nigerian Airways operated provident schemes that were non-contributory, similar to what existed in certain private sector institutions.

Federal Universities at the time had a separate pension system under the Nigerian universities joint superannuation scheme which was a provident plan with a minimum 15% contribution by the universities. The public sector funded schemes were generally more attractive than what obtained in the private sector due to higher level of funding.

The National provident fund (NPF) was established under an Act of parliament in 1961 to provide for income loss protection for employees as required by the international labour organization (ILO), Social security minimum standards of 1952, covering employees in the private sector only. The NPF was a contributory scheme with a minimum contribution of 6% of basic salary subject to a total minimum of 8% by employer and employee. The NPF metamorphosed into the Nigeria social Insurance trust fund (NSITF) in 1993. NSITF was a defined benefits contributory limited social insurance scheme. It started with an initial total minimum contribution of 7.5% of basic salaries, and was later revised in 2002 to 10% of total emoluments (basic, housing and transportation) shared by employer and employee.

Some private sector institutions also ran separate pension schemes apart from NSITF to augment the retirement benefits of their employees.

The 1979 pension Act.

In 1972, the Military Government of General Yakubu Gowon inaugurated the public service Review commission, popularly known as the Udoji commission. The Udoji commission’s recommendations led to the promulgation of the pension

Act No. 102 of 1979, and radically changed the remuneration of public servants and their retirement benefits. The Udoji commission's recommendations regarding the retirement benefits of public servants were hinged on the following cardinal philosophies:

- Payments of retirement benefits should be seen as a deferred payment;
- Retirement benefits of a qualifying public servant are his right and cannot be withheld, reduced or tampered with;
- Payment of retirement benefits will be on a non-contributory, pay As you Go basis from budgetary allocations;
- Public sector schemes should be modified and harmonized to promote mobility within the public service;
- Retirement benefits for existing pensioners should be adjusted as salary scales are changed for existing workers;
- The National provident fund should be strengthened to carryout its functions as a social security provider.

The pensions Act encompassed the Udoji commission recommendations, consolidated all enactments and circulars on pension in force prior to the Act, and repealed all existing pension laws that were in existence.

The main features of the 1979 Act were as follows:

- It was a defined benefits scheme paid out of the consolidated Revenue fund of the federation;

- It covered all public officers who held permanent and pensionable appointments, and retire in pensionable circumstances;
- Pension and gratuity are granted under the following circumstances:

(a) On voluntary retirement after qualifying services of 10 years up to 31 March, 1977 and 15 years since 01 April 1977 to 30 May 1992 and then to 10 years since June 1992.

(b) On compulsory retirement based on certain provisions of the 1979 Act.

(c) The scale of benefits is based on the officer's length of service and his last total emolument.

OTHER REGULATIONS AND REFORMS:

Besides the 1979 Act, there also existed laws for specialized groups within the public service, that were similar to the 1979 Act as follows:

- Armed Forces pension Act of 1979;
- The pension Rights of Judges Act of 1985 (amended in 1988 and 1991);
- Academic staff of Federal Universities Act of 1993;
- Police and other Agencies pension Act of 1992; and
- Police pension Rights of Inspector-General of police Act of 1993.

The 1979 Act continued to be the subsisting pension law for the public service of the federation, until the passing of the pension reform Act 2004.

THE CASE STUDY (SIGMA PENSIONS LIMITED).

Sigma pension limited was incorporated in August 2004; the company has in person Alh. Umar Moddibo as chief executive officer (CEO) with the sole objective of undertaking the business of pension fund Administration in accordance with pension reform Act (PRA) 2004 as regulated by the National pension commission (PENCOM). The company has an authorized share capital of One Billion, Two Hundred and Fifty Million (N1.25) Naira out of which Eight Hundred and Ninety Five Million (N895M) Naira is fully paid up.

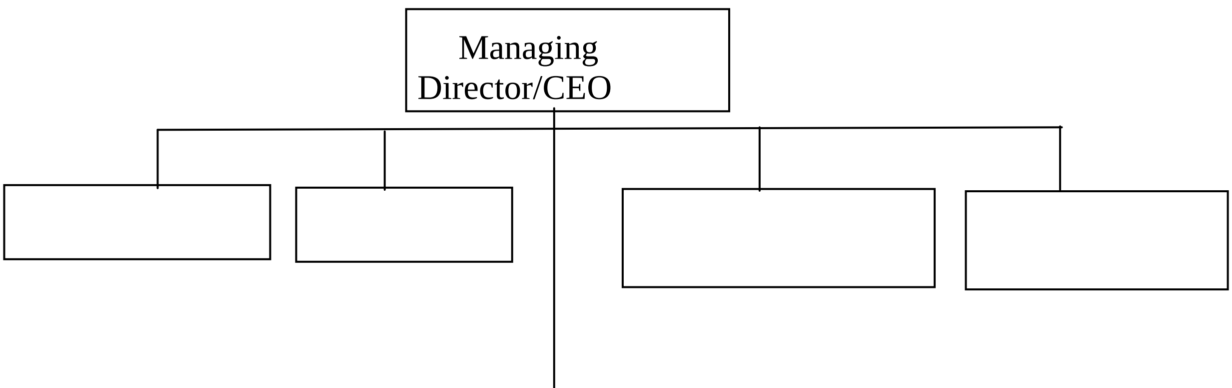
The shares of the company are held amongst others, by two foremost stock broking firms, namely Messrs Sigma securities and Heartbeat investment limited. Other shareholders include twenty one (21) highly distinguished individuals.

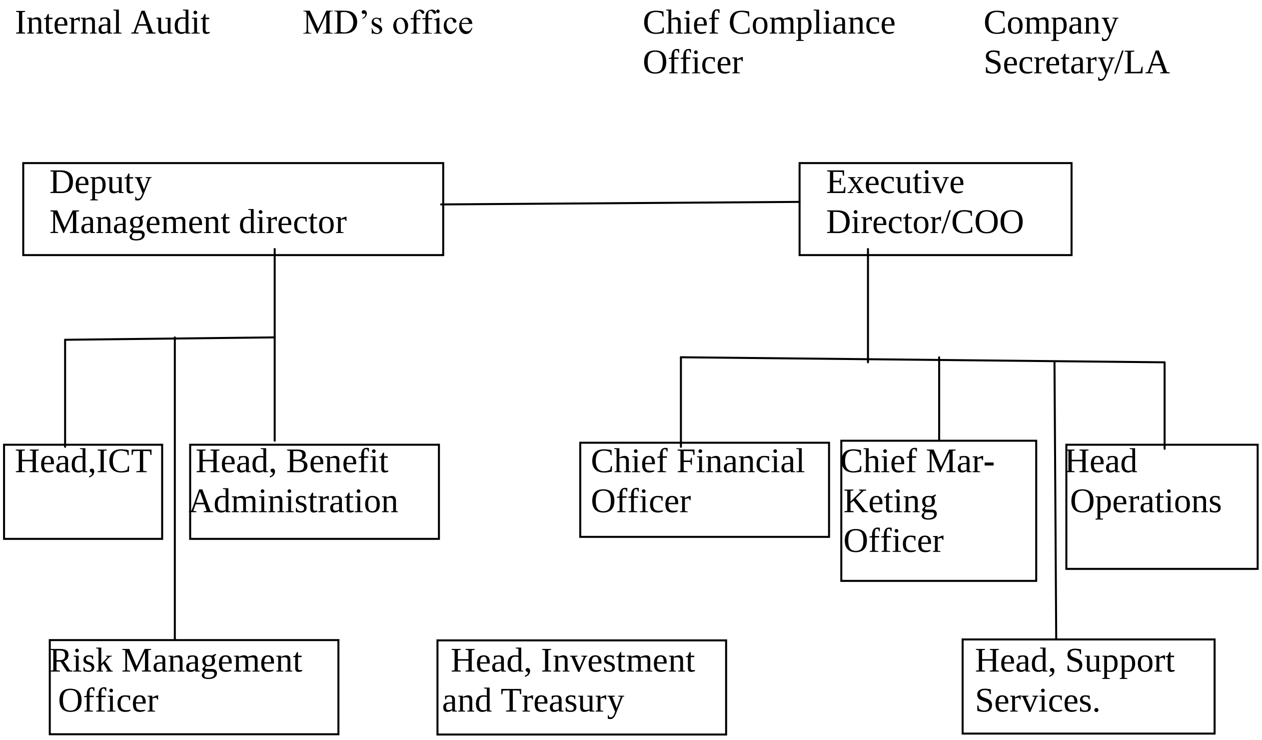
The Sigma pensions has the strategic vision of being the pension fund Administrator of choice. With strategic Mission of being one of the largest and most efficient provider of pension fund administration services to individuals and institutions alike while maintaining the highest level of trust and returns to all its stakeholders.

The services of the company include opening and management of retirement savings account (RSA), fund management, retirement benefit payments and pension management advisory services.

As at 31s October, 2010, the company has opened over 500,000 retirement savings accounts (RSA), with over One Hundred Billion (N100B) Naira total assets under management.

ORGANIZATION STRUCTURE OF SIGMA PENSIONS LIMITED.





1.2 STATEMENT OF RESEARCH PROBLEM

Workers in Nigeria today are very apprehensive of retirement. Normally, workers should look forward to the date of their final voluntary or compulsory disengagement from service with joy. They should see retirement as a transition from arduous labour to peaceful rest in life rather than in death. This is not so for several reasons, one of these is that, the gratuity of the workers is not paid soon after retirement and the pensions are not paid regularly by most employers.

Although, there have been in the past pensions and gratuities schemes which were built on contribution made by both employers and employees. However, study identified the problems besetting it, prominent among which are: the proportion of contributions by workers was duly and regularly deducted from their monthly emoluments that of the employers was not equally and regularly made to the scheme. Secondly, when the workers disengaged from service it become very difficult for them to have access to the fund. More so, the money was sometimes embezzled by the very persons who were entrusted with its management. Thus, retards the growth of the nation's economy.

1.3 OBJECTIVE OF THE STUDY

The study is carried out with following objectives in mind.

I. To know what new pension reform Act 2004 is all about.

II. To identify and discuss possible problems faced by the pension fund administrators (PFA) relating to new pension reform.

III. To ascertain the efforts made by the Sigma pension toward solving the problems and in making the new pension reform a success and reality in Nigeria.

IV. To examine the contribution of the new pension reform in relation to the contributory pension scheme towards economic development in Nigeria.

V. To widen the researcher's knowledge on the subject, which is hope would be an invaluable assistance in real life practicability of the researcher.

1.4 RESEARCH HYPOTHESES.

The hypothesis that this investigation sought to ascertain are as follows:

I. The new pension reforms 2004, ensures that any one who has worked in the applicable sectors receives retirement benefits as and when due.

II. The scheme will establish uniform set of rules, regulations and standards for the administration and payment of retirement benefits in the applicable sectors.

III. Employees find it much easier to claim for their benefits after retirement under the scheme.

IV. The contributory pension scheme will boost economic growth through investing the contributed fund within the Nigerian economy by pension fund Administrators (PFA).

1.5 SIGNIFICANCE OF THE STUDY

The importance of the research study can be stated below.

It identifies and discusses possible problems faced by pension fund Administrators (PFA) relating to new pension reform.

It acknowledges the efforts made by sigma pension toward solving the bottle neck of new pension reform.

It will also be of great significance in bridging the gap of knowledge that exist between PENCOM and retirees.

The beneficiaries of the study cannot be pin point to sigma pensions limited, but also, the study is expected to provide an invaluable reference material to the industry practitioners, researchers, students, teachers on the subject of pension and general reading public including the contributors and ultimate beneficiaries of the pension funds who need to develop an understanding of these issues.

1.6 SCOPE OF THE STUDY

The area of coverage for this research work includes the analysis of pension administration in Nigeria. Issues to deals with cross examination of the various pension schemes that existed in the country, which lead to the emergence of the contributory pension scheme (CPS) 2004.

Historical development of pension in Nigeria, right from the colonial and past colonial era, the 1951 ordinance to the pension Act of 1958, the 1979 pension Act and finally the 2004 new pension reform Act.

On the other hand, the division of the pension administration is another area of its coverage. Beginning with National Pension commission (PENCOM), the pension fund custodians and pension fund Administrators with Sigma pensions limited Jalingo as the case under study.

1.7 LIMITATION OF THE STUDY

The study is limited to availability of information as there is inadequate textbooks, journals and papers on the new pension reform. Act 2004 being a recently inaugurated Act, and time factor, which is of the constraint that limited the finding of this research.

More so, despite the assurance given to the staffs of sigma pensions, that, the study is purely academic; they do not want to reveal some relevant facts for the fear of such information being released to their competitors and also time for them to answers the questionnaire.

Another limitation encountered by the researcher was financial constraints, which affected the information gathering system including also the cost of stationeries for the qualitative production of this research work.

If not because of these listed constraints, the study could have gone beyond this level. However, all humanly possible effort had been made to surmount the limitations although; it does not in any way reduce the authenticity of the research work.

1.8 DEFINITION OF KEY TERMS

ACT: A law that has been officially accepted by the government of a country, particularly a democratically elected government. It must have passed the deliberations by the parliament and signed into law by the executive.

CONTRIBUTORY: Any amount especially of money given to help make something successful, or will help to pay and make part of something; Being part of money brought forward either by employer or employee in the new pension scheme.

ECONOMY: the system by which a country's money and goods are produced and used or a country considered a capitalist, socialist or mixed. It is the careful saving of wealth so that nothing is wasted and less money is spent.

FINANCIAL MARKET: Financial market deals with the creation and the transfer of the financial assets and liabilities under two types of market (money and capital market). Money market is the market where instruments that mature within year or less are traded e.g. treasury bills, treasury certificates, commercial papers etc. While capital market is the market where instruments that mature in more than one year are traded e.g. loan stocks, debentures, preference shares, e.t.c.

INVESTMENT: the use of money to make a profit or make a business successful. Represents the asset (fixed or current) used to make further enterprising and profits.

PENSION: Money that the government or a company pays regularly to someone who does not work any more when they are old or ill. Payment to a worker during the retirement phase of his life to ensure his sustenance and that of his beneficiaries.

REFORMS: To change a law system, or organization so that it is fairer or more effective. It is made to a political or legal system in order to make it fairer or more effective. The adjustments made in an existing legislation to suit the current realities of the day.

PENSION SCHEME: This is an official plan design and implemented by the government to administer and monitor the operation of pensions in a country.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION:

As people grow old, work and produce, they earn less but people need a secured source of income that will see them through life. The pension system in Nigeria was largely characterized by Pay-As-You –Go (PAYG) defined benefit in the public sector, which is a non contributory pension scheme and was circumscribed by many problems. These problems really contributed a set back for the scheme as they include non availability of records, uncoordinated administration, inadequate funding, outright fraud, irregularities and conflicting laws, diversion of remitted or allocated fund, presence of ineligible pensioners on the pension payroll and incapacity to effectively implements budget and make adequate provisions. Thus, became imperative to embark on reform to restore the hope of the pensioners and entire Nigeria workers.

The federal government of Nigeria in 2004 brought about a change in the management and administration of pension funds in Nigeria with the enactment of the pension reform Act 2004.

The Act introduced the new contributory pension scheme (CPS) in the public and private sectors. The Act further brought about the establishment of the National pension commission (PENCOM) to regulate, supervise and ensure effective administration of pension matters in Nigeria. The commission will achieve this role by ensuring that payment and remittance of contributions are made and beneficiaries of retirement savings account (RSA) are paid when due. Above all, the commission will ensure the safety of the pension funds by issuing guidelines for licensing, approving, regulating and monitoring the investment activities of pension fund administrators and custodians (Ahmed, 2006).

Gbitse (2008), say "Pensions represent a payment to a worker during the retirement phase of his life to ensure his sustenance and that of his beneficiaries after the active phase of working life". To understand this system better it would be better for us to discuss the pension scheme itself.

2.2 THE MEANING OF PENSION SCHEME:

Philip (2011), defined pension as a periodical payment and/or a lump-sum reward on a contractual legally enforceable agreement between an employer and employee or any other sum payable gratuitously by the government, employer of labour or a company to its employee in the consideration of past services rendered upon cessation of employment. He added that, pension is critical to how a worker live after retirement. It is therefore the right of the worker on how his pension works, what changes that may be made by his employer, how secure is the fund.

Puffert (1988), describes pension as publicly administered set of programmes which provide for people in the event of loss of income (due to retirement, disability, death of a breadwinner, maternity, work-related injury or unemployment) and often in the event of need for medical care or the expense of raising children.

Schwarz (2006), inferred that, pension is system designed to provide an income to those individuals who suffer a loss in earnings capacity through advanced age, the experience of a disability, or the death of a wage earner in the family. While in some cases, the system is designed to facilitate direct transfers from the government to these particular target groups, and the emphasis is on providing a mechanism whereby the individual might insure himself against the loss of future earnings.

The World Bank (2004), saw pension as a developed mechanism to provide income security for older citizens as a part of safety net.

2.3 OBJECTIVE OF PENSION SCHEME:

Pension schemes exist to achieve several objectives, the most paramount of which are:

(1) Social security: in this regard, pension schemes exist to ensure that people receive some income in there old age to take care of them selves and any dependents. For example the Nigerian pension reform Act 2004 has assurance of retirement’s benefits and assisting improvident individual save for their retirement as part of its cardinal objectives.

(2) Encouraging work, ethical behavior and worker productivity: The existence of pension schemes ensure that people are encouraged to work because their lifestyle in retirement is taken care of. Also in developed economies struggling with massive corruption and for certain categories of employees, a Defined Benefit system may give reasonable assurance and encourage ethical behavior. Worker productivity may also be enhanced by Defined contribution schemes that encourage worker

productivity as contributions are enhanced by promotions, wage increases and additional income, which may be tied to productivity.

(3) Encouraging saving: Individual and collective savings are key to individual and family wealth creation as well as national development. Contributory schemes ensure that a savings culture is instilled, and leads to capital accumulation that is required for societal development. The incentives provided by contributory pension schemes like tax incentives for both employers and employees, as well as for voluntary contributions further encourage savings among workers.

2.4 PRINCIPLES OF PENSION SCHEME

Pension schemes in modern times are often founded on the following principles.

i. It should be fully portable, and should attract no transfer costs when switching jobs or pension managers. Under the Act 2004, this principle is practiced with ease of transfer of RSA to any PFA at no cost.

ii. It should offer a realistic replacement rate, and provide additional benefits such as disability benefits, life insurance, etc.

iii. Employers should treat all employees equally, especially in terms of contribution rates and benefits irrespective of seniority, i.e in Nigeria previously, the basis for calculating benefits for Army Generals differed from those of ordinary army personnel, and so did that of permanent secretaries, compared to other civil servants.

iv. Additional voluntary contributions should be allowed to encourage workers to augment their retirement benefits.

v. Benefits and contribution must be easy to understand and calculate.

vi. Asset of pension funds must be held in safe custody, perhaps with an independent custodian.

vii. Competitive pressures and economics of scale will ensure that distribution, administration and investment management services will be provided efficiently and at law cost.

viii. Information about pension schemes, including performance and fees must be open and publicly available.

2.5 TYPES OF PENSION SCHEME:

Pension schemes can generally be categorized as defined Benefit (pay-As-you-Go) scheme and defined contribution (contributory pension) scheme.

(a) Defined benefit schemes are schemes that promise a specific level of benefit at retirement based on final emolument and number of working years. In this type, the scheme sponsors, usually the government or employers set aside funds to provide for these defined benefits.

The schemes require actuarial valuations to ascertain the “funding gap,” i.e. the difference between the scheme’s assets (funds) and its liabilities (promised benefits)

Schwarz (2006), said that under the Pay-As-You-Go scheme, current workers make contributions based on their current earnings and contribution is used to pay current recipients. The worker who is making the contribution only receives a promise from the government that it will pay benefits related to these contributions when the worker become eligible for a pension.

With regard to the pension benefit under this scheme, the pension received is usually a function of income expressed as a percentage of income per year of contribution, the benefit provided is specified in some way and if financing fall short, some one, typically either the government in public plan or the employer in an employer-base plan, have the responsibility to provide the pension.

Amin (2007), stated that, in Nigeria the defined benefit otherwise known as Pay As You Go is mostly unfunded. He also added that, the scheme has a limited coverage and benefits are usually bias, payments depend on years of service and retirement age is put at either 35 years in service or when one attains 65 years of age whichever one comes first. This scheme was faced with some bottlenecks such as lack of adequate funding, discrimination in coverage, poor record keeping, demographic shifts and weak administration. These bottlenecks made the government abandon the system, and re-introduce another pension scheme called defined contribution.

(b) Defined contribution scheme on the other hand are schemes where employers and employees make contributions, usually a fraction of emoluments or a specified amount on a periodic basis, usually as incomes are received (daily, weekly or monthly). The contributions are invested in financial instruments and the level of contribution, which may be variable, especially where voluntary contributions are allowed, and on the investment income determines retirement benefits. There is therefore no certainty as to the level of retirement benefit in a defined contribution scheme.

According to Barr (2001), under defined contribution scheme workers are required to contribute a percentage of their salaries to the pension plan, with employer making up the difference, this type is known as the Mandatory Retirement Saving Scheme. This type encourages long-term investment, and the risk is borne by the workers. For instance, if people live longer than expected, they may outlive their retirement saving.

Schwarz (2006), said that, under this scheme, the contribution is specified as a percentage of salary, and rates are specified for employees, employers, and potentially, the government, but the final pension benefit is determined by the amount in one's pension account at the time of retirement, which includes both contributions and the investments earnings in those contributions.

Amin (2007), stated that,, in Nigeria under this pension system, benefit is attached to workers contribution and contribution are invested, rather than spent, the invested contribution would be used to pay workers benefit. The scheme is still new, deductions have started and it is 15% of emolument. Employees are expected to contribute 7.5% of their emolument charged on basic salary, housing and transport allowances, while the government contributes the balance of 7.5% for public sector. In case of military, it is 2.5% and 12.5% for employees and government respectively. He added that, this scheme is also faced with some risk and it is borne entirely by the individual worker. For instance, the scheme does not protect workers with interrupted careers, many of whom are women who spend part of their lives doing household work; low income workers may never accumulate enough in their pension accounts to support themselves in their old age; early generation retirees are not protected because it takes many years for enough pension capital to build up; economic instability, inflation and devaluation of the nation's currency can also produce a large negative rates of return on the funds which can cause dissatisfaction among the contributors. Beside some contributors may outlive their pension contribution, and government has not also provided a clear cut guideline on how it would harmonize the Pay-As-You-Go with the defined contribution system in the country.

However, Ahmad (2010), emphasizes that, the contributory pension scheme is mandatory in nature while funds are privately owned by contributors. The industry has continued to consolidate as 4.3 million Nigerians had registered on the scheme as at end of July 2010. Also, there are currently about 23,000 retirees from the public and private sectors under the contributory pension scheme that have collected over N65 billion as lump sum and are collecting over N800 million as monthly pension.

He added that, assets worth N1.77 trillion has been accumulated as at the end of July, 2010. Hence, the commission has been making efforts with a view to ensuring prompt payment of retirement benefits as well as promoting a vibrant and sustainable pension industry that will positively impact on the economic development of the nation.

2.6 SIGNIFICANCE OF PENSION SCHEME:

Institute of interdisciplinary business research (2009), opined that, pension scheme in most developing countries have growing reserved funds, which finance much of governments' deficits, and also sometimes provide a pool of investment capital which furthers economic development. For instance, the mandatory saving system (contributory pension scheme) can be important for increasing long-term saving accelerating capital market development, development of modern financial investment and institutions, boosting investment in productive capital, and monitoring corporate performance. This advantage is possible because of the way pension funds, most especially defined contribution are invested. (See also Puffert, 1988).

Explaining the importance of pension scheme, the World Bank (2004), Opined that pension scheme is important to the old and the economy. To the old, it facilitates people's effort to shift some of their income from their active working years to old age, by saving or other means; redistribute additional income to the old who are lifetime poor but avoiding perverse intergenerational redistributions and unintended intergenerational redistribution, and providing insurance against many risks to which the old are especially vulnerable. The importance to the economy includes minimizing hidden costs that impedes growth such as reduced labour employment, reduced savings, excessive fiscal burdens, misallocated capital, heavy administrative expenses and evasion, sustainability based on long-term planning that takes account of expected changes in economic and demographic conditions.

The Bank also emphasizes that, there are strong advantages from international diversification of pension scheme most especially the invested pension funds of contributory scheme, particularly for countries with small or concentrated domestic economies. Lower risk and sometimes higher returns are possible over the long-term through international investment, which reduces the exposure of investors to country-specific risk such as inflation. This system also gives country an opportunity to move their capital to countries that offer the highest return, thus opening up the domestic economy to become part of the global economy.

Schwarz (2006), also noted that, pension schemes often have substantial impact on the economy in which it exists, because it can affect poverty among the elderly, they can also affect relationship between younger and elder cohorts, as well as family living arrangements, they also have a substantial impact on labour markets and employment, particularly if they are financed through the contributory schemes. The pension scheme can also impact on national savings and development of financial markets, they can affect the composition of government spending by squeezing out other types of spending, and they even affect the overall level of government spending.

Empirical evidences on contributory pension scheme (CPS) are well documented. For example, the scheme was reported to have increased savings. In some developing countries like Chile, Malaysia and Singapore and thus has imparted positively on their Gross Domestic product-GDP (Institute of interdisciplinary business research, 2009).

2.7 PURPOSE OF PENSION REFORM ACT 2004:

The Act applies to all employees in the federal public service, Federal Capital Territory Administration and in the private sector where the institution has up to five employees ("the applicable sectors"). The objectives of the Act are:

1. To ensure that any one who has worked in the applicable sectors receives retirement benefits as and when due.
2. To assist improvident individuals by ensuring that they save to cater for their livelihood during old age; and.
3. To establish uniform set rules, regulations and standards for the administration and payment of retirement benefits in the applicable sectors. (Government of Nigeria, 2004).

The third objective therefore, establishes the National Pension Commission (PENCOM) as the single regulator of the industry and empowers it to license and regulate operators and also develops rules, regulations and guidelines for the industry and all parties concerned with pension funds in Nigeria.

Prior to the Act, multiple jurisdictions existed for the regulation of pension funds in the public sector and private sector, which led to the inefficiencies and administration that most pension funds suffered.

2.8 ESSENTIAL FEATURES OF THE ACT AND THE CONTRIBUTORY PENSION SCHEME (CPS).

1. CONTRIBUTORY: the Act establishes a CPS in which employers and employees make funded contributions on a monthly basis, subject to a minimum of

15% of the employee's total emoluments (housing allowance, basic pay, and transportation allowance). It also allows the employer to bear the full burden of the contributions, subject to the minimum of 15%. Employees may also make additional voluntary contributions to augment their Retirement saving accounts (RSAs), and their retirement benefits.

2. INDIVIDUAL ACCOUNTS**:** Each contributor under the scheme is required to open a RSA with a pension fund administrator (PFA) of his choice. The RSA holder is uniquely indentified with a personal identification number (PIN) issued by PENCOM at the point of initial registration. The RSA is portable, and can be carried by the employee as he/she goes, through several employers through his/her career.

The RSA reflects all the contributions belonging to an employee, as well as income and returns on the funds. The only exception to an individual RSA is where employees have opted to participate in a PENCOM-approved scheme sponsored by his employer.

3. DEFINED CONTRIBUTION**:** Unlike a defined benefit (DB) scheme, the Defined contribution (DC) scheme entails that the retirement benefit that would be received as a function of the contributions made over the employee's working life, the investment return earned on it, and the withdrawal mode selected at the retirement. Retirement benefits are therefore enhance by aggressive contributions, quality investment management and provident choices regarding withdrawal modes. The Act also allows for the continuation of hitherto existing DB scheme subject to

PENCOM approval. However, employees may opt of such approved DB scheme and choose to participate in the DC scheme.

4. FULLY FUNDED: The schemes under the Act consisting the DC schemes and approved DB scheme must be fully funded at all times. For the DC schemes, the monthly funding is done by the employer on behalf of itself and its employees, while for the approved DB schemes, pension funds must be fully funded on a discontinuance basis at the end of year valuation.

5. PRIVATELY MANAGED: The administration and custody of pension fund assets is vested in privately managed and licensed PFAs and pension fund custodians (PFCs). The PFAs and PFCs must show competence in managing and holding custody of pension fund assets, prior to their licensing, and are continuously regulated by PENCOM in this regard.

6. SEPARATION OF CUSTODY OF PENSION ASSETS FROM INVESTMENT MANAGEMENT: To ensure the integrity of the scheme, the role of administration and investment of pension funds is separated from that of custody of pension assets. PFAs are responsible for administering the RSAs and directing the investment of pension funds, while the PFCs receive contributions, and have custody of the investment instruments, and titles to securities.

7. DISCRETIONARY, YET REGULATED INVESTMENT MANAGEMENT: PFAs use their discretion in making investment decisions for their RSA holders in line with the Act, and investment guidelines issued by PENCOM from time to time.

8. UNIFORM WITHDRAWAL MODES: The Act prescribes Uniform withdrawal modes for RSA holders under the CPS. The withdrawal mode are protective and offer retirees options including lump-sum payments with either programmed withdrawals and annuities or just programmed withdrawals or annuities.

9. TECHNOLOGY BASED OPERATIONS: The operations of PFAs, PFCs and PENCOM are highly technology driven. The process of registration, access to client information and reporting are IT based. The use of technology ensures transparency and efficiency of the system. It also ensures a robust and efficient regulatory and supervisory framework.

10. COMPULSORY LIFE ASSURANCE POLICES: Employers are required to provide life insurance policies for all employees up to a minimum of three times their total annual emoluments.

11. SINGLE REGULATOR: the entire system of retirement benefits is regulated by PENCOM.

2.9 BENEFIT OF THE ACT:

The CPS is a marked departure from what existed previously in the country, and such schemes are being embraced world-wide as a veritable means of ensuring that workers receive their retirement benefits, and that employers, including the government are able to meet their obligations to their workers. Prior to the Act, the federal public service operated on unfunded non-contributory defined benefit PAYG scheme. Also, some institutions in the private sector operated similar schemes, while a few operated funded contributed schemes. A great majority of the private sector however, did not operate any pension or retirement benefit scheme for their workers. Public sector pension scheme were also plagued with deficits and late remittances to pensioners who had to go through great troubles to receive their benefit.

The main argument in favour of a funded contributory scheme compared to what obtained previously, is that retirement benefits due to workers under a funded contributory pension scheme do not suffer the payment risk associated with the illiquidity or ill-health of the employer.

In a PAYG scheme, the retirees may or may not receive their benefits depending or whether or not their employer, for example, government has sufficient cash resources at that time to make the payment. However, in a funded CPS, thus payment risk of the employer is eliminated or at least it can be ascertained early during your working life, and defaulting employers can be compelled to fund the RSAs. In a funded CPS workers are guaranteed retirement benefits, which consist of the contributions made over time and the investment income accruing to their RSAs. Therefore the delays in the release of retirement benefits to pensioners caused by bureaucratic bottlenecks, and approval procedures will be eliminated as retirement benefits will be paid out directly from these funded retirement saving Accounts (RSAs).

Gbitse (2008), advanced the following benefits to be derived from the Act.

CHOICE AND PORTABILITY**:** Employees determine which licensed PFA is responsible for managing their RSAs, and the RSA belongs to the employee, and can be moved from one job to another. Employees may also switch from one PFA to another, should they be unsatisfied with the level of service or investment returns of their PFA.

PROTECTIVE WITHDRAWAL MODES: the withdrawal modes prescribed by the Act require workers to be at least 50 years old to gain access to the RSAs, except in circumstances of early retirement (terms of employment, medical advice or disability). 50 years not related to 35 years of service or 65 years of age.

Modes of withdrawals include a programmed monthly or quarterly withdrawal or annuity for life purchased from life insurance company with monthly or quarterly payments or a lump-sum withdrawal provided that the amount left after the withdrawal shall be sufficient to procure an annuity or fund programmed withdrawal that will produce an amount not less than 50% of employee's annual remuneration as at the date of retirement. If under 50 years, lump-sum withdrawal is 25% provided that no employment is secured within six (6) month. These requirements will ensure that retirement benefits are only available to workers during their old age. It would also ensure that adequate funds are available on a continuous basis to meet recurrent expenditure of retirees throughout their life.

TAX BENEFITS: Pension contributions are not subject to tax for the employee under Nigeria's Pay-As-You-Earn (PAYE) tax system. The pension contributions are tax deductible before the computation of your PAYE. Therefore, if your gross salary is N50, 000 and your pension contributions are N7, 500, you will only be assessed tax based on N42, 500. For the employer making contributions, contributions are tax allowable expenses also for the purpose of computing companies Income Tax.

SOCIAL AND ECONOMIC BENEFIT: The scheme also empowers the Nigerian worker, by given them the choice as to how their pensions are managed and the assurance of their retirement benefit. It also enhances labour mobility, as workers can move freely from one employer to another without any encumbrances on their retirement benefits, and without having to forfeit their retirement benefits should they work for a relatively short period in one institution. The Act will also instill a savings culture among Nigerians, which will create a pad of long term investible fund for the development of our financial markets and economy as a whole. The life insurance cover for employees will also improve staff welfare and promote worker commitment and loyalty and provide adequate cover for a workers family should he/she die in service.

A TECHNOLOGY DRIVEN AND USER FRIENDLY SYSTEM: the system that has been developed by PENCOM and the licensed operators is information technology driven, and allows contributors access to their account balances through the internet and other technology driven plat forms. Efficient customer service and good investment returns are at the heart of the scheme, and the PFAs that have been licensed have had to put in place systems, personnel and products that ensure that contributors can gain easy access to their retirement benefits overtime, and receive their retirement benefit with ease.

For the Nigerian worker, it means that there would be no long queues, or requirements to travel long distances to get their pension payments or even to present themselves for periodic pay parades.

PRUDENT INVESTMENT GUIDELINES: the Act also stipulates investment guide lines for the management of pension fund assets and requires that PFAs adhere strictly to these investment guidelines that seek to ensure the security and quality of pension fund assets. The investment guidelines generally specify the broad asset categories that are permissible, and also include maximum exposure limits for each asset category. The guidelines specify that assets are invested in investment grade securities issued by institutions with a track record of performance and quality ratings. PFAs are required to be prudent in the management of pension funds, and PFCs are expected to diligently monitor the investment decisions of the PFAs and provide a guarantee as to the security of pension fund assets. It is expected that these guidelines will ensure that contributor's funds are securely invested and will yield sufficient returns to meet the retirement needs of the workers.

Pension assets would therefore be invested in a manner that there is reasonable diversification to reduce the risk of long-term investment assets, and that asset allocation among the broad asset classes of money market, capital market and real estate reflects the need to created liquidity, to meet withdrawal needs at retirement. On the other extreme also, pension assets should not be exclusively placed in investments that yield returns that can not compete with the level of inflation in the economy to ensure that the pension contributions are achieving “real” inflation adjusted growth.

Philip (2011), Stressed that, the benefit of the Act cannot be overemphasized. That through the Act the contributory pension improves living standards of the elderly, secures financial autonomy and independence of retirees. Improves labour market, reduces incentives for early retirement and increases supply of labour. Also it reduces unemployment, increases coverage of pension scheme and promotes labour mobility as retirement savings accounts (RSAs) are portable.

He added that, there is also clear impact on the Nigerian capital market, since it generates long-term savings (Compulsory savings, tax incentives and desire for increased retirement benefits), promotes bond and equity markets thereby developing the financial market and demands. Raises productive capital formation that positively impacts on GDP growth. Triggers positive qualitative factors: Privatization modernization of capital market infrastructure (trading, settlement system), creation of domestic institutional investors (PFAs/PFCs) with long-term focus, would moderate stock market and price volatility. More efficient avenue for financing government(s) long-term borrowing needs through infrastructural bonds.

PENCOM (2008). Also noted that Nigeria stand to benefit from the Act. In the first instance, it addresses the pension liability by stemming its further growth and provide a plat form for addressing this liability. Since the individual own the contributions, the pensioner is no longer at the mercy of government or employer and is assured of regular payment of retirement benefits. Employee has up to date information on his RSA. The provision of the Act allows the contributor the freedom to choose who administers his retirement benefits account and this promote competition among the PFAs. The scheme under the Act, imposes fiscal discipline on the nation and is a solid foundation for economic development. There is an expansion of convertible funds, creation of a huge pool of long term funds and enhanced accountability. The Act introduces clear legal and administrative sanctions and there is a provision for separation of investment, administration and custody of assets. Transparency is also ensured by the requirements for published rate of returns, regular statements of contributions and earnings and annual audited accounts.

2.10 COMPERATIVE ANALYSIS ON THE NIGERIAN PENSION SCHEME AND OTHER COUNTRIES:

Pension system is not new in the country (Nigeria) but the way it was operated posed a threat to the people concerned and did not render to the economy the long term funding benefit that pension fund could bring. Most scheme were under or unfunded. Unsustainable outstanding pension liabilities estimated at N2 trillion (Ahmed, 2010). Weak and inefficient administration demographic shifts and aging make defined benefit scheme unsustainable. Most workers are not covered by any form of retirement benefit arrangements. Thus, the country’s pension system now went through a reform which led to the emergence of contributory pension scheme (CPS) in accordance to pension reform Act 2004. The Act was essentially model after the contributory pension scheme that had been in existence in Chile since 1981.

The Nigerian policy makers were of the view that, if a Chilean-type pension system could be established in their country, Nigeria would enjoy the same benefits that, in their eyes the 1981 reform had brought to Chile.

Therefore, the comparative analysis will be restricted to the Chilean model only, and the literature will carefully describe the reform, examines the reasons why the reform was seen as essential and the manner of operation of the new system in terms of coverage, entitlements and regulation. And finally, it will also assess the reformed pension system in Nigeria.

Chile might seem an unlikely candidate for Nigeria to look to in seeking a model. It was not contiguous with Chile (or even in the same continent). The only similarity is that, when the Nigeria pension reform was initially conceived, the country was ruled by a military dictatorship, as was Chile when the pension reform was carried out.

Moreover, by the early years of the millennium. When the Nigeria government was giving serious attention to pension reform, the Chilean model was being criticized not only by those who favoured more collectivist or redistributive approaches to pension provision but even by the WORLD BANK. The Bank had comes to recognize that reforms along Chilean lines had not always delivered the benefits that were proclaimed in them at the outset, that too many assumptions had been made, and that to realize the benefits that were claimed for it, other reforms were also required-reforms that at best complement, or event preceded pension reform (World bank, 2004).

In Chile, itself, dissatisfaction with the existing system, in terms of its cost and its failure to make adequate provision for many of the old, had been a persistent theme of the winning candidate's campaign in the 2005-2006 presidential elections. By the end of 2005, the new administration was announcing wide-ranging changes to pension provisions, placing greater emphasis on solidarity and tax financing and tighter controls on the operation of the providers of the individual accounts to which employees are required to subscribe (SAFP, 2003). In this respect, Nigeria seems to be at the very end of the ogive-or-s-shaped path of policy dispersion.

The pension reform project, itself, appears to be initiated as early as 1996. It was an element of the vision 2010 report that was to chart the way forward for the country, giving the goals that were to be reached by the time the country had achieved the 50th anniversary of independence (pension subcommittee, 1997). Those who drew up the blue-print for pension reform in 1996 and 1997 made an inventory of other countries system, much as do policy advisors elsewhere. In their end report, they presented the pension system of Ghana, a neighbor; UK, the former colonial power; the United States, a dominant world power and of Chile (pension sub-committee, 1997). When proposing the way forward, the report was emphatic that a Chilean-type system provided the solution. This decision was justified with the arguments that pension were "instrument for the promotion of economic growth and development" and continued.

The publication of the report was not immediately followed by action. In deed action of any sort came only after the military regime that had commissioned it gave up power, and following election in 1999, a civilian government took office. The new government formulated its own programme for economic and political renewal under the title of NEEDS (national Economic Empowerment and development strategy), although it did acknowledge the “core values of the strategy drawn on the vision 2010 report (Government of Nigeria, 2004). As did its predecessor, NEEDs emphasized macro-economic stability, put poverty reduction at the forefront, and pledge reform of public services, an intensified fight against corruption and an increasing role for the private sector. However, it was not until 2003 after the president had been re-elected for a second term, that pension reform itself was handled in a serious fashion.

1. REASON FOR THE REFORM: To a limited extent, there were some similarities between the reform pension system of Chile and Nigeria. The most notable of these was the way in which each system was rather fragmented. Since the introduction of the first public pension in Chile in 1928, numerous additional schemes were legislated for. By 1980 there were some 32 different pension schemes and under these nearly 100 different plans. Although three schemes accounted for the majority of contributing members (private sector blue collar workers, private sector white collar workers and public sector employees). The scheme for public sector workers was the most favourable of the three in terms both of retirement age and of benefit calculation formula (SAFP, 2003). In addition to the three main schemes, there were special schemes for specific occupational groups, (of which the most important, quantitatively, was the scheme for the military) and the privileges available under these schemes were substantial. The cost of the military pension has been estimated to be almost as great as the costs associated with all other schemes put together (IMF, 2005).

In Nigeria, too, there were many pension scheme (pension subcommittee, 1997; see also IMF, 2003). However, most were much newer than those of Chile. It was not until after independence in 1960 that the first national scheme was introduce in Nigeria. It was developed out of the provident fund scheme that had operated for the colonial civil services and, like it, took the form of a severance payment scheme, paying a lump-sum on retirement. It was not until 1994 that a scheme (the National social Insurance Trust fund-NSITF) that paid out an annuity was established.

The NSITF catered only for private sector workers. It was complemented, and indeed overshadowed, by the various schemes for public sector employees. There existed special schemes for federal public servants, for the (federal) police and security services and for the military. At the same time, each of the 36 federal states plus the capital territory had a pension system for its public employees, as did each of the 774 local government authorities operating beneath these. In addition, each of a multitude of publicly owned (federal or state) enterprises (often referred to as "parastatals") had its own pension scheme.

The pension schemes for federal, state and local civil servants were non-contributory and unfinanced. The NSITF scheme operated, effectively, on a PAYG basis, being financed by employee and employer contributions. The pension schemes for parastatals were non-contributory but they were, at least nominally, funded. Private sector could establish their own occupational benefits scheme and these provided both pension and severance payments. These might, or might not be contributory, and they might, or might not be funded. Those that were funded and thus, eligible for tax privileges, covered only a few thousand employee. (Pension subcommittee, 1997).

Fragmentation and heterogeneity of conditions was a common feature of both Chilean and Nigerian systems. By the mid 1970s, nearly one or other of the statutory pension schemes covered 80% of the Chilean workforce. Even by the end of the decade, the coverage rate was some 68% (SAFP, 2003). In contrast, the coverage rate of the Nigerian system was scarcely eight percent. The extent of informal employment in Nigeria is substantially higher than in Chile. In the later country, it was only the self employed (perhaps a quarter of the workforce) who were not liable to contribute. In Nigeria, some 90% of those who work are reckoned to be in the informal labour market. Moreover, of private sector workers, only those in establishment with at least five employees were obligatorily insured. In an economy of micro-enterprises, these workers made up a tiny fraction of the total. Public and employees of parastatals made up the majority of covered workers closely related to the limited coverage of the Nigerian pension system was the way which the vast majority of covered workers were public sector employees. Not surprisingly, pension expenditure for retirement public sector workers doubled expenditure for retirement private sector workers-in 2004 federal government expenditure on pension for federal civil servants, the police and the military were the equivalent of nearly 0.9% of GDP, whilst benefits paid out by the (admittedly immature) NSITF system were equivalent of under 0.01% of GDP.

Both the Chilean and the Nigerian system were regarded as over-costly. The Chilean system, which was absorbing some 3% of GDP in 1980, was forecast to be costing 20% of GDP by 2000. The result both of demographic developments and of improvements of entitlement had been legislated (SAFP, 2003). The Nigerian system was not seen as vulnerable because of adverse demography but rather because of its generosity. Here reference was usually made to the scheme for federal employees, to the opportunities these offered to take some form of benefit after a very short period, and to low minimum age of entitlement to a pension. Although the state and local government pension schemes were mentioned less often, external observations and international financial institutions (IFIs) frequently commented upon the need to take control to government expenditure at all levels. Accordingly, the pension reform was described as assisting to put the system on a financially sustainable footing (IMF, 2005).

Both the Chilean and Nigerian system were regarded as inefficient and inequitable. Criticism of the Chilean system concerned the high contribution rates and the making of proper declarations of earnings. In addition, the differences in retirement ages for different categories of workers, and the way in which benefits were linked to final earnings disadvantage those with interrupted careers and doing manual work (SAFP, 2003).

Issues of compliance, and disincentives to hire or to supply labour were the case of Nigeria. However, the privileges of civil servants were mentioned so that they are intended to make the system equitable (IMF, 2005). On top of this, parts of the system were seen as inefficient. The occupational pension of the parastatals were largely regulated and unsupervised, had no proper information technology (I.T) and many records were merely on paper (pension subcommittee, 1997; see also IMF, 2005). Administration costs were high consuming quarter of total income in 2004, the military parastatals were “padded” with “ghost pensioners,” it was also recognized, pensions for former federal and state employees often went unpaid. Estimate extent of arrears to former federal employees (including those from the military and federal parastatals) have been put in the order of two to three percent of GDP, whilst arrears for state and local government pensions cannot even be quantified (IMF, 2005).

(II) HOW THE NEW PENSION WORKS IN NIGERIA: The Nigerian reform imitated the Chilean system very closely. The principal difference is not of coverage. The Chilean reform applied to all who had previously been in a public pension system (with the exception of the military and the police who retained their old privileges). The Nigerian reform applied, in the first instance only to federal civil servants and employees of federal parastaltals, who had been covered by their respective occupational schemes and private sector workers who were covered by the NSITF scheme. This meant that only about half of employees who were in a pension scheme were affected.

The Chilean system is supposed to cover all wage earners including those in agriculture and including servants. Only self-employed are given the choice of whether to contribute or not. The Nigerian system excludes the self-employed and also employees in small firms. The small firm exemption (which applies to enterprises with fewer than five employees) was taken over from the NSITF system. Presumably in the interest of granting some security of expected benefits, the new Nigerian system excluded those within three years of retirement from participation.

Unlike in Chile, transfer to the new system is obligatory. The principal incentive for Chilean workers to transfer was that, they enjoyed a substantial increase in take-home pay since the contribution they would pay under the new system was only about half as high as under the old system. In Nigeria, contribution all to paying 7.5% of salary and private sector workers saw their contribution rate rise from 3.5% to7.5%. There is no provision in the legislation for any compensation to be made to employees for the fall in pay experienced. The contribution rate of private sector employers also rose from 6.0% to 7.5%. For federal employing organizations, pension costs were made explicit, since they had to pay the 7.5% employer contribution.

Comparing benefits between old and new systems is fraught and depends with a myriad of assumptions. At the time of the Chilean reform, it was argued that the new system would offer benefits as favourable as its predecessor (some 80% of last earning).

With respect to the fashion in which benefits can be taken upon retirement, the form of an annuity but with opportunities to take a lump-sum and to make programmed withdrawals the Nigerian scheme mimics the Chilean one almost exactly. Like the Chilean scheme, it also provide for a minimum pension. However, nothing is said about the level of this pension or how it is financed.

One of the few differences between the two systems is the treatment of disability and of survivors. The Chilean system keeps disability benefits outside the old age pension system. Disability insurance is mandatory, and is purchased through the administrator of pension fund to which a person belongs. An additional contribution (some 1.5% of insurable wages) is required. The new Nigerian scheme follows on from the NSITF scheme in offering an early pension to those deemed "no longer mentally or physically capable" of carrying out their current job that are retired due to "total or permanent disability either of mind or body". On the other hand there is no suggestion as to the pension being enhanced or topped up in any way to take account of lost years.

The supplementary coverage for disability mandated under the Chilean scheme also provides benefits to survivors. Under the NSITF, survivor's benefits were available, but under the new scheme these are provision by life insurance policies that employers are required to take out for their employee. If called upon, these policies payout a lump-sum payment equal to three years earnings. The employer, who is obliged to cover the premium in addition to the contribution made for a pension, takes out the policy.

In order to deal with accrued entitlements, the Nigerian reform copied the Chilean reform granting recognition bonds (in the Nigerian case called "federal government retirement Bonds"). However, these bonds cover only the pensions of federal civil servants and other federal employees. Under the Chilean reform, a recognition bond was made out in the name of each contributor and placed in his or her individual account. The value of the entitlement was calculated as amount sufficient to pay that fraction of the full pension that had been earned by service and wage to date. Under the Nigerian reform, arrangements are less clear. Bonds are to be issued to individuals, but their value is not set out beyond requiring, it is through these that "the right to retirement benefits be recognized (pension Reform Act, 2004).

The obligation behind the recognition bonds is supposedly met by each federal ministry or authority transferring the equivalent of 5% of its wage bill to a special central government account. However, there is no explanation of the adequate, of that sum, since no actuarial appraisal of the old systems was carried out. Arrangements for private sector employees are even less transparent. All contribution made in the employee's name to the NSITF are supposed to be computed and other than that necessary to administer and pay minimum pensions, be credited to a retirement savings account held by Trust fund. The government seems to be given itself some space of time to resolve the question of what transfer values will be since the assets held in this account cannot be transferred to another PFA until after five years.

The absence of clarity is a cause for some concern. In chile, calculating transfer value was not without problems. Assessment was made on the basis of wages in the period of two years prior to the reform. Since wages had been falling, this tended to disadvantage employees. Unemployment had also been rising, and there were only limited arrangements to accommodate those who had gaps in their earning in the reference period.

In Nigeria, where record keeping is acknowledged as a problem and where inflation is high, it is uncertain what value the retirement bond will have or how much of the value of accruals will be transferred. Moreover, the possibilities for favoritism and discrimination are potentially rife.

(III) THE REGULATION OF THE NEW SYSTEM: The importance of institutional capacity and effective regulation to the successful operation of a pension system based upon individual accounts is widely acknowledged. The necessary infrastructure includes effective banks and life insurance that can operate as providers and custodians and a transparent and well-functioning equities and securities market in which pensions assets can be invested. A dedicated regulator usually oversees the activities of the pensions system itself but separate regulators oversee financial services and financial markets, whilst the provision of useful information is enhanced by the application of accounting standards and reliable measures of credit worthiness.

Such an infrastructure was built up gradually in Chile. Some elements of it pre-dated the 1981 pension reform some of it was simultaneous with it, and some of it including improvements to existing elements post dated it (SAFP, 2003). By the time of the Nigerian pension reform, there were a considerable number of the necessary elements in existence but not all were functioning satisfactorily.

Not surprisingly, there is a high degree of similarity in the pension governance systems of Nigeria and Chile. The Nigerian pension commission (PENCOM) closely mirrors the Chilean superintendence of pension fund administrators. These overseeing bodies are responsible for approving pension fund administrators (PFAs) and pension fund custodians (PFCs), and in both countries administration and custodian roles are separated. PENCOM like the superintendence is responsible for setting rules governing investment port folios, both in terms of mix and acceptable risk of assets. While the Chilean pension reform took effect, the domestic credit rating infrastructure was relatively under developed. Determination of whether assets were investment grade was the task of a Risk-Rating commission, consisting of the superintendence and representatives of financial institutions. Local credit rating agencies grew up later. In Nigeria, an indigenous rating agency had existed since 1992, but a second one has come into existence only recently and its founding appears not unrelated to the requirement that, as is now the case in Chile, any security in which pension assets are invested must have been rated by at least two agencies.

In the early years, the Chilean pension funds were forbidden to invest in equities or to invest abroad. It was only after some years that rules on equity investment were relaxed and only much more recently that investment abroad was permitted. At present, the investment rules laid down for the Nigerian system requires that all investments be domestic. There is a tight limit on the extent to which equity investment is permitted. On the other hand, investment in federal government securities is encouraged at least in so far these are counted as being of investment grade even if they have not been rated.

Prima facie, the 2004 pension reform Act and the subsequent guidelines issued by PENCOM establish a strict regulatory system. They demand a high level of professional knowledge by PFA and PFC personnel, and they lay down severe penalties for professional misconduct (Ahmad, 2006).

(IV) ASSESSING THE NIGERIAN PENSION REFORM: Nigerian pension reformers made ambitious claims with respect to the benefits the new pension system would bring. At this stage, it is not possible to compare outcomes aspirations, if or no reason than that the reform is new. Nevertheless, there are some lessons that can be drawn from the experience of Chile and of Nigerian reform.

The reform has changed the way in which pensions are to be provided and established a new delivery structure. This new structure implies its own costs. The reform also changes the balance of inflows and outflows into various government accounts. Even if reform produces savings in the long-run, in short and medium term, the government is making the same level of payments outward but is receiving lower level of income.

The pension reform was not, however, merely intended to alter the way in which pensions were delivered. It was also conceived as a vehicle that would assist the economy to modernize and grows. It was seen as encouraging the development of capital markets and of raising the level of productive investment and thus had a vital role in lifting the level of national income and wellbeing.

CHAPTER THREE

3.0 RESEARCH METHEDOLOGY.

3.1 INTRODUCTION

This Chapter is concerned with the procedure adopted for analysis of data. It highlight the type of research design, population of the study, sample of the study and sampling technique, instruments used for data collection, procedure for the administration of research instrument and method of data presentation and analysis.

3.2 RESEARCH DESIGN

This study is a descriptive research and it is survey in nature. It involves gathering of information about a large number of objects studying a representative sample of the entire group. Survey method is particularly useful in describing the Characteristics of a large population. This, Survey researches are oriented toward the determination of the statue of a given Phenomenon and are generally based on large cross- sectional samples. This study therefore involves the gathering of facts about the problems and prospects of the contributory pension scheme from 2004 to date, with particular reference to Sigma pensions limited, Jalingo, Taraba State

3.3 POPULATION OF THE STUDY

The population of the research is made up of staffs of Sigma pension limited, Jalingo, pensioner with Sigma pensions limited under the new scheme and

Retirement Account holders (RAHs) with Sigma pensions limited; all within Jalingo metropolis of Taraba State, Nigeria.

3.4 SAMPLING TECHNIQUE

The researcher adopts the stratified sampling techniques. This implies that the population is grouped into the following based on how they relates to the new pension scheme. They are:

Group “A” Staff of Sigma pensions Ltd.

Group “B” Pensioners with Sigma pensions Ltd.

Group “C” Retirement account holders (RAHs) with Sigma pensions Ltd.

3.5 SAMPLE SIZE

However, because of the high population, the sample was drawn from the fact that every one concerned cannot be interviewed or administered with questionnaire individually. So it is better for the researcher to narrow the scope of the study into reasonable size.

To this effect the sample of the population of the study consist of sixty (60) respondents to represent the population under consideration. Respondent in each group above were randomly selected. Five (5) respondents were randomly selected among Group “A” fifteen (15) respondents were also selected randomly among Group “B” while fourty (40) respondents were randomly selected among Group “C”.

3.6 METHOD OF DATA COLLECTION

Apparently, for any given research or undertaking a project, data used are important. However, the descriptive method of research is one use in this study. Descriptive study has the purpose of establishing a relationship between the theories and the obtained practice as it creates a clear understanding of the problem under study.

Hence, in order to make things more explicit and achievable, survey methods which is part of the descriptive research is applied as it is the base that provides a framework of achieving the objective of this research study.

3.7 SOURCES OF DATA

For this research work (study), two main sources of data were used by the researcher. There is the primary and the secondary source of data.

i. SECONDARY DATA: Secondary data are those already in existence and which may be used for investigation, although not collected for the specific purpose of solving the current problem. This includes the organization records, pamphlets and magazines, journals, specialist publication, internet and written books. All these collected information were very useful in the research work.

ii. PRIMARY DATA: These are data that are relevant to the specific course of study. In order to compliment the efforts of the secondary data research primary data were used. These were data collected directly from the respondents. They were collected through survey and questionnaires techniques.

3.8 INSTRUMENT FOR DATA COLLECTION

In line with the important of the research study therefore, two research instruments were employed in the collection of data. These were survey and questionnaire.

i. SURVEY METHOD (PENSONAL INTERVIEW): This involves communication with the respondents in the usual method of interview, there was a set of inter-connected questions and answers, structured and unstructured. The responses were either recorded exactly as they were spoken or the researcher noted silent points. This method was considered relevant due to the fact that, it make possible to generate high volume of information, had better control of the respondents, flexibility, etc.

ii. QUESTIONNAIRES: This is one of the most satisfactory methods of data collection. That is why in this study in order to compliment the efforts of interview questionnaires, which were designed and administered on the respondents, were used in collecting data. The respondents were provided with some statement relating to the problems of the study and were requested to indicate the appropriate responses or in absence of this to state their opinion. The questionnaires were personally distributed and retrieved by the researcher.

2.9 METHOD OF DATA PRESENTATION/ANAYSIS.

After collecting the data through primary and secondary sources, the researcher further analyzed the collected data in chapter four.

While, the technique employed in analyzing the data are two-viz-tabulation and percentage.

i. TABULATION.

Classification and tabulation of data formed the basis for reducing and simplifying the data given in the mass quantity into such a form that the main feature were brought out to make the assembled data easily understood, this technique aim at interpreting large amount of data into concise and clear manageable information.

ii. PERCENTAGE:

The questionnaire collected from the respondents was analyzed and responses were presented in percentages over the total number of questionnaires received. That is, the data collected from the responses given to the questionnaire were analyzed by calculating the percentages of data collected to each alternative given against the total responses. Thus, enabled the researcher to put emphasis to each alternative and then drawn a good comprehensive analysis.

3.10 INSTRUMENT OF DATA ANALYSIS

Based on the nature of the topic as mentioned in the first chapter, the researcher used statistical techniques, as valuable information can be source as well as analyzed.

To make things more explicit and achievable, Chi-Square (X^2) methods which is part of the statistical techniques is applied, as it is one of the frequently used techniques in testing hypothesis toward accomplishment of the overall objective of the study of this nature. It is computed as follows:

$$X^2 = \Sigma \frac{(fo\text{-}fe)}{fe}$$

Where:

fo is an observed frequency, and

fe is an expected or theoretical frequency.

CHAPTER FOUR

4.0 DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

This chapter will present the research findings and also analyse the data collected through the use of questionnaire. At the end, the hypothesis proposed for this research would be tested.

A total of sixty (60) questionnaires were distributed by the researcher and the researcher entertained questions where the respondent had difficulty in completing the questionnaire.

There were twenty four (24) items in the questionnaire and all the questionnaires issued were collected personally by the researcher, representing fourty eight (48) been successfully answered and returned by the respondents. Hence, it is going to be on 100% presented in tabular form for test and easy comprehension as earlier indicated in chapter three.

4.2 DATA ANALYSIS AND PRESENTATION

Question1: What particular group of pension scheme stakeholders do you belong to?

Table 4.2.1

Variable	Responses	Percentage
PFA	5	8.3%
Pensioner	12	25%
RAH	31	66.7%
Total	48	100%

Source: Field survey, 2011.

From the above table it is clear that majority of the respondents for the research are retirement account holders (RAHs) with 66.7%, followed by pensioners (25%) and pension fund administrators (8.3%).

Questions 2: Do you agree that employees in the applicable sector does not have faith in the new contributory pension scheme?

Table 4.2.2

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	1	2	5	8	16.7%
No	4	10	26	40	83.3%
			Total	48	100%

Source: Field survey, 2011.

From the above table, it will be observed that 83.3% of the respondents have strong confidence in the new contributory pension scheme while, 6.7% are not satisfied with the system.

Questions 3: Do you think that, the new pension scheme addresses the problem of pension liability in the applicable sector by stemming its further growth?

Table 4.2.3

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	4	9	25	38	79.2%
No	1	3	6	10	20.8%
			Total	48	100%

Source: Field survey, 2011.

From the above administered table, it will be observed that 79.2% of the respondents sees the new scheme as the catalyst for stemming the further growth of pension liability. On the other side 20.8% disagreed with the statement.

Question 4: Do you agree that, the new contributory pension scheme ensures that every retired worker receives his/her retirement benefits as and when due by making funds available?

Table 4.2.4:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	5	10	27	42	87.5%
No	0	2	4	6	12.5%
			Total	48	100%

Source: Field survey, 2011.

The above table shows that 87.5% of the respondents are of the opinion that now contributory pension scheme ensures that workers receives their retirement benefits as and when due. While, 12.5% disagreed with the statement.

Question 5: Dou you think that the new contributory pension scheme addresses the problem of poor administration and corruption normally associated with the old pension scheme?

Table 4.2.5:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	5	9	26	40	83.3%
No	0	3	5	8	16.7%
			Total	48	100%

Source: Field survey, 2011.

In view of the above table, 83.3% of the total respondents are satisfied with the performance (administration and corruption free) of the new scheme. While, the minority of 16.7% are not satisfied.

Question 6: Do you believe the new scheme would establish uniform standard in the administration and payment of retirement benefits?

Table 4.2.6:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	5	11	29	45	93.7%
No	0	1	2	3	6.3%
			Total	48	100%

Source: Field survey, 2011.

In the above table of analysis, the majority of 93.7% pointed out that, the new pension scheme will provide reference standard of administration and payment of retirement benefits while, only 6.3% of the respondents disagreed with saying.

Question 7: Do you see the new contributory pension scheme as a means of improving pension administration and boosting efficiency in the applicable sector?

Table 4.2.7:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	4	8	30	42	87.5%
No	1	4	1	6	12.5%
			Total	48	100%

Source: Field survey, 2011.

In the above table, 87.5% of the respondents agreed that, the new scheme is an avenue for improving pension administration and boosting efficiency in the applicable sectors, while 12.5% disagreed.

Question 8: Are you familiar with benefit withdrawals in the new contributory pension scheme?

Table 4.2.8:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	4	7	20	31	64.6%
No	1	5	11	17	35.4%
			Total	48	100%

Source: Field survey, 2011.

From the above table, majority of the respondents stated that they are conversant with benefit withdrawal in the scheme, about 64.6%, while only 35.4% said they are not?

Question 9: The old pension scheme make retirees to suffer before they receive their entitlements?

Table 4.2.9:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	5	11	29	45	93.7%
No	0	1	2	3	6.3%
			Total	48	100%

Source: Field survey, 2011.

In the view of the above table, almost all the respondents agreed that the former pension schemes were detrimental to retirees. About 93.7% of the respondents hold on to that. While, only 6.3% of the respondent disagreed with saying.

Question 10: The Pay As you Go scheme failed as a result of lack of adequate funds to pay benefits to retirees.

Table 4.2.10:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	5	10	29	44	91.7%
No	0	2	2	4	8.3%
			Total	48	100%

Source: Field survey, 2011.

In the above table, 91.7% of the respondents attributed the failure of the Pay As You Go pension scheme to the problem of insufficient funds to pay benefits to retirees. While, 8.3% of the respondents are not of the opinion.

Question 11: Do you believe that, the new contributory pension scheme is designed to address the weaknesses of the old pension scheme?

Table 4.2.11:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	5	12	31	48	100%
No	0	0	0	-	-
			Total	48	100%

Source: Field survey, 2011.

From the analysis of the above table, all respondents of 100% were of the opinion that the new scheme is designed to address the weakness of the old scheme.

Question 12: Do you agree that, employees find it much easier under the new scheme to claim for their benefits after retirement.

Table 4.2.12:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	5	12	29	46	95.8%
No	0	0	2	2	4.2%

			Total	48	100%

Source: Field survey, 2011.

Judging from the above table, 95.8% of the respondents holds that, claiming benefit under the new scheme is much more easier than in the old scheme while, the minority of 4.2% disagreed with the statement.

Question 13: Do you think that sigma pensions Ltd. is really helping to reduce problem of claiming retirement benefits?

Table 4.2.13:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	5	12	30	47	97.9%
No	0	0	1	1	2.1%
			Total	48	100%

Source: Field survey, 2011.

In the above table, 97.9% of the respondents agreed that Sigma pensions Ltd. has helped a lot in reducing problem of claiming retirement benefits while, the minority of 2.1% of the total respondents disagreed.

Question 14: Do you agree that the new contributory pension scheme will enhance economic growth and reduce corruption to near zero level in the administration of pension funds?

Table 4.2.14:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	4	10	28	42	87.5%
No	1	2	3	6	12.5%
			Total	48	100%

Source: Field survey, 2011.

From the above table, it will be observed that, 87.5% of the respondents believed in the contribution of the new scheme to the enhancement of economic growth and reducing corruption in the administration of pension funds while, the minority of 12.5% say no.

Question 15: Do you think that other pension fund administrators (PFA) operating in Jalingo, have better strategy of pension funds administration than Sigma pensions?

Table 4.2.15:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	0	0	0	-	-
No	5	12	31	48	100%
			Total	48	100%

Source: Field survey, 2011.

Considering this table above, all respondents of 100% do not see other pension fund administrator’s better strategy of pension fund administration.

Question 16: If answer to question fifteen (15) above is “Yes” what do you think is responsible for their better pension fund administration?

As all the respondents to the question fifteen (15) above answered “N0”, there was no adverse comment obtained for analysis in this question.

Question 17: Do you believe that, the new scheme will boost economic growth through investing the contributed funds within the Nigerian economy by pension fund administrators?

Table 4.2.16:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	4	9	25	38	79.2%
No	1	3	6	10	20.8%

Total	48	100%

Source: Field survey, 2011.

From the above table, it will be observed that 79.2% of the respondents believed that, investing the contributed funds within the Nigerian economy by PFAs will help the new scheme in boosting sustainable economic development.

But the reaction of the minority of 20.8% was contrary to the statement.

Question 18: Do you think that other pension fund administrators (PFAs) yields higher investment returns to their retirement Account holders (RAHs) than Sigma pension Ltd?

Table 4.2.17:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	0	0	0	-	-
No	5	12	31	48	100%
			Total	48	100%

Source: Field survey, 2011.

Considering the above question administered, it was shown clearly that 100% of the respondents sees the Sigma pension Ltd. return on investment satisfactorily okey compared to its competitors.

Question 19: If answer to question eighteen (18) above is “Yes” what do you think is responsible for that?

Since 100% of the respondents to the question eighteen (18) above answered “No” there was no any adverse comment obtained for analysis in this question.

Question 20: From 2004 to date, have you so far identified any shortcomings of the new contributory pension scheme.

Table 4.2.18:

Variable	PFA	Pensioner	RAH	Responses	Percentage
Yes	1	3	6	10	20.8%
No	4	9	25	38	79.2%
			Total	48	100%

Source: Field survey, 2011.

In the above table of analysis, about 79.2% of the respondent could not trace any shortcoming of the new pension scheme, while 20.8% said they raced some of its shortcomings.

Question 21: How can you rate the compliance with Act, particularly to private sector?

Table 4.2.19:

Variable	PFA	Pensioner	RAH	Responses	Percentage
75%	1	-	4	5	10.4%
50%	-	2	7	9	18.8%
25%	1	2	9	12	25.0%
10%	3	8	11	22	45.8%
			Total	48	100%

Source: Field survey, 2011.

Based on the analysis of the data in the above table, it is obvious that most private sectors are yet to comply with Act, as more than 70% of the total respondents are of the opinion that, the rate of compliance with Act particularly to private sector is within the range of 25% and below.

Question 22: What is the extent to which state and local governments complied with the scheme?

Table 4.2.20:

Variable	PFA	Pensioner	RAH	Responses	Percentage
100%	-	-	-	-	-
75%	-	2	3	5	10.4%
50%	1	2	6	9	18.8%
25%	4	8	22	34	70.8%
			Total	48	100%

Source: Field survey, 2011.

The responses obtained from question 22 in the above table of analysis indicated that, the compliance with the Act by State and local governments is poor and need to be adjusted.

4.3 HYPOTHESIS TESTING

The hypothesis of this project are emphatically designed to test the assumption the write has in mind, as regards the evaluation of contributory pension scheme in Nigeria, problems and prospects as the case may be.

As noted previously in chapter three that Chi-Square method is the one used in this work as it is the most important of all distribution-free tests that has the fundamental procedure in testing hypothesis.

It is computed as follows:-

$$X^2 = \frac{\Sigma(fo-fe)^2}{fe}$$

Where:

fo is an observed frequency, and

fe is an expected frequency.

The expected frequency formula is:

$$Fe = \frac{\text{Row total x Column total}}{\text{Grand total}}$$

Using this method required the computed X^2 Value be compared with value from the table of critical X^2 Value at a given level of significance and number of degree of freedom (df).

The degree of freedom (df) for X^2 is easily calculated as:

$$df = (R-1)\ (C-1)$$

Where:

R is the number of rows in the table, and

C is the number of column in the table.

In testing a hypothesis using X^2, if the computed value is less than or equal to ($\leq$) the table value (critical value), the null hypothesis is accepted at the appropriate level of significance and vice-versa.

TESTING HYPOTHESIS ONE:

H_1: The new contributory pension scheme does not ensures that workers receives their retirement benefits as and when due.

Ho: The new contributory pension scheme ensures that workers receives their Retirement benefits as and when due.

RESEARCH QUESTION 4: Do you agree that, the new contributory pension scheme ensures that every retired worker receives his/her retirement benefits as and when due by making funds available.

The response to the survey question above will be analysed using the chi-square (X^2) test.

Response	PFA	Pensioner	RAH	Total
H_1 (Yes)	5	10	27	42
H_o (No)	O	2	4	6
Total	5	12	31	48

Having collected the observed frequency (fo) we now compute the expected frequency (fe) of each cell using the formula below:

$$Fe = \frac{\text{Row total x Column total}}{\text{Grand total}}$$

$$C_1 = fe_1 = \frac{42x5}{48} = 4.375$$

$$C_2 = fe_2 = \frac{42x12}{48} = 10.5$$

$$C_3 = fe_3 = \frac{42x31}{48} = 27.125$$

$$C_4 = fe_4 = \frac{6x5}{48} = 0.625$$

$$C_5 = fe_5 = \frac{6x12}{48} = 1.5$$

$$C_6 = fe_6 = \frac{6x31}{} = 3.875$$

We now compute the test statistics using the above "f_o" and "f_e" as follows:

Fo	Fe	Fo-fe	$(fo-fe)^2$	$\frac{(fo-fe)^2}{fe}$
5	4.375	0.625	0.391	0.0893
10	10.5	-0.5	0.25	0-0238
27	27.125	-0.125	0.016	0.0006
0	0.625	-0.625	0.391	0.6250
2	1.5	0.5	0.25	0.1667
4	3.875	0.125	0.016	0.0040
			$X^2=$	0.909

$$X^2 = \Sigma \frac{(fo-fe)^2}{fe} = 0.909$$

Degree of freedom (df) = (R-1) (C-1)

= (2-1) (3-1)

= 1x2 = 2

Level of significance 5% (i.e 95% confidence interval).

Hence, critical value from Chi-Square (X^2) table at 95% confidence interval and 2 degree of freedom is 0.103. Therefore, the test statistics of 0.909 is greater than the critical value of 0.103 from Chi-Square table.

DECISION RULE

Since the test statistics of the computed X^2_c (0.909) is greater than the critical value of X^2_t (0.103) tabulated at 5% level of significance (i.e 95% confidence interval), the null hypothesis (H_o) is rejected, while the alternate hypothesis (H_I) is accepted. Therefore the researcher concluded that the new contributory pension scheme ensures that workers receives their retirement benefits as and when due.

TESTING HYPOTHESIS TWO

Ho: The scheme does not establish uniform set of rules, regulations and standards for. The administration and payment of retirement benefits in the applicable sectors.

H_I: The scheme will establish uniform set of rules, regulations and standards for the administration and payment of retirement benefits in the applicable sectors.

To test this hypothesis we then refer to the research question six (6): Do you believe the new scheme would establish uniform standard in the administration and payment of retirement benefits.

The response to the survey question above will be analyzed using the X^2 test.

Response	PFA	Pensioner	RAH	Total
H_I (Yes)	5	11	29	45
H_o (No)	0	1	2	3
Total	5	12	31	48

Having collected the observed frequency (f_o) of each cell, we compute the expected frequency (fe) of each cell as well, using the formula below:

$$Fe = \frac{\text{Row total x Column total}}{\text{Grand total}}$$

$$C_1 = fe_1 = \frac{45x5}{48} = 4.688$$

$C_2 = fe_2 = \underline{45x12} = 11.250$

$$\frac{\quad}{48}$$

$C_3 = fe_3 = \frac{45x31}{48} = 29.063$

$C_4 = fe_4 = \frac{3x5}{48} = 0.313$

$C_5 = fe_5 = \frac{3x12}{48} = 0.750$

$C_6 = fe_6 = \frac{3x31}{48} = 1.938$

Having obtained the expected frequency (fe), the statistical X^2 ($\sum \frac{(fo-fe)^2}{fe}$ can now Be computed.

Fo	Fe	fo-fe	$(fo-fe)^2$	$(fo-fe)^2$
5	4.688	0.313	0.098	0.0208
11	11.250	-0.250	0.063	0.0056
29	29.063	-0.063	0.004	0.0001
0	0.313	-0.313	0.098	0.3130
1	0.750	0.250	0.063	0.0833
2	1.938	0.063	0.004	0.0020
			$X^2 =$	0.425

:. $X^2 = \Sigma \frac{(fo-fe)^2}{fe} = \quad 0.425$

Degree of freedom (df) = (R-1) (C-1)

= (2-1) (3-1)

= 2x2 =2

Level of significance 5% (i.e 95% confidence interval).

The critical value of X^2 from the table at 95% confidence interval and 2 degree of freedom is 0.103. Thus, the computed Chi-Square outcome of 0.425 is greater than the critical value of 0.103 from Chi-square table.

DECISION RULE

Since the test statistics of the computed X^2 (0.425) is greater than the critical value of X^2 (0.103) tabulated at 5% level of significance (i.e 95% confidence interval), The alternate hypothesis (H_1) is accepted, while the null hypothesis (H_o) is rejected. Hence, the researcher inferred that, the scheme will establish uniform set of rules, regulations and standards for the administration and payment of retirement benefits in the applicable sectors.

TESTING HYPOTHESIS THREE

Ho: Employees does not find it much easier to claim for their benefits after retirement under the scheme.

H_1: Employees find it much easier to claim for their benefits after retirement under the scheme.

RESEARCH QUESTION 12: Do you agree that, employees find it much easier under the new scheme to claim for their benefits after retirement.

The response to the above question will be analysed using X^2 test, So as to know whether the difference between the samples is significant to justify the acceptance or rejection of the hypothesis.

Response	PFA	Pensioner	RAH	Total
H_1 (Yes)	5	12	29	46

H_o (No)	0	0	2	2
Total	5	12	31	48

With the observed frequency (fo) in the above contingency table, we can obtained the expected frequency of each cell using the following formula:

$$Fe = \frac{\text{Row total x Column total}}{\text{Grand total}}$$

$$C_1 = fe_1 = \frac{46x5}{48} = 4.792$$

$$C_2 = fe_2 = \frac{46x12}{48} = 11.5$$

$$C_3 = fe_3 = \frac{46x31}{48} = 29.708$$

$$C_4 = fe_4 = \frac{2x5}{48} = 0.208$$

$$C_5 = fe_5 = \frac{2x12}{48} = 0.5$$

$$C_6 = fe_6 = \frac{2x31}{48} = 1.292$$

With the above fo and fe the Chi-square test can now be computed –via-$\Sigma\frac{(fo-fe)^2}{fe}$

Fo	Fe	Fo-fe	$(fo-fe)^2$	$\frac{(fo-fe)}{fe}$
5	4.792	0.208	0.043	0.0091

12	11.5	0.5	0.250	0.0217
29	29.708	-0.708	0.502	0.0169
0	0.208	-0.208	0.043	0.2083
0	0.5	-0.5	0.250	0.5000
2	1.292	0.708	0.502	0.3884
			X^2 =	1.144

:. $X^2 = \Sigma \frac{(fo-fe)^2}{fe}$

Degree of freedom (df) = (R-1) (C-1)

= (2-1) (3-1)

= 1 X 2 = 2

Level of significance 5% (i.e 95% confidence interval).

The critical value of Chi-square from the table at 95% confidence interval and 2 degree of freedom is 0.103. Hence, the computed X^2 result of 1.144 is greater than the critical value of 0.103 from the table.

DECISION RULE

As the computed Chi-square (1.144) is greater than the critical value X^2 (0.103) tabulated at 5% level of significance (i.e 95% confidence interval), the null hypothesis (H_o) is rejected, while the alternate hypothesis (H_1) is accepted. Thus, concluded that, employees find it much easier to claim for their benefits after retirement under the scheme.

TESTING HYPOTHESIS FOUR

Ho: The contributory pension scheme will not boost economic growth through investing the contributed funds within the Nigerian economy by pension fund administrators (PFA).

H_1: The contributory pension scheme will boost economic growth through investing the contributed funds within the Nigerian economy by PFA.

RESEARCH QUESTION 17: Do you believe that, the new contributory pension scheme will boost economic growth through investing the contributed funds within the Nigerian economy by PFA.

The response to the survey question above will be systematically analysed using Chi-square test.

Response	PFA	Pensioner	RAH	Total
H_1 (yes)	4	9	25	38
Ho (No)	1	3	6	10
Total	5	12	31	48

With the observed frequency (fo) in the above table, the expected frequency (fe) of each cell can be computed using formula hereunder:

$$Fe = \frac{\text{Row total X Column total}}{\text{Grand Total}}$$

$$C_1 = fe_1 = \frac{38x5}{48} = 3.958$$

$$C_2 = fe_2 = \frac{38x12}{48} = 9.5$$

$$C_3 = fe3 = \frac{38x31}{48} = 24.542$$

$C_4 = fe_4 = \frac{10x5}{48} = 1.042$

$C_5 = fe5 = \frac{10x12}{48} = 2.5$

$C_6 = fe_6 = \frac{10x31}{48} = 6.458$

Having obtained both the observed and expected frequency (fo and fe), the statistical Chi-square $\Sigma \frac{(fo-fe)^2}{fe}$ can now be computed.

Fo	Fe	fo-fe	$(fo-fe)^2$	$\frac{(fo-fe)^2}{fe}$
4	3.958	0.042	0.002	0.0004
9	9.500	-0.500	0.250	0.0263
25	24.542	0.458	0.210	0.0086
1	1.042	-0.042	0.002	0.0017
3	2.500	0.500	0.250	0.1000
6	6.458	-0.458	0.210	0.0325
			$X^2 =$	0.170

:. $X^2 = \Sigma \frac{(fo-fe)^2}{fe} = 0.170$

Degree of freedom (df) = (R-1) (C-1)

= (2-1) (3-1)

= 1 X 2 = 2

Level of significance 5% (i.e 95% confidence interval).

The critical value of X^2 from the table at 95% confidence interval and 2 degree of freedom is 0.103. Thus, the computed Chi-square value of 0.170 is greater than the critical value of 0.103 from the table.

DECISION RULE

Since, the test statistics of the computed X^2 (0.170) is greater than the critical value of X^2 (0.103) from the table at 5% level of significance (i.e 95% confidence interval), the alternate hypothesis (H_1) is accepted while, the null hypothesis (Ho) is rejected. Hence the decision taken by the researcher is that, the contributory pension scheme will boost economic growth through investing the contributed funds within the Nigerian economy by pension fund administrators (PFA).

4.4 RESEARCH FINDINGS

Pension system is not new in the country (Nigeria) but the way it was operated posed a threat to the people concerned, and did not render to the economy the long term funding benefits that pension fund could bring. Most scheme were under or unfunded. The old pension scheme make retirees to suffer before they receive their entitlements, and eventually, the scheme (Pay As You Go) failed as a result of inadequate funds to pay benefits to retirees.

However, the new contributory pension scheme addresses the problem of pension liability in the applicable sector by stemming its further growth and provides a plat form for addressing the liability. Since the individual own the contributions, the pensioner is no longer at the mercy of government or employer and is assured of regular payment of retirement benefits.

Similarly, the old scheme only covers public service and a few private organizations, most workers are not covered by any form of retirement benefit arrangements and also it lacks uniformity as there is disparity between various cadres in the same organization. Although, the new contributory pension scheme would establish uniform standard for the administration and payments of retirement benefits in the applicable sectors.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

This chapter contains the summary of the work so far carried out. Conclusions and recommendations are made, which the researcher believes could help in the administration of contributory pension scheme.

5.2 SUMMARY

This research work title an evaluation of contributory pension scheme in Nigeria, problems and prospects with a particular reference to Sigma pensions limited Jalingo, has been broken into five chapters as depicted hereunder for easy comprehension of the whole content.

The chapter one of the researches comprises of general introduction of the topic of study. The historical development of pension in Nigeria and brief history of the case study (Sigma pensions ltd), the statement of research problems. The research hypothesis, the objective which the researcher wanted to accomplish as well as the significance of the study. It also considered the scope and limitation of the study including the definition of key terms used in this write up.

The chapter two of this write up dwell more on review of related textbooks, etc, where various issues concerned with pension schemes were carefully discussed. Comparative analysis on the Nigerian contributory pension scheme with other countries was also taken into account.

Similarly, the chapter three of this study concentrated on the mechanism employed in collection of data and that for further analysis in chapter four as well as reason for chosen such mechanism.

Furthermore, chapter four of this study deals with data presentation and analysis using tabulation and percentage followed by testing of hypothesis in which Chi-square (X^2) method were used as it has the fundamental procedure in testing hypothesis.

Conclusively is the chapter five, which summarizes the project, concluded the study and recommendation of necessary measures to be taken to enhance effective pension fund administration in an economy.

5.3 CONCLUSION

After careful consideration, the researcher has drawn the following conclusion for the study.

The new contributory pension scheme empowered the Nigerian worker, by given them choice as to how their pensions are managed and the assurance of their retirement benefits as and when due. The scheme will also instill a saving culture among Nigerians, which will create a pool of long term invested funds for the development of our financial markets and economy as a whole. Although, low income workers may never accumulate enough in their pension accounts to support themselves in their old age and early generation's retirees are also not protected because it takes many years for enough pension capital to build up.

That contributory pension scheme will enable availability of fund for investment, particularly to the capital market. Contributions which are already in hundreds of billion of naira can be put to long term investment in the economy that enable general growth of the economy.

The contributory pension scheme was conceived as a vehicle that would assist the economy to modernize and growth. It was also seen as encouraging the development of capital markets and of raising the level of productive investment and thus had a vital role in lifting level of National income and wellbeing. While, economic instability, inflation and devaluation of nation's currency can produce a large negative rates of return on the funds which can cause dissatisfaction among the contributors.

The retirement benefits are therefore enhanced by aggressive contributions, quality investment management and prudent choices regarding withdrawal modes. In spite of the fact that Sigma pensions has helped in reducing problem of claiming retirement benefits its efforts towards solving the problem is yet to be enough since most contributors are not familiar with benefit withdrawal modes.

That new contributory pension scheme will ensure that every person who has worked in the applicable sectors receives his retirement benefits as and when due. It will also ensure that pensioners are not subjected to untold suffering due to inefficient and cumbersome process of pension payment. The scheme has established a set of standard, rules and regulations for the administration and payment of retirement benefits in the applicable sectors.

However, the critics of the new contributory pension scheme see it as another openly anti-worker policy of the government, where the future of the workers is now openly tied to the whims and caprices of a series of emergency investors known as pension funds administrators (PFA) and custodians; licensed by the government to collect compulsorily, a substantial percentage of workers salary every month, which can be spend or invested in other ventures, as the PFA's so desire. This assertion may be very difficult to disprove but time will surely justify.

5.4 RECOMMENDATION

Based on the above findings made by the researcher, the following recommendations are hereby forwarded for the perusal of the stakeholders concerned.

1. Sigma pensions limited should be more prudent in the management of pension funds so as to ensure that contributor's funds are securely invested and will yield sufficient returns to meet the retirement needs of the workers since, retirement benefits consist of the contributions made over time and the investment income accruing to the retirement savings accounts.
2. Sigma pensions limited should work harder to sustain its present pension fund investment strategy in the face of stiff competition; the company can attract more contributors by offering better services and lower administration fees through effective management of its investment portfolio.
3. There are strong advantages from international diversification of the invested pension funds, particularly to countries with small or concentrated domestic

economies like Nigeria. Therefore, the organization should borne in mind that, lower risk and sometimes higher returns are possible over the long-term through international investment, which reduces the exposure of investors to country-specific risk such as inflation. This system also gives country an opportunity to move their capital to countries that offer the highest return, thus opening up the domestic economy to become part of the global economy.

4. The organization should continue to work on improving its overall operations strategy by making sure that the human resources factors are adequately trained and motivated to enhance their skills, effectiveness and productivity. Also professional seminars, workshops, symposium, lectures etc to the respective contributors should be organized from time to time for the ultimate purpose of sensitizing them on the relevant issues such as advantage and disadvantage of each benefit withdrawals mode to enable the retirement account holders make a prudent choice of the best mode as the need arises, the importance of making additional contributions to their retirement savings account etc.
5. More enlightens and the scheme awareness campaign should be propagated so that state and local government should embrace the scheme to enable the country as a whole derive the best opportunities from it.
6. More so, necessary framework and good governance should be put in place to ensure that the huge pool of funds generated would be effectively and judiciously invested to develop infrastructures and transform the economy.

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APPENDIX

QUESTIONNAIRE SAMPLE:

DEPARTMENT OF MANAGEMENT TECHNOLOGY, SCHOOL OF MANAGEMENT AND INFORMATION TECHNOLOGY, FEDERAL UNIVERSITY OF TECHNOLOGY, P.M.B. 2076, YOLA, ADAMAWA STATE, NIGERIA.

Dear respondent,

Please, tick and comment briefly on the following questionnaire, which will aid me in writing a project on: An EVALUATION OF CONTRIBUTOR PENSION SCHEME IN NIGERIA, PROBLEMS AND PROSPECTS (CASE STUDY OF SIGMA PENSIONS LIMITED). This is for academic purposes leading to the partial fulfillment for the award of post graduate diploma in management (PGDM).

I wish to assure you that any information given will be use only for academic purpose and treated strictly as confidential.

Thank you.

Please tick or fill where necessary to indicate your choice.

1. What particular group of pension scheme stakeholders do you belong to? (a) Pension fund administrator (PFA) (b) Pensioner (c) Retirement account holder (RAH)

2. Do you agree that employees in the applicable sector do not have faith in the new contributory pension scheme? **YES ( ) NO ( )**

3. Do you think that, the new pension scheme addresses the problem of pension liability in the applicable sector by stemming its further growth?

YES (   )   NO (   )

4. Do you agree that, the new contributory pension scheme ensures that every retired worker receives his/her retirement benefits as and when due by making funds available? **YES (   )   NO (   )**

5. Dou you think that the new contributory pension scheme addresses the problem of poor administration and corruption normally associated with the old pension scheme? **YES (   )   NO (   )**

6. Do you believe the new scheme would establish uniform standard in the administration and payment of retirement benefits? **YES (   )   NO (   )**

7. Do you see the new contributory pension scheme as a means of improving pension administration and boosting efficiency in the applicable sector?

YES (   )   NO (   )

8. Are you familiar with benefit withdrawals in the new contributory pension scheme? **YES (   )   NO (   )**

9. The old pension scheme makes retirees to suffer before they receive their entitlements? **YES (   )   NO (   )**

10. The Pay As you Go scheme failed as a result of lack of adequate funds to pay benefits to retirees? **YES (   )   NO (   )**

11. Do you believe that, the new contributory pension scheme is designed to address the weaknesses of the old pension scheme? **YES (   )   NO (   )**

12. Do you agree that, employees find it much easier under the new scheme to claim for their benefits after retirement? **YES (   )   NO (   )**

13. Do you think that sigma pensions Ltd. is really helping to reduce problem of claiming retirement benefits? **YES (   )   NO (   )**

14. Do you agree that the new contributory pension scheme will enhance economic growth and reduce corruption to near zero level in the administration of pension funds? **YES (   )   NO (   )**

15. Do you think that other pension fund administrators (PFA) operating in Jalingo, have better strategy of pension funds administration than Sigma pensions? **YES (   )   NO (   )**

16. If answer to question fifteen (15) above is "Yes" what do you think is responsible for their better pension fund administration?

17. Do you believe that, the new scheme will boost economic growth through investing the contributed funds within the Nigerian economy by pension fund administrators? **YES (   )   NO (   )**

18. Do you think that other pensions fund administrators (PFAs) yields higher investment returns to their retirement Account holders (RAHs) than Sigma pension Ltd? **YES (   )   NO (   )**

19. If answer to question eighteen (18) above is "Yes" what do you think is responsible for that?

20. From 2004 to date, have you so far identified any shortcomings of the new contributory pension scheme? **YES (   )   NO (   )**

21. How can you rate the compliance with Act, particularly to private sector?

(a) 75% ( ) (b) 50% ( ) (c) 25% ( ) (d) 10% ( )

22. What is the extent to which state and local governments complied with the scheme? (a) 100% ( ) (b) 75% ( ) (c) 50% ( ) (d) 25 % ( )

23. With regard to the new contributory pension scheme from 2004 to date what other problems do you have concerning pension funds administration by Sigma pension Ltd Jalingo.

    i.

    ii.

    iii.

24. Suggest ways, you think that will solve the problems of new contributory pension scheme pertaining Sigma pensions Ltd in Jalingo.
