



## **THE IMPACT OF 2004 PENSION REFORM ACT ON PRODUCTIVITY IN NIGERIA: A STUDY OF FEDERAL POLYTECHNIC, NASARAWA 2004-2017**

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**ABSTRACT:** *This study critically examines the justification the reform of the pension industry in Nigeria and its impact on productivity in Federal Polytechnic, Nasarawa. The methodology adopted to achieve the objective was through primary and secondary collection of data. The researchers administered questionnaires to 382 respondents constituting the sample size of the study. The data generated were presented and analyzed using frequency and tables. Abraham Maslows hierarchy of needs theory was used as theoretical justification for the study. Majority of the respondents agreed that the 2004 pension reform has not influenced productivity in Federal Polytechnic, Nasarawa and that the implementation of the reform is bedeviled by so many challenges. Based on the findings, the study recommends that government should put in place a mechanism for effective implementation of the new pension scheme with a view to improving the performance and productivity of public servants in Nigeria. Secondly, government and civil society organizations should serve as watch dog on the activities in the pension industry to avoid problems that have to do with irregular payment to pensioners.*

**KEYWORDS:** Pension, Pension Reform, Productivity, Pension Scheme, PenCom, Nigeria

### **INTRODUCTION**

It is a truism that post retirement life is one of the dreaded periods of most workers in the Nigerian civil service. According to Ikeji, Nwosu and Agba (2011), the fear by employees on the uncertainty after leaving service creates panic and psychological defeat. Workers view disengagement from service as a movement that could bring economic and social unrest. Thus, the basic way of improving livelihood according to Adewumi (2015) is to ensure that employees in an organisation benefit from a reasonable package after service and the package should enable workers afford the basic necessities of life.

One of the important measures used in accomplishing the above is by having a well-planned pension scheme. The essence of pension is to avail workers with steady and stable income after their service period in order to cope with post retirement livelihood. So, a pension scheme should serve as a motivating force to workers as it aids in attracting and retaining experienced staff. It is an undeniable fact that the responsibility of every government is to provide and sustain the welfare of its workers while in service and after retirement. This according to Okotoni and Akerelodu (2005) has been recognized by past governments in Nigeria as evident in the different salary and pension reviews in the country.

Prior to the enactment of Contributory Pension Act in 2004, management of pension was handled with kid gloves, lacking transparency and accountability. The system was based on



Pay As You Go (PAYG), a non-contributory arrangement that faced so many challenges. The difficulty associated with payment of retirement benefits of retirees was as a result of corruption and nonchalant attitude of the government to the plight of retirees. Robolino (2006) opines that some nations have chosen to adopt various models of contributory arrangement schemes in which workers and their employers are required to certain percentages of their monthly emoluments into a Retirement Savings Account (RSA). This will form part of their savings from which they would be paid their retirement benefits after retirement. The Pension Reform Act 2004 was therefore enacted to correct the anomalies in the system. The pension scheme was fully funded, privately managed and based on individual account for both workers in the private and public organizations in Nigeria. The sole purpose of the act is to make sure all Nigerian workers benefit from the scheme after retirement. The act, among its various provisions replaced the old pension scheme and other acts pertaining to pension management. According to Maiturare (2016) cited in Dogon Daji and Mukhtar (2012), the contributory pension scheme as being designed to work out modalities for pension payment that is feasible as well as encouraging to workers. He further stressed that arrangement for employee's pension entitlements are stretched over a long period of time without the employer and the employee feeling much of the burden of the contribution, contrary to the arrangement under the non-contributory scheme where the government in the case of the public service bears the burden alone within a short period of time. It is against this background that this study seeks to examine how the contributory pension scheme influences productivity in Federal Polytechnic Nasarawa.

### **Statement of Hypotheses**

**Ho1:** The implementation of Pension Reform Act 2004 has not significantly enhanced productivity in Federal Polytechnic, Nasarawa.

**Ho2:** There are no challenges associated with the Pension Reform Act 2004 in Federal Polytechnic, Nasarawa.

## **LITERATURE REVIEW**

### **Pension and Productivity**

Pension according to Ozor (1999) cited in Eneogu (2012) is a periodic income paid after retirement to a worker who has served for certain years and retires as a result of age, earnings and length of service and payments are mostly on monthly basis. It is one of the three means of providing for post service life of employees. The other two are personal saving and state sponsor social security. Neil (1977) in Fashagba & Ayodele (2011) opines that incorporation of pension into employment conditions can help to improve productivity. Meeting the reasonable needs of employees, including pension in their present employment determines their length of stay and this has great impact on organisation's wellbeing as well as productivity. Nikels, McHugh & Mehugh (2002) in Fashagba & Ayodele (2011) conceptualize productivity as "the total output of goods and services in a given period of time divided by the worker's output per work hour". Better working tools and training enable employees to be very productive. Suleiman (2007) in Fashagba & Ayodele (2011) opines that employees who work in organizations need resources for assigned responsibilities which must be available as and when needed. According to Dorsey (1998) pension is created to



serve as moral booster to employees to put their best. He further opined that organisations contribute to workers' retirement accounts because workers are keen or prefer pension savings to cash payments.

In view of the above, any factor identified as being responsible for productivity in organization with no reference to pension as a reward that motivate employees to be productive would not give a better insight.

### **The Pension Reform Act 2004**

The defined contribution system is based on agreement between the worker and the organisation he works for to contribute certain amount of money to workers' retirement account. The advantage is that the totality of the contributions and the interest generated are paid to the retiree (ARM, 2004). In the Nigerian public service, a worker contributes 7.5% of his monthly earnings while his employer contributes 7.5% into a retirement savings account (RSA) under the supervision of Pension Fund Administrators that are regulated by the National Pension Commission. In Chile where Nigeria copied from, the contributory arrangement is managed by specialized companies, which are called pension fund administrators. Under this system, workers are expected to deposit a minimum of 10% of their wages into their retirement accounts managed by specialized companies of they choose.

The workers contributions are put into various securities like equities and fixed income instruments amongst others. The contributions and the profits are tax deductible (Vergara, 1997). The contributory pension scheme is new to Nigerian public administration and workers seem to have fear in its sustainability. It has the following as its objectives:

1. To make sure that pensioners receive retirement benefits as and when due.
2. To aid individuals to save for their retirement.
3. Set uniform guidelines and standard for management and payment of pension for the public service of Federation, federal capital territory and the private sector. (Pencom, 2008)

The Act set up a regulatory body known as the National Pension Commission with the mandate to regulate, supervise and ensure the effective management of pension issues in the country.

The Act equally made provision for the Pension Commission to have a part time Chairman, Director-General and four other full time Commissioners representing the six geo-political within the country. The Director-General shall be the Head and Chief Executive Officer who shall be saddled with the responsibility of general administration of the body.

The Act also made provision for representatives of the below organizations representing different interests on the governing board of the commission on a part time basis:

- The Head of the Civil Service of the Federation
- The Federal Ministry of Finance
- The Nigerian Labour Congress (NLC)
- The Nigeria Union of Pensioners (NUP)



- The Nigeria Employers Consultative Association (NECA)
- The Central Bank of Nigeria (CBN)
- The Securities and Exchange Commission (SEC)

### **Review of Empirical Literature**

On the effectiveness of the Nigerian 2004 pension reform policy Oscar, E.U. (2012) opined that the policy has brought a very strong pillar on the Nigeria economy and built a very strong confidence and compliance in the system, but further posited that the new scheme was yet to cover enough grounds, including the workers in the informal sector of the economy.

In their critique of pension reform act 2004, Anyim, Olusanya and Okere (2014) opined that although some inherent defects exist in the operations of the new pension scheme, but the pitfalls are not fundamental or substantial to compromise or undermine the objectives of the act to improve the welfare of retire public servants in Nigeria.

Dogon Daji and Mukhtar (2012) conducted a research on the contributory pension scheme and the plight of Nigerian workers. The study revealed that CPS is very unlikely to help in improving existing poor condition of a retired worker in the country, largely owing to the inherent, unstable and unpredictable characteristics of some salient variables influencing the scheme, even though it is acknowledged that the schemes has laudable objectives aimed at addressing the problem of pension administration in the country.

Joseph & Joseph (2011) in their study on pension reform, public workers productivity and welfare in Nigeria, posited that pension reform helps to put in place proper economic incentive to improve compliance, increase savings and accelerate financial market development.

Ahmed, Abayomi and Nureni (2016) assessed the effects of contributory pension scheme on employees' productivity in Lagos state. The findings of the study revealed that there is adequate relationship between adequate retirement package and employees' productivity and that it has a positive impact on the organisation's efficiency

Oluwatoyin and Ikechukwu (2009) in their study on the evaluation of the application of contributory pension scheme on employee's retirement benefits of quoted firms in Nigeria, concluded that even though the contributory pension scheme has positive impact on employee retirement, effective monitoring supervision and enforcement of the provisions of the pension reform act needs to be carried out.

Olatunji and Aduwo (2013) conducted a study on the empirical analysis of contributory pension scheme on retiree's benefits in Nigeria. The result of the study revealed that pension was established for the purpose of motivating and stimulating workers for productivity, enhancing socio-economic standards, encouraging fairly old workers to quit work so that young minds will be absorbed into the system. They also concluded that contributory pension scheme has positive impacts on retirees' social and economic life in Nigeria, recommending that effective monitoring and application of penalties for non-compliance by employees of labour.



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### **Theoretical Framework: Abraham Maslow's Hierarchy of Needs**

In this research, the theory adopted is Abraham Maslow's Hierarchy of needs. The theory is considered to be most appropriate and suitable due to the nature and dimension of the subject being researched about. A hierarchy need theory by Abraham Maslow (1954), a clinical psychologist is one of the most widely used theories for the study of motivation in organizations. According to Maslow, man always has needs to satisfy and that people do not randomly need or want things, but rather their complex needs are ordered in hierarchy of importance. Maslow's framework is based on three fundamental assumptions:

1. People want beings whose needs can influence their behavior.
2. Needs are arranged according to a hierarchy of importance from the basic physiological need to the complex self-actualization needs.
3. Regardless of culture, individuals have a set of needs that tend to arise after lower ones have been reasonably and relatively satisfied.

Maslow therefore classified these needs into five basic categories, arranged hierarchically as follows:

- (i) Physiological needs: This category consists of human body's primary needs such as food, water and air.
- (ii) Safety needs: When physiological needs are adequately met, the next higher level assumes importance. Safety needs include protection from physical harm, ill health, economic disaster and the unexpected.
- (iii) Social needs: These needs are related to social nature of people and their need for companionship. Here, the hierarchy departs from the physical or quasi physical needs of the two above levels. Non-satisfaction of these needs may affect the mental health of an individual.
- (iv) Esteem needs: The need for both awareness of importance to others (self-esteem) and actual esteem from others is included. Satisfaction of these needs lead to feelings of self-confidence and prestige.
- (v) Self-actualization needs: Maslow defines this level needs as the desire to become everything one is capable of becoming. This means that the individual will fully realize his life goals at this level.

The relevance of this theory in relation to pension and productivity is the fact that people will be motivated to do their best (performance) if they expect that their action will help them achieve their goal of better of better life after retirement. The present-day worker in Nigeria has his or her hope anchored on pension for survival after retirement. The theory therefore, corroborates the fact that most pensioners and even those still in the service crave for the actualization of what Maslow called 'self-actualization needs' and a better life after retirement. The drawback of the theory is the wrong assumption by Maslow that all people experience these needs in the same order, failing to recognize cultural and individual differences. For example, in some societies, social needs may be regarded more relevant than esteem needs. But despite its shortcomings, the theory is still considered as suitable for the study.



## METHODOLOGY

In generating data for this study, both the primary and secondary sources of data were utilized. The secondary sources of data utilized in the study include books, journals, magazines, newspapers and official documents. Questionnaire is the research instrument utilized to elicit information from the primary source of data.

The population of this study constitutes all the men and women pensioners in Federal Polytechnic, Nasarawa. Thus, the total population of this study is 617. The study made use of Yamane's statistical formula to arrive at 400 persons that were recognized as the sample size of the study. In view of this, 400 questionnaires were administered to the sample respondents.

The questions were structured in the close ended format using the Liker scale response categories. This requires the respondents to either "Strongly Agree", "Agree", "Disagree" and "Strongly Disagree".

Data collected was analyzed using frequency and tables. The data generated was interpreted through the use of a 4-point Liker questionnaire. It also used descriptive statistics involving percentage to analyse the returned questionnaires from the field. Chi square was also used to test the hypothesis.

## DATA ANALYSIS AND PRESENTATION OF RESULTS

**Table 1: Summary of the Questionnaires Distributed**

S/N	No of Questionnaires Administered	No. of Questionnaires Returned	Percentage of Questionnaires Returned	%
1	400	382	95%	

*Source: Field Survey, 2017*

From the above table, 382 questionnaires representing 95% were returned by the respondents

**Table 2: Personal Information of the Respondents**

S/N	Personal Information	Scale	Frequency	Percentage
1	Sex of Respondent	Male	199	64%
		Female	183	36%
		Total	382	100
2	Qualification	SSCE	44	7%
		Dip/ NCE	85	22%
		HND/Degree	150	36
		Master Degree	95	32%
		PhD	08	
		Total	382	100%



3	Marital Status	Married	301	79%
		Single	81	21%
		Total	382	100%

*Source: Field Survey, 2017*

The information presented in the table above indicated that 199 persons representing 64% of the respondents are male; while 183 representing 36% are female. 44 persons representing 7% have SSCE, 85 persons representing 22% have either NCE or Diploma, 150 persons representing 36% have either HND or Degree, 95 persons representing 32% possess Master's Degree while 8 persons representing 3% possess PhD. 301 persons representing 79% are married while 81 persons representing 21% are single

**Table 3: Implementation of Pension Reform Act 2004 Influenced Productivity in Federal Polytechnic, Nasarawa**

Response	Frequency	Percentage
Yes	168	44%
No	214	56%
Total	382	100%

*Source: Field Survey, 2017*

The information presented in the table above on how the implementation of PRA 2004 influenced productivity indicates that 168 respondents representing 44% agreed that implementation of PRA 2004 influenced productivity while 214 respondents representing 56% disagreed.

**Table 4: There are no Challenges Associated with the New Pension Scheme in Federal Polytechnic, Nasarawa**

Response	Frequency	Percentage
Strongly Agreed	82	21%
Agreed	68	18%
Disagreed	130	34%
Strongly Disagree	102	27%
Total	382	100%

*Source: Field Survey, 2017*

**Table 5: The Pension Reform Act 2004 has Solved the Problem of Irregular Payment to Pensioners**

Response	Frequency	Percentage
Strongly Agreed	38	10%
Agreed	40	11%
Disagreed	119	31%



Strongly Disagree	185	48%
Total	328	100%

*Source: Field Survey, 2017*

The information presented in the table above revealed that 10% of the respondents strongly agreed that contributory pension scheme has solved the problem of Irregular payment to pensioners; 11% agreed, 31% disagreed and 48% of the respondents strongly disagreed.

**Table 6: The Consolidated Nature of the New Pension Fund Guarantees Sustainability of the Scheme for Constant Payment**

Response	Frequency	Percentage
Strongly Agreed	66	17%
Agreed	50	13%
Disagreed	170	45%
Strongly Disagree	96	25%
Total	382	100%

*Source: Field Survey, 2017*

Table above, which presents information on the sustainability and constant payment of pensioners shows that 66 respondents representing 17% strongly agreed that the consolidated nature of the new pension fund guarantee the sustainability and constant payment of pensioners; 50(13%) agreed with the idea; 170(45%) disagreed while 96(25%) strongly disagreed with the assertion.

**Table 7: Pensioners under the New Scheme access more easily their Pension Account than in the Old Scheme**

Response	Frequency	Percentage
Strongly Agreed	100	26%
Agreed	192	50%
Disagreed	50	14%
Strongly Disagree	40	10%
Total	382	100%

*Source: Field Survey, 2017*

The information presented in the table above on the accessibility of the pension account indicated that 100 respondents representing 26% strongly agreed that pensioners under the new pension scheme accesses more easily their account than the old system; 192 respondents representing 50% agreed while 50 respondents representing 14% disagreed and 40 respondents representing 10% strongly disagreed.





**Table 8: There is Transparency and Accountability in the Management of Pensioner's Contribution under the Contributory Pension Scheme**

Response	Frequency	Percentage
Strongly Agreed	42	11%
Agreed	40	10%
Disagreed	151	40%
Strongly Disagree	149	39%
Total	382	100%

Source: Field Survey, 2017

The table above revealed that 42 respondents representing 11% strongly agreed there is transparency and accountability in the management of pension administration under the new pension scheme; 40 respondents representing 10% agreed to that fact; while only 151(40%) and 149(39%) of the respondents disagreed and strongly disagreed.

**Table 9: There is General Disaffection and Lack of Confidence in the New Pension Scheme.**

Response	Frequency	Percentage
Strongly Agree	315	82%
Agree	67	18%
Disagree	00	0%
Strongly Disagree	00	0%
Total	382	100

Source: Field Survey, 2017

The table above shows that 315 respondents representing 82% strongly agreed that there is general disaffection and lack of confidence in the new pension scheme by pensioners while 67 respondents representing 18% agreed. None of the respondents disputed.

### Hypothesis Testing

The chisquare ( $\chi^2$ ) statistics technique was used in testing the hypotheses.

$$X^2 = \sum \frac{(f_0 - f_e)^2}{f_e}$$

Decision Rule.

If  $\chi^2_{cal} > \chi^2_{0.05}$  reject  $H_0$

If  $\chi^2_{cal} < \chi^2_{0.05}$  Accept  $H_0$



**Hypothesis 1:** The implementation of the Pension Reform Act 2004 has not significantly enhanced productivity in Federal Polytechnic, Nasarawa.

<b>X<sup>2</sup> Calculated</b>	<b>DF</b>	<b>Level of Significance</b>	<b>X<sup>2</sup> critical value</b>	<b>Remark</b>
4	1	0.05	5.024	Accept H <sub>0</sub>

Since chi-square calculated (4.0) is less than chi-square tabulated (5.024), we accept H<sub>0</sub> which states that the implementation of the Pension Reform Act 2004 has not significantly enhanced productivity in Federal Polytechnic, Nasarawa; we conclude that PRA 2004 has not enhance productivity in FPN

**Hypothesis 2.** There are no challenges associated with the Pension Reform Act 2004 in Federal Polytechnic, Nasarawa.

<b>X<sup>2</sup> Calculated</b>	<b>DF</b>	<b>Level of Significance</b>	<b>X<sup>2</sup> critical value</b>	<b>Remark</b>
32	3	0.05	7.815	Reject H <sub>0</sub>

Since chi-square calculated (32) is greater than chi-square tabulated (7.815), we reject H<sub>0</sub> which states that there is no challenge associated with the new pension scheme in Federal Polytechnic, Nasarawa and conclude that there are challenges.

## DISCUSSION OF FINDINGS

The findings of the research show that the Pension Reform Act 2004 has not enhanced workers productivity in Federal Polytechnic, Nasarawa and the country at large. The researcher discussed the following findings:

1. The Pension Reform Act 2004 has not influenced workers' productivity in Federal Polytechnic, Nasarawa.
2. The new pension scheme is bedeviled by so many challenges.
2. The new pension scheme was not properly implemented to address the problem of non-payment of gratuity.
3. The consolidated nature of the new pension scheme has not guaranteed its sustainability.
4. The new pension scheme has ensured easy access to pension accounts.
5. There is no transparency and accountability in the management of pensioners' contributions.
6. Pensioners have no strong confidence in the new pension scheme.



## CONCLUSION AND RECOMMENDATIONS

On the basis of the findings of this study, it is conspicuous that the new pension scheme has not influenced productivity in Federal Polytechnic, Nasarawa. This is evidenced by the fact that majority of the respondents disagreed with the assertion that the 2004 pension Act influenced productivity. We may also conclude that the implementation of the new pension scheme has been bedeviled by so many challenges which rendered it ineffective to address the plight of pensioners in Nigeria.

Consequently, a number of recommendations have been made in line with the findings of the study. First, government should put in place a mechanism for effective implementation of the new pension scheme with a view to improving the performance and productivity of public servants in Nigeria. Secondly, government and civil society organizations should serve as watch dog on the activities in the pension industry to avoid problems that have to do with irregular payment to pensioners. Thirdly, Pension Fund Administrators should be transparent and accountable in the management of pensioners' contributions and savings. Finally, further reform of the new pension act should be done to address the challenges confronting the pension industry in order to win the confidence of pensioners and contributors.

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