

*Full Length Research Paper*

# Effects of contributory pension scheme on employees' productivity: Evidence from Lagos state government

Ahmed Ishola Kotun\*, Abayomi Olarewaju Adeoye and Nureni Sanusi Alaka

Department of Business Administration, Lagos State University, Ojo, Lagos State, Nigeria.

Received 16 June 2016; Accepted 27 July, 2016

This study critically examined some of the justification for the contributory pension scheme as part of its values and determined their implications for public servants productivity and pensioners welfare in Lagos State. The methodology employed to achieve these objectives was carried out through primary source of information and personal interview. The primary source involved field survey that consists of administering questionnaire. The sample size is one hundred and twenty respondents (120). Simple random sampling method was used in administering the questionnaire. The data collected was analyzed statistically in form of tabular presentation with the aid of Statistical Package for Social Sciences (SPSS) version 21. Two hypotheses were tested. The result of the analyses reveals that there is significant relationship between adequate retirement package and employees' productivity and that it has a positive impact on the organization efficiency. Both empirical study and oral interview conducted however, found that the contributory pension scheme (CPS) has positive potentials over the defined benefits pension scheme (DBPS). Therefore, in order to enhance the workability and acceptance of the contributory pension scheme, it was recommended that stakeholders should be involved in the review of the scheme so as to streamline it and to adequately supervise operators' clients' sensitization programmes. Also, dissemination of appropriate information on the new pension scheme should be a continuous exercise. Thus, other States within Nigeria and some African countries can benefit from Nigeria's experience.

**Key words:** Contributory pension scheme, employees, retirees, pension, productivity.

## INTRODUCTION

Pension management in the creation and maintenance of an environment for the performance of individuals in an organisation cannot be over emphasized. The issue of pension management is a tool that affects employment decision in a given organisation, for it refers to as a form of income that employees or their beneficiaries' receive after retirement, become disabled or die. It is one of the solid security attributes approved by the International

Labour Organization (ILO) Convention No. 102 which has worked hard on social security matters since 1919 and more so since 1966 against all arguments that have been advanced, including the freedom of the individual worker to live life the way he deems fit with his hard earned money without being burdened with pension issues (ILO, 1951).

Thus, pension is simply the amount set aside either by

\*Corresponding author. E-mail: [ahmedkotun@gmail.com](mailto:ahmedkotun@gmail.com).

employer or employee or both to ensure that at retirement, there is something for employees to fall back on as income. It is referred to as a sum set aside for retirement purposes. It is a form of arrangement that hopes that at retirement, retirees will not be stranded financially. Furthermore, pension reform is not a new issue in any part of the world. It is usually a continuous process especially with the ever changing economic and political processes witnessed everywhere in the world (Blake, 2003).

The new pension reform in Nigeria adopted by Lagos State Government is contributory in nature with the intent of ensuring that every person who has worked in either the public or private sectors receives his or her retirement benefit when due. The reform was to serve as social welfare scheme for the aged, by ensuring that workers save to cater for their livelihood during old age (Sule, 2009).

Contributory pension scheme is a fully funded pension scheme that generates adequate funds through certain percentage of contributions from monthly earnings by both employee and employer through a form of savings. The introduction of the contributory pension scheme (CPS) through the pension reform Act in June, 2004 which commenced April, 2007 in Lagos State requires a civilian employee who is not a daily paid or casual worker, and the employer in either the public or private sector organization to contribute to the scheme.

The employee and the employer are to contribute a minimum of seven and a half per cent (7.5%) each out of the employee's consolidated monthly emoluments (basic, rent and transport) to the employee's pension fund (or the employer alone can contribute the minimum fifteen per cent 15%) to the employee's pension fund. For the armed forces, the government contributes twelve and a half percent (12.5%) and the armed forces personnel contribute two and a half percent (2.5%).

The scheme covers the private sector with five or more employees. Those exempted from the scheme are the Chief Justice of Nigeria, a Justice of the Supreme Court, President of the Court of Appeal, and a Justice of the Court of Appeal, who retires at or after the age of sixty-five years' (Nigeria Constitution, 1999 Section 291), with their salaries. Among the exceptions are public employees who have three years or less to retire with effect from the date of enactment of the Pension Act being 30th June 2004. The scheme replaced the pay-as-you go or defined benefit pension scheme (DBPS) which was a non-contributory, solely or fully funded scheme by the employer, that is, the government with respect to all public employees in Nigeria. In the old scheme, academic staff in universities who retired after fifteen years as Professor, or at the age of sixty-five years, from 1991, retired with their salaries (Pension Decree, No. 102 of 1979). The new scheme did not make such provision, except for judges.

The Contributory Pension Law 2007 established the

Contributory Pension Scheme for Lagos State Public Service with the objective to;

1. Assist all persons in the employment of the State government to save towards their retirement.
2. Ensure that persons who live or retire from the State public service receive their terminal or retirement benefits as at when due; and
3. Establish a set of rules and regulations of the administration and payment of retirement benefits in the public service of the state.
4. Every employee in the state shall retire on attaining the age of 60 years or after 35 years of service, whichever comes earlier in time.

The pension scheme applies to all pensionable employees in the public service of the state, employees of local government council, tertiary institutions and all Parastatals established by the State Government. Moreover, Pension consists of lump sum payment paid to an employee upon his disengagement from active service. This payment is usually in monthly installments, which may be contributory or non-contributory, fixed or variable benefits; group or individual; insured or trustee; private or public and single or multi-employer (Ozor, 2006).

Over the years, it seems that emphasis has always been laid on employee productivity by organisations and management for its long term corporate objectives without considering the human effort that carry out the task either during the course of service or after retirement. Retirement benefits of course aid retirees to sustain themselves when they retire or too old to do anything.

This accounts for the importance that organisation must attach to retirement benefits to cater for retirees who have spent productive part of their lives for the organisation survival.

As a result, many pensioners and would-be retirees that were not well informed about the operations of the contributory pension scheme need to be adequately educated. This low level of awareness has triggered off anxiety and uncertainty about their retirement years (Omoni, 2013). All of the above have been to the detriment of productivity of retired public servants, their dependents and a tell-tale on the image of the government. The whole problem has been predicated on the inability of the government to continue to maintain fully funded defined benefit pensions scheme (FFDBPS).

More importantly, supervision and regulation of the activities of Pension Fund Administrators is necessary to ensure safety and sustainability of the scheme.

Thus, evaluation and provision of adequate information seem to have been put in place to monitor dissemination of the new contributory pension scheme has not been adequately considered, this has however created a gap in awareness of the scheme hence, the needs for this research work.

## LITERATURE REVIEW

Pension is a regularly paid stipend as benefit due to a person in consideration of past services. It is referred to as a sum set aside for retirement purposes. It is a form of arrangement that hopes that at retirement, retirees will not be stranded financially. Pension is simply the amount set aside either by employer or employee or both to ensure that at retirement, there is something for employees to fall back on as income (Fapohunda, 2013). Pension is an amount paid by government or company to an employee after working for some specific period of time, considered too old or ill to work or have reached the statutory age of retirement (Adams, 2005). Iwu (2007) mentioned that as a scheme, pension is the periodic payment granted to an employee for services rendered, based on contractual legal enforceable agreement, paid by an employer at the agree time of termination of employment.

### Pension management

Sterns (2006) observes that pensions could discourage labour turnover. If both the employees and employers contribute to the scheme, then it serves as a general area of joint interest and cooperation and therefore helps to foster better employment relations. He stated further that pension administration consists of five basic elements namely: flexibility; that is, to be able to cater for the needs of retirees'; amount of benefits which is sum accrued to an ex -employee of an organisation; finance, activity of managing pension money; contribution to cost of pension by employee and employer and death benefit that serves as a benefit for beneficiary of a deceased employee.

Pension as a programme is to improve the living standard of the elderly people who have outlived the labour force group and it is also a social security as well as welfare package for the old or retired people who are in their years of labour inactivity (Bertrand et al., 2003; Idowu, 2006). As for us, a pension scheme is a financial package which legally specifies its organization and operation, so as to provide rest of mind to workers, sustain or spur them to more productivity and ensure that a pensioner and his dependents live a decent life. Pension schemes are social security maintenance plan for workers after their disengagement as employees through retirement (Ilesanmi, 2006). Pension consists of lump sum payment paid to an employee upon his disengagement from active service.

According to him, payments are usually in monthly installments. He further stated that pension plans may be contributory or non-contributory; fixed or variable benefits; group or individual; insured or trustee; private or public, and single or multi-employer. In many advanced countries of the world, income from pension to an individual may be supplemented by social security

benefits, which apply to all citizens in such country whether or not they belong to the working class. However, since most citizens in such countries might have at one time or another, been workers, it would appear that social security benefits are co-terminus with the working class. It is different from gratuity (Adegbayi, 2005; Ozor, 2006).

There are four main classifications of pensions in Nigeria. These are: Retiring Pension: This type of pension is usually granted to a worker who is permitted to retire after completing a fixed period of qualifying service usually practiced in Nigeria between 30-35years. Compensatory pension: This type of pension is granted to a worker whose permanent post is abolished and government is unable to provide him with suitable alternative employment. Superannuating Pension: This type is given to worker who retires at the prescribed age limit of 60-65 respectively and Compassionate Allowance: This occurs when pension is not admissible or allowed on account of a public servants removal from services for misconduct, insolvency or incompetence or inefficiency (Ugwu, 2006; Amujiri, 2009). Pension helps employees to read just themselves properly into the society after leaving employment and a pension system is essentially an income security programme which provides benefits to beneficiaries who may be retirees, pensioners or destitute, thus, pension reform is not a new issue in any part of the world (Ako, 2004; Armstrong, 2010).

In Nigeria from 1951 till date, many pension schemes has been established either through act of parliament and a decree under the military. Such pension schemes are, Nigeria Pension Scheme (NPS) of 1951, National Provident Fund (NPF) of 1961, Nigeria Social Insurance Trust Fund (NSITF) of 1990, Local Government Pension Scheme (LGPS) established by a military decree in 1977 which was later change to Civil Service Pension Scheme (CSPS) by a military decree in 1979, Armed Forces Pension Scheme established in 1979 by a military decree to cater for the military personnel and Police Pension Scheme (PPS) which was formed with other agencies pension scheme established by a decree in 1993 Pension Reform Act (PRA) (1958), Uzoma (1993), Balogun (2006) and Fapohunda (2013).

### Challenges of the old pension schemes

The need for pension reform was necessitated by the myriad of problems that plagued the defined benefit arrangement in the Public Sector and other forms of pension systems like occupational schemes, mixture of funded and defined benefit schemes that operated in the private sector. One of the challenges of the defined benefit was its dependence on budgetary provisions from various ties of government for funding. The scheme became largely unsustainable due to lack of adequate

and timely budgetary provisions. This was the reason for soaring gap between pension fund obligations and revenues, which threatened not only economic stability but also crowded out necessary investments in education, health and infrastructure. It was worsened by various increases in salaries, which ultimately led to increase pensions and hence undue pressure on government fiscal responsibilities (Idowu, 2006; Fapohunda, 2013). Pension administration had been largely weak, inefficient and cumbersome due to poor staffing and equipping that led to poor record keeping as a result, pensioners had to spend years before their retirement benefits were paid. The exit phase was quite challenging where payment procedure was often very tedious, sometimes the pensioners had to wait for months and years, to collect their entitlements. Similarly, the reimbursement process for the split of pension and gratuity payments in public service was very clumsy, untidy and sometimes fraught with bribery and corruption (Smart, 2012).

The Private sector schemes were characterized by very low compliance ratio due to lack of effective regulation and supervision of the system. However, most of these schemes were akin to provident fund schemes which did not provide for periodic payment of benefits. Even at this, many private sector employees were not covered by any form of pension scheme (Omoni, 2013).

### **Extant theories of pension/Theoretical frame work**

Many theories have been developed in relation to pension reform across the globe. Three of them that are practically germane to our study are utility and preference, life cycle, and productivity theories of pension.

#### **Theory of utility and preference**

The theory of utility and preference propounded by Samuelson (1950) quoted in *Koszegi and Rabin (2007)* recognizes that it is not always possible to obtain all necessary data to develop all alternatives to decision making. The theory posits that some decisions can be appropriately taken partly on subjective evaluation. Utility and preference theory states that a high risk, untested decision, which does not enjoy consumer or user or beneficiary acceptance, in spite of its potentialities, is not assured. Preference would be given to the high risk decision in which utility is guaranteed, that is, inherent quality or value is potentially more assured to be constant than the low risk decision in which utility is not assured.

#### **Theory of life cycle**

This is related to the consumption pattern and saving decision of the individual who is involved in administering

a plan. The theory is mainly associated with Modigliani and Brumberg (1980) cited in Idowu (2006). It states that consumption is a function of life time wealth at one's disposal. This wealth (financial, real assets and expected value of future income) is not affected by changes in the pattern of income that comes to one over time and the pattern of consumption is not also affected.

The theory makes one exception to the above postulation, holding that there is one ground in which consumption can be affected. It is that pension reform plan can change the wealth of a pension plan participant. The life cycle theory believes or argues that pension reform can affect savings rate of a pension plan participant by affecting the average wealth of the person. This is because a sustainable pension plan can grow huge financial resources for further investment earnings which can cause significant redistribution of income, leading to increased wealth to pension participants. This can encourage increased or sustainable saving propensity.

While the theory implicates the power of huge income creation and redistribution to participants or contributors, leading to increased wealth, its provision is that the pension plan be institutionalized and sustainable while the pension reform has the power to change or affect the life cycle. However, the reliability of the PFA, the regulatory bodies and security agents is thus, brought to the fore. The last point is an indication of a caveat that the theory is not influenced to economic depression such as world economic recession and management.

#### **Productivity theories of pension**

Productivity theories of pension posited by Dorsey (1998) is of two sides; the demand and supply sides. Both sides of the theory agreed that pension schemes are established as incentives and motivation to encourage workers to increase their productivity or output or performance. The demand side of theory posits that employers make payments to employees' pension funds because workers are keen or prefer pension savings to cash payments to their emoluments. This is because of the attaching benefits. This includes reduction in income tax of the employee, the retirement benefits, such as social security from the employer's contributions, interest earnings and dividend earnings on pension fund investment or assets that are not taxed.

The demand side of the pension productivity theory also states that employees, especially the high income earners, prefer pension to cash payments because of a possible annuity (fixed amount of money paid at regular intervals) for as long as the pensioners lives.

The supply side of this theory posits that employees' gain from pension tends to raise the level of workforce productivity and reduce labour costs. This is because the employers' investment in the training of the workforce,

improved conditions of service, provision of adequate resources, etc. are greatly off-set by the workforce, improved output or productivity. There is also the perspective that the supply side of the theory serves as an incentive for personnel to remain in the organization for a long time. The theory enhances the average wealth of a pensioner, especially when the assets are invested to generate large income for redistribution to participants. The theories and concepts also inform that a good pension scheme motivates the workforce to put in their best in the work place as they look forward to a rewarding retirement period.

### **Contributory pension schemes**

Contributory pension is the amount of money set aside by an employer or employee or both to ensure that at retirement there is something to fall back on as income. Contributory pension scheme is a system in which an employer pays certain amount of money regularly into a pension fund while the employee also pays some money into the same pension fund which forms the aggregate of what the employee gets at the time of retirement. Either the person has worked in the public or private sector; it serves as a social welfare scheme for the age and ensures workers save to cater for their livelihood during old age (Sule, 2009; Egbe, 2013).

The 2004 Pension Reform Act is a paradigm shift from the 1979 pension Act. Under the new scheme, employers and employees alike are to contribute 7.5% of employees' monthly emolument which include basic salary, housing and transport allowance.

Nevertheless, military personnel are to contribute 2.5 percent while the Federal Government contributes 12.5 percent of the employees' monthly emolument (Pension Reform Act, 2004).

The scheme covers the private sector with five or more employees. The only exceptions are public employees who have three years or less to retire with effect from the date of enactment of the Pension Act being 30th June 2004 (National Pension Commission, 2004).

This is also applicable to Lagos State Government workers despite year 2007 as the commencement date and passage of the Lagos State Pension Law (2007) which has little differences in its Law to that of Federal pension reform Act 2004.

### **Pension reform act (PRA) 2004**

The Pension reform act (PRA) 2004 provides for the establishment of a contributory pension scheme for any employment in the Federal Republic of Nigeria. It stipulates payment of retirement benefits to employees to whom the scheme applies: (a) public sector employees (b) private sector employees in a firm with staff strength

in excess of 5 employees. The Objectives of the scheme are to:

1. Ensure seamless funding of the retirement scheme by assisting improvident individuals save in order to cater for their livelihood at old age.
2. Ensure that private and public sector employee receives his/her retirement benefits as at when due.
3. Establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits.

### **Key operator of the contributory pension scheme**

There are four key operators under the contributory pension scheme including the regulator. Each of the operators carries out its functions efficiently and effectively in a well-organized and professional manner. The successful role of these four operators is important and key in achieving the desired success of the scheme. Functions of these key players are;

### **National pension commission (PENCOM)**

The duties of PENCOM as reflected in PENCOM (2004) include:

1. Regulation and supervision of effective administration of pension matters in Nigeria.
2. Approval, licensing and supervision of all pension fund administrators.
3. Establishment of standards, rules and issuance of guidelines for the management and investment of pension funds under the act.

### **Lagos state pension commission (LASPEC)**

Lagos State was amongst the first State to embrace the new pension scheme thereby establishing Lagos State Pension Commission through its contributory pension scheme Law 2007 with the following objective:

1. Regulate and supervise the scheme established under the Law
2. Register and maintain a list of approved Pension Fund Administrators
3. Monitor and ensure compliance with the investment guidelines.
4. Carry out public enlightenment and management of the scheme.
5. It shall liaise with National Pension commission and perform other duties necessary for the discharge of its functions under the Law.

### **Pension fund administrators (PFAs)**

The pension reform act (2004) provides that from the commencement of the plan or scheme, pension funds shall only be managed by Pension Fund Administrators (PFAs) licensed by PENCOM under the act to perform the following functions:

1. Open Retirement Saving Account (RSA)
  1. Invest and manage pension funds and assets in accordance with the provision of the Act.
  2. Maintain books of account relating to pension funds managed by it.
  3. Provide regular information on investment strategy, returns and other performance indicators to PENCOM and employees
  4. Payment of retirement benefits in accordance with the provision of the Act.

### **Pension fund custodians (PFCs)**

PENCOM Act 2004 stipulates that pension funds and assets are to be held solely in custody for the Pension Fund Administrators (PFAs) by an independent Pension Fund custodian (PFC). The PFC has the following responsibilities;

1. Receiving the total contributions remitted by the employer within 24 hours and notifies the PFA of same and holds the pension assets in safe custody on trust for the employee and beneficiaries of the RSA.
2. Settling of transactions and undertaking activities relating to the administration of pension fund investments including the collection of dividends.
3. Executing relevant proxy in favour of the PFAs for the purpose of voting in relation to the investments. The PFCs provides some control over the activities of the PFAs and provides a hedge against unauthorized access or trading. The custodian is in no way empowered to utilize any pension fund assets in its custody to meet its own financial obligations or that of the third party.

### **Life insurance company (Annuity service provider)**

The Life Insurance Company is to underwrite or handle the group life policy to provide a benefit/ cover of a minimum of three hundred percent of the total annual emolument of an employee in the event of death of an employee whilst in service. The group life cover is usually an annual contract and come into force upon payment of the applicable premium. The schedule of members covered and the benefits payable for each employee must be clearly stated in the policy document. The contract is renewable at the anniversary date of the policy (Smart, 2012). The proceeds of the death benefit payment should be in the name of the PFA/PFC of the

deceased employee and given to the employer for remittance appropriately in deceased retirement savings account. Also the provision of annuity, which is an option in the Act, as a method of payment of monthly pension to a retiree in as much as he lives after retirement (Annuity for life) is done by the Insurance Company. The life Insurance Company (or composite of Insurance Company) is licensed and supervised by the National Insurance Company (NAICOM).

### **Features of the contributory pension scheme**

#### ***Opening of retirement savings account***

Every employee shall open a retirement savings account (RSA) with any pension fund administrator of his choice from the list of registered PFAs of the State and shall submit his personal identification number (PIN) to his employer for remittance of the pension contributions deductible from salary as well as the employer's portion. The PIN is unique for each individual. It start with the letter PEN followed by number (1) for male employee and (2) for a female employee. The RSA is portable and can be moved to another employer in case of change in employment.

#### ***Monthly payment of pension contributions***

The rate of contribution is 7.5% of monthly emolument by both the employer and employee making a total of 15%. The employee's portion is deducted from the payroll that consist basic salary, housing and transport allowances and remitted alongside the employer's portion into the retirement savings account of employee through the collecting bank of the pension fund custodian (PFC) of the pension fund administrator. The employer is to deduct and remit the contributions within seven days from the day the employee is paid his salary while custodian shall notify the PFA of the receipt of such contributions. It is to be noted that contributions and retirement benefits are tax exempt.

#### ***Group life insurance policy***

The employer shall maintain a life insurance policy in favour of the employee for a minimum of three times the annual total emolument of the employee. The premium for the cover shall borne solely by the employer. The benefit from the policy is to be paid into the RSA opened by the deceased employee whilst in service.

#### ***Withdrawal from retirement savings account***

An employee can only withdraw from RSA upon the

attainment of 50 years of age and no longer in employment. Employee who retires due to medical reasons or disability or is compulsorily retired can withdraw a lump sum of 25% of the balance in his retirement savings account if less than 50 year of age at the time of retirement/withdrawal from employment and could not secure a new job after three months of such retirement. Where an employee is dismissed from employment after being found guilty of misconduct or negligence or irregularity, the employer portion and all employer benefits are forfeited. The employee is however entitled to his own contributions.

### ***Clearance certificate***

Every employee who has retired or otherwise from service shall obtain and present a clearance certificate or letter from his last employer before the PFA gives such employee access to benefits. Where the employee is indebted to his employer, the total amount of the debt outstanding or value of the employer's property unduly held by the employee shall be deducted from the employee's retirement savings account and paid to the employer.

### ***Past service benefit and redemption fund***

Employees' in service prior to commencement of the new pension scheme are eligible for past service benefits. The nominal roll for payment of salaries as at expiration of the old scheme was used for the actuarial valuation of the past service benefit. Upon computation of the past service benefit, a bond is issued. In the event of death, the bond is presented to the beneficiary of the deceased employee. Since the total value of past service benefit payable in most cases is high, it is necessary to have a dedicated fund for payment of the past service benefit hence, the retirement benefit bond redemption fund (RBBRF) account into which 5% of total monthly wage bill is paid for the sole purpose of redeeming the bond issued. Also, past service benefits of employee who leaves service at various dates before retirement could be planned in the build-up of the fund.

### ***Processing of benefit payment***

The law provides two modes for payment of benefit at retirement;

**The programmed withdrawal module of the PFA:** It is a product of the PFA which uses a template to compute the lump sum and the monthly pension payable as retirement benefit to the retiree. The four parameters used are the age, gender, final emolument and RSA

balance. The method of the template is that as lump sum increases, the monthly pension reduces. Each retiree shall agree with the PFA during exit discussion, the amount to be received in line with the minimum and maximum amount payable. The payments under the programmed withdrawal module are supervised by the National Pension Commission (PENCOM) and benefits are paid for a minimum of eighteen years after retirement.

**The annuity option:** The annuity option serves as an alternative to programmed withdrawal module; it is obtained from a licensed life insurance company and also pays monthly pension to retiree till death. Where a retiree opted to buy annuity, PFA would pay the lump sum and transfer the balance to the insurance company for the purchase of single premium annuity. Annuity is guaranteed for a period of ten years and thereafter for life.

### ***Rationale/Values of the contributory pension scheme***

The move from defined benefit scheme to defined contributory scheme is now a global phenomenon following the success stories of the Chilean pension reform of 1981. The concept shift from defined benefit scheme to contributory scheme in developed and developing countries was ascribed to such factors as increasing pressure on the central budget to cover deficits, lack of long-term sustainability due to internal demographic shifts, failure to provide promised benefits. Developed countries like the USA, United Kingdom (UK) and emerging market economies of Chile, Mexico, Nigeria etc adopted the funded pension scheme because it enhances long-term national savings and capital accumulation, which, if well invested can provide resources for both domestic and foreign investment (Smart, 2015). The Pension reform has some peculiar features that position it as a catalyst for sustainable social welfare programme. The fact that the reform is fully funded ensures that the overall retirement income is maintained from the onset of the scheme (Smart, 2012). This ensures that retirement benefits are paid on sustainable basis because funds are always available to defray any pension obligation that falls due.

The contributory pension scheme empowers Nigeria workers by giving them the choice as to how their pension is managed and the assurance of their retirement benefits. It enhances labour mobility as workers can work freely from one organization to another without losing any benefit, should a worker worked for relatively short period in one organization and move to another, he or she has nothing to lose in terms of retirement benefits (Achimugu et al., 2015). The values of contributory pension scheme to the government and the individual workers / contributors / retirees and their

dependents are of immense, as it has enabled Lagos State government to weather the storm of embarrassment that it used to be subjected to because of its inability to make payment of pension benefits. This is in spite of the fact that the percentage of retired public servants in Nigeria, and Lagos State in particular is quite lower than what obtains in many countries of the world.

Findings have shown that the percentage of people who are between 60 and 75 years of age that is the range which pensioners falls in some African countries including Nigeria is much less in Africa and particularly in Nigeria, yet the government had been found wanting in the payment of the DBPS which was even lagging behind inflation rate and the five yearly review period (Nigeria Constitution, 1999 section. 173). For now, the PFAs are to accommodate the pressure from pensioners that used to be the government's lot.

Moreover, the government can now devote some of its attention to other pressing needs of the society. For example, government can now preoccupy itself with adequate public policy process such as formulation, implementation, impact evaluation and feedback assessment. It is expected to ply its entire savings from leakages on account of payments to ghost retirees to the common good of the society (Uzoma, 1993; Ilesanmi, 2006).

On the workers' and pensioners' side, the rational and values include, the choice and change of a PFA by the individual worker (Pension Reform Act 2004, section 11), who exercises his personal judgment on the matter. There are other areas in which the individual exercises his personal judgments in the CPS. These include a retiree deciding what lump sum of money, out of his total pension fund, he wishes to take out at once as his gratuity. The remaining sum of money is to be paid to him on monthly or quarterly basis, as he chooses, as pension. The law, however, does not allow a retiree to take a lump sum of more than 50% of his total pension fund. He could however take less than 50%.

To assist the individuals and PFAs in the decision making processes, at least at this early stage of the operation of the CPS, PENCOTM has provided a template for use by all the PFAs. It is used to calculate the distribution of the retiree's fund, with the merits of fairness, equity, and reduction in subjectivity, bias, and the promotion of error-free calculations (PENCOTM, 2004).

An additional opportunity for participation is that the individual can take part in the choice of investment opportunities or products (on the guidance of professional fund managers) for his pension fund. This is, however, done within the general regulatory framework of low risk investment of a pensioner's funds, while assuring certainty for the fund.

The opportunity to change a perceived poor performing PFA which is inherent in the CPS, is an additional impetus for the PFA, who is thus, encouraged to be more

competitive and relevant, and hence ensure its effectiveness and efficiency in the interest of the worker/contributor/pensioner and their dependents. However, the regulatory procedure for change of a PFA is yet to be provided by PENCOTM.

There is the fact of increased employment generation with the CPS in operation. This is so because, in addition to the public servants in the Ministries and Parastatals organizations in Nigeria, who are in charge of pension matters, the CPS has enabled employment generation in the form of regulators, operators, contractors, participants, advisers, etc. The ripple effect of this could be a general boost in the economy or what Leigh (2009) called the potential to generate positive economic externalities. Masha (2001), stated that the new pension reform can result in financial deepen and increase in the stock of financial savings, which are available for investment and impacts positively on growth by enabling more employment. Increased employment also has the potential of enabling more people in the society to live more decent lives. Pension Act would help to facilitate the growth of several sectors of the nation's economy (Mbanugo Udenze, 2011; Ezem, 2006).

People are engaged in different professions. Thus there are fund managers, stock brokers, accountants, lawyers, engineers, etc. Aire (1974) argues that even if individuals were willing to provide for their own needs, most people do not have the sophistication and the information required for profitable long term investment of their savings. In addition most people do not have the time. This forms one of the rationales for involvement in CPS in which the individual will be able to pick up some prudential attributes, financial calculations, discipline, and positive attitude to savings and a more determined stride to retirement security.

The establishment of CPS is a creation of additional necessary economic structure in the society and the deepening of decentralization and professionalism in the Nigerian social system. Hence the growing of pension institutions that is different from banking institutions, all of which however are in the same financial system (Ilesanmi, 2006). Decentralization and professionalism will only take time in Africa, especially Nigeria, as they are inevitable in the current globalization, to which early reconciliation through transparency accountability and competitiveness is advisable. The CPS is a workable and sustainable solution to inter sectoral movement, applicable anywhere because of its straight forwardness and simplicity (Sule, 2009).

Another rationale for the CPS is that it has laid to rest all the problems that some organizations used to expose their staff to when it came to pension matters. In order to attract officers, all organizations, especially in Nigeria used to build-in pension matter into their conditions of service. Some used clear, and others ambiguous language to couch pension matter in the conditions of service. In many cases the ambiguity of the language of



pension reared its ugly head when some organizations' staff indicated intention to retire or actually retired and wanted to be paid their pension entitlements. It was then that they found that 'the so-called rights to pension or gratuity (in their employment letter) may be hollow (Emiola, 1982). The hollow pension language usually gave rise to series of litigations, some of which Emiola (1982) reported. The scheme require a group life insurance cover for employees in an organization and this tend to improve staff welfare, promote workers commitment and loyalty and as well provide adequate cover for employee's family in event of disability or he or she died in service, (Atedo, 2006).

The CPS has now ruled out such opportunity to employers of labour in Nigeria to issue ambiguous letters of appointment to workers, with the intention to attract them to the organization but deny them their pension entitlements on retirement. With the CPS, unlike the DBPS, to which a worker had made his contributions, he does not need any letter of retirement, to grant him permission to receive his pension after necessary clearance formalities with his employers. He only needs a letter of clearance and information to his PFA. This is especially so because of the Constitutional provision which guarantees the right to pension in Nigeria in section 173, as well as the supremacy of the Constitution over any other law, as entrenched in section 1 of 1999 Nigeria constitution.

### **Challenges associated with CPS**

The striking challenge is that the pension plan in Nigeria is approved for all organizations in the country, both public and private. In the developed economies, there is more than one type of pension scheme from which choices could be made by an organization or individual. Similarly, the major types of pension schemes in Canada are not less than three aside the private pension schemes (Wikipedia, 2009). They have differing operational guidelines and offer varying services, values and, of course, contain different challenges. Also, the availability of more pension schemes in Nigeria offers retirees more pension funds for their comfort and ability to meet their basic needs.

With a massive pension scheme, pensioners in Lagos State may not be able to take adequate care of their families in spite of the CPS values, and also cater for their dependents. This is sequel to the fact that the pension scheme may yield only marginal returns to investment in sluggish and poorly regulated system in many States in Nigeria. It is the return on investment (ROI) that PFAs distribute to their contributors in CPS. This must have formed part of the reason for the apt call by the World Bank (1994) to impending old age crisis which must be taken seriously. African countries are projected to experience life expectancy with many more people that are expected to live beyond 60 years of age

increasing by more than 50% every decade. The increased life expectancy will be no doubt a function of increased health care delivery but with precarious food security (Ilesanmi, 2006; Smart, 2012).

The other problem that contributors experience is the inadequate investment returns. In some cases, contributors are able to view their assets with the PFAs, only to find that the investment returns are too meager for comfort or that the asset did not make any return at all, that is, zero profit. Yet the PFAs have the statutory guidelines or template, on how to take their commission from all contributors' assets. Some contributors have found that while their assets did not make any profit, PFAs deducted their commission from the contributors' assets, not from the returns on investments. The implication of this mode of operation is that the commission for the PFAs is constant or guaranteed, while the return on investment for the contributors or pensioner is left to the vagaries of market forces (Bertrand, 2003; Fapohunda, 2013).

There is the challenge of delayed pension payment made to retirees in the CPS unlike the automatic pension that retirees enjoyed in virtually public sector during the operation of the DBPS. But in the DBPS there was delay in the payment of gratuity, during which time a retiree processed his clearance. If he was indebted to the organization, the money was recovered from his gratuity.

The delay in the CPS is now occasioned by the fact that the retiree has to undertake his clearance and obtain a certificate to that effect before he can receive his pension and gratuity benefits together. This procedure is informed by the fact that the employer in the CPS, through the clearance system, ensures that the retiree is not indebted to the employer before he is given a clearance which enables him to proceed to his PFA for his pension benefits.

There is also the challenge of the scanty or inadequate information that some contributors/retirees receive from their PFAs which made the new CPS strange as field officers are required for proper and adequate dissemination of what CPS entails for all employees in the state.

### **METHODOLOGY**

Mixed method was adopted for this study which comprises of questionnaires administration and Oral interview. One hundred and twenty questionnaires were administered to employees of Lagos State Government and five respondents were interviewed orally. The data were analysed through Statistical Package for Social Sciences Software (SPSS) version 21 as well as using descriptive statistics and correlation analysis (Tables 1 and 2). The reliability of the scale was determined using Cronbach's Alpha methods, which indicate that there is internal consistency on how government retirement package affect employees' productivity by 74.2%. Cronbach's Alpha measures the average of measurable items and its correlation, and if the result is generally above 70%, it is considered to be consistent and reliable (Numally, 1994; Peighambari, 2007).

**Table 1.** Demographic characteristics of the respondents.

	Sex	Frequency	Percentage	Valid Percentage	Cumulative percentage
Valid	Male	43	35.8	35.8	35.8
	Female	77	64.2	64.2	100.0
	Total	120	100.0	100.0	-

Source: Researcher's computation, 2015.

**Table 2.** Reliability of research instrument.

Cronbach's Alpha	No. of Items
0.742	9

Source: Researcher's computation, 2015.

**Table 3.** Model summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.424 <sup>a</sup>	0.250	0.142	0.85866	1.995

<sup>a</sup>Predictors: (Constant), Government retirement package affects employees' competence, potentials and productivity;

<sup>b</sup>Dependent Variable: Adequate and effective pension management enhances skill and knowledge of employees.

## Analyses

### Test for hypothesis

Two hypotheses were tested in this study

**Hypothesis one:** There is no relationship between government retirement package and employees' productivity.

The findings show the model summary of the regression equation on how government retirement package affect employees' productivity. In this study, the R square is 0.250% which indicates that 25% of the variation in government retirement package is accounted for employees' productivity. The regression result shows that there is positive relationship between government retirement package and employees productivity. Thus, government retirement package positively affects employee productivity but statistically insignificant at 5% level (Tables 3, 4 and 5). The reliability of the scale was determined using Cronbach's Alpha methods, which indicated that there is internal consistency on whether Contributory Pension Scheme Enhance Employees Retirement Status by 80.6%. Cronbach's Alpha measures the average of measurable items and its correlation, and if the result is generally above 70%, it is considered to be consistence and reliable (Peighambari, 2007).

**Hypothesis two:** There is no relationship between contributory pension scheme and employees' retirement status.

The findings indicate the model summary of the regression equation on the predictive explanation. In this study, 18.1% of the variation in contributory pension scheme enhances Lagos State employees' retirement status is accounted for an organisation's profitability which increases through effort of satisfying employees' retirement status (Tables 6 and 7).

The regression result shows that contributory pension scheme enhances employees' retirement status has positive effect on organizational profitability increment via the effort of satisfying employees retirement status and it is statically significant.

### Oral interview

Responses of the oral interview granted by selected employees' that approaches the Lagos State Pension Commission (2014) for either reconciliation of their Retirement Statement Account or processing of their retirement Benefits which form part of the responses from respondents are as follows:

**Respondent 1:** This is an employee from one of the Local Government of Lagos State and she was satisfied with

**Table 4.** Coefficient.

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.807	0.216	-	17.648	0.000
1 Government retirement package affects employees' competence, potentials and productivity	0.140	0.056	0.224	2.495	0.014

**Table 5.** Reliability of research instrument.

Cronbach's Alpha	N of items
0.806	14

Source: Researcher's computation, 2015.

**Table 6.** Model summary.

Model	R	R Square	Adjusted R square	Std. Error of the estimate	Durbin-Watson
1	0.384 <sup>a</sup>	0.181	0.173	0.88701	2.327

<sup>a</sup>Predictors: (Constant), Contributory pension scheme enhance Lagos State employees' retirement status; <sup>b</sup>Dependent Variable: An organisation's profitability increases through the effort of satisfying employee's retirement status.

**Table 7.** Coefficients.

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.243	0.326		9.953	0.000
1 Contributory pension scheme enhance Lagos State employees' retirement status	0.248	0.077	0.284	3.219	0.002

the new contributory pension scheme as individual employee of the state stands to know the total amount in his/her RSA even before retirement and can predict its lump sum (gratuity) and monthly pension after retirement on like the old scheme (Define Benefit) where your entitlement could not be pre-determined.

**Respondent II:** This is also an employee of Lagos she was of the opinion that spread over of the retiree's fund for some determinable future years after payment of lump sum should be at the discretion of the retiree who may determine how and when he/she want the fund to be spread. Hence, amendment of that part of pension Law. She however acknowledged that the Law was enacted to eradicate the long queue of retirees during verification exercise, non-payment of pension stipends couple with siphon of such funds by public office holders.

**Respondent III:** This respondent is a public service officer from Lagos State too and stated that apart from delay in payment of pensions due to paucity of funds in the defined benefits, the payment of retirement benefits is made till death occurs on like the new pension scheme where one would be paid for certain period of time after retirement. Though, the module options (programmed withdrawal and Annuity) for payment of retirement benefits is certainly good where one choose which is desirable and the balance in retirees account is spreadable after expiation of initial years if programmed withdrawal is chosen and annuity payment is for life if one lives after the ten years guarantee period.

**Respondent IV:** Is an employee of the State Civil Service Commission and appreciates the new contributory pension scheme where its operational ability

mostly depends on information and communication technology (ICT). It was noted that individual employee is alerted of its monthly contributions (employee and employer contributions), retirement savings account (RSA) could be accessed electronically. Consequently, quarterly statement of account being dispatched to clients indicated address and retirees receives monthly pension through credit of personal bank account and receiving of alert on monthly basis. However, employees still need to be sensitized about the scheme and operators to always interact with the contributors to have full understanding of the scheme.

**Respondent V:** Works with the Lagos State Ministry of Finance and said that the contributory pension scheme serves as another dimension of pension system that creates employment opportunities and sums the existing sectors of the Nigeria economy called "Pension Industry" characterized with customer relationship management, customer interaction fora. It is however tagged to me as "Electronic Pension Scheme" that make life more comfortable during course of service and after retirement.

From these responses, it can be concluded that new contributory pension scheme is of immense value than the defined benefit scheme and the employees' of Lagos State Government applauded and alluded to the contributory pension scheme.

## Conclusion

Based on the study conducted, this research gave the researcher room to conclude that contributory pension scheme is one of the essential ingredients needed in both public, private enterprise and corporate organizations because it has impact on efficient utilization of employees in achieving the present and future goals of an establishment.

Furthermore, planning for employee stipend after retirement is vital to the financial strength of firms. Hence, effective pension measures will ensure that efficiency is kept at adequate levels which will assist in reducing redundancy, conflict and frivolity leading to increase profit and competitive advantage for the organisation through employee competency and productivity. Therefore, organizations should embrace the new contributory pension scheme as a method or strategy of minimizing overall cost and wastage thereby improve productivity and efficiency.

## RECOMMENDATIONS

In accordance with the findings and conclusions arrived at, the following recommendations are suggested:

1. Management should continue to give adequate

analysis to the function of pension scheme adopted and accord it the pride of place in the system. Employee should be recognised and motivated to see their ability and capability as important either towards the future of the organisation or individual life after meritorious service.

2. Research has revealed that satisfactory pension provision serves as part of motivation as it helps to enhance employee performance and also assist to increase organisational productivity. Pension mode embarked upon by an organisation should be based on identified needs of the employees and should be objective to achieve the organisation goals as a going concern.

3. The structure of the pension package means a lot to the workforce; hence organization should embark on an effective comparative analysis of its pension style before determining how its employees could be compensated. This will help the organisation to retain and attract competent employees and reduce wastage.

4. Management in charge of decision making of the scheme should endeavor to bridge the gap between operators and their clients that they might not feel marginalized and should embrace establishment of a pension institute (chartered) where pension workers can stand to be professionally trained and qualified..

5. The contributory Pension scheme should be encouraged by its practitioners inform of provision of adequate means of sensitization or interactions such as seminars to continually update organisations and employees' on the benefits of new scheme and its importance on life after retirement.

6. Finally, regulators of the contributory pension scheme should at interval inspect the operators on prompt payment of retirement benefits to retirees to avoid frivolous deals and where found otherwise, sanction should be desirable to shield competency of the scheme.

## Conflict of Interests

The authors have not declared any conflict of interests.

## REFERENCES

- Achimugu A, Ocheni SI, Akubo D (2015). Evaluation of the Contribution of Portfolios of New Contributory Pension Scheme on Nigerian Economy, European Centre for Research Training and Development United Kingdom.
- Adams RA (2005). Public Sector Accounting and Finance, Lagos Corporate Publisher Venture.
- Adegbayi A (2005). Pension Industry Development in Nigeria, Provision of Pension Reform Act, 2004. [www.Leadway.com](http://www.Leadway.com)
- Aire JU (1974). Problems of Social Security in Nigeria. *Quarterly J. Admin.* 8(4):409-425.
- Ako MK (2004). Overview of the Contributory Pension Scheme; Paper Presented to the Nigerian Employers Consultative Association (NECA), Lagos. Monday 26th August, 2004 (accessed 11 April, 2016).
- Armstrong M (2010). Hand Book of Personnel Management Practice, (10th ed.), London: Kogan , P 221.

- Amujuri BA (2009). New Contributory Pension Scheme in Nigeria, a Critical Assessment, *Niger. J. Public Adm. Local Govern.* 4(1):137-152.
- Atedo NA (2006). The Problems and Challenges of the Contributory Pension Scheme to Nigeria Civil Service, Publication of the Central Bank of Nigeria, 30(2) April-June, P 7.
- Balogun A (2006). Understanding the New Pension Reform Act 2004. *CBN Bullion* 30(2):7.
- Blake D (2003). United Kingdom Pension Scheme in Nigeria Pension Institute, Bareback College University of London.
- Bertrand M, Sendhil M, Douglas M (2003). Public Policy and Extended Families: Evidence from Pension in South Africa. *World Bank Econ. Rev.* 17(1):27-50.
- Egbe GA (2013). Portfolio Optimization of Pension Fund Contribution in Nigeria. *Math. Theory Model.* 3(8).
- Emiola A (1982). Nigerian Public Officer and Right to Pension. *Quarterly J. Admin.* 16(1&2):81-101.
- Ezem W (2011). Nigeria National Health Policy on Cervical Cancer, *J. Public Adm. Policy Res.* 3(7):207-212.
- Fapohunda TM (2013). Pension System and Retirement Planning in Nigeria. *Mediter. J. Soc. Sci.* 4(2).
- Idowu KO (2006). Pension Reform and Public Workers' Welfare in Nigeria, Paper Presented at the Asia-Pacific Regional Meeting of Economic Association, Hong Kong, January 2006.
- Ilesanmi LA (2006). Contributory Pension Scheme in Nigeria: Philosophy Objectives, Features and Implication. A Paper Presented at the Ihsan International Workshop, University of Calabar Teaching Hospital, on 9th September, 2006
- Ilo OI (1951). Social Security Minimum Standards, International Labour Conference, Geneva; Tribune de Geneva
- Iwu M (2007). Study of the Impact and Implication of Restructuring the Nigeria Pension Scheme, A Study of Enugu State, Nigeria. An unpublished thesis submitted to University of Nigeria. (Accessed 10 March, 2016).
- Koszegi B, Rabin M (2007). Mistakes in Choice Based Welfare Analysis. *Am. Econ. Rev.* 97(2):477-481.
- Leigh K (2009). New Pension Scheme Good for Fiscal Discipline. *The Nation*. Lagos: The Nation Newspaper.
- Mbanugo U (2011). Reported in Ezem, F (2006), Pension Act Would Grow Nigeria's Economy: *National Standard Newspaper*, 7 May.
- Masha I (2001). Institutional and Regulatory Issues in Pension System Reform: Country Experiences and Policy Options, Central Bank of Nigeria. *Econ. Fin. Rev.* 39(2):29-60.
- PENCOM (National Pension Commission) (2004) Highlights of the Contributory Pension Scheme in Nigeria. Retrieved, 23<sup>rd</sup>. Available at: [http://www.Pension.gov.ng/download/highlights\\_of\\_cps.pdf](http://www.Pension.gov.ng/download/highlights_of_cps.pdf)
- Nigeria, Federal Government (1958). Pension Reform Act 1958, Lagos: Ministry of Information, Printing Division.
- Nunnally JC (1994). *Psychometric Theory* (3rd ed.), McGraw-Hill, New York
- Omoni GE (2013). An Overview of the New Pension Scheme and Teachers Level of Awareness in Delta State of Nigeria: Counseling Complications. *Afr. J. Soc. Sci.* 3(3):53-63.
- Ozor E (2006). Review of Factors that Slowdown the Processing of Retirement Benefits" A paper Presented at the Workshop Organized by the Institute of Chartered Secretaries and Administration of Nigeria, 14<sup>th</sup> -16<sup>th</sup> May, 2006.
- Samuelson P (1950). Programme of Integrality in Utility Theory. *Econ. J.* 58:165-84
- Smart T (2012). *Contributory Pension Scheme and its Administration*, De-Atman Press, Lagos.
- Smart T (2015). Application of the Contributory Pension Scheme" A paper Presented at the Adeniran Ogunsanya College of Education, Otto/ Ijanikin, Lagos State, 14th March, 2015.
- Sterns WL (2006). Work and Retirement in Older Society in Our Aging Society, Paradox and Promise, A. Pifer and L. Bronte eds, New York: Carnage Corporation. pp. 341-365.
- Sule KO (2009). Evaluation of the Application of the Contributory Pension Scheme on Employee Retirement Benefits of Quoted Firms in Nigeria, *Afri. J. Account. Econ. Financ. Bank. Res.* 4:4.
- The Nigeria Constitution (1999). Lagos: Federal Government Press.
- The Pension Reform Act (2004), Lagos: Federal Government Press.
- The Lagos State Pension Commission (2014). *Annual Statistical Publication*, Lagos State Printing Corporation.
- The Lagos State Pension Reform (2007). Lagos State Printing Corporation
- Ugwu DS (2006). Contributory Pension, A New Approach to Funding Pension Scheme in Nigeria. A Paper Presented at a Seminar Organized by Mokasha.
- Uzoma N (1993). Pension Scheme in Nigeria: Gentle Press Ltd and Kubay Associates Ltd, Ikeja, Lagos. pp. 231-276.
- Wikipedia (2009). Canada Pension Plan, [http://wikipedia.org/wiki/Canada\\_Pension\\_Plan](http://wikipedia.org/wiki/Canada_Pension_Plan), (accessed 12/7/2016)
- World Bank (1994). *Encyclopedia Chicago*, World Book Inc. Vol. 15.