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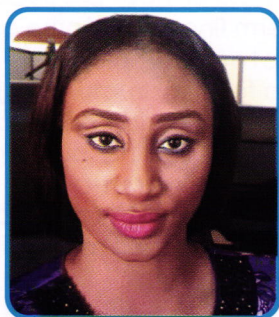
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FSS 2020: PENSION SECTOR



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1.0 INTRODUCTION

The Oxford Online Dictionary defines Pension as "A regular payment made during a person's retirement from an investment fund to which that person or their employer has contributed during their working life". The Nigerian Pensioner over the years is seen to have been deprived of his/her benefits even after retirement. The inconsistency of payments, corruption and lack of data or payments to Ghost Pensioners was a major setback to the defined benefits pension scheme of the Federal Government. To curtail these challenges, the Federal Government commenced the reform of the sector through legislative reforms to create a robust Pension Industry that can meet the needs of all pensioners.

This Paper intends to review the Journey So far of the FSS2020 Pension Sector. The paper is divided into five Sections; Section one deals with the Introduction, Section two discusses the overview of the Legal Framework for the Pension Industry in Nigeria, 2014 as Amended; Section Three Reviewed the FSS2020 Pension Sector and its achievements; Section Four, discussed the challenges of the Sector and mentioned some of the Planned

Interventions, while Section Five deals with summary, conclusion and recommendation.

2.0 LEGAL FRAMEWORK FOR THE PENSION INDUSTRY IN NIGERIA

The historical analogy of the Legal framework for the pension industry commenced with the First Legislative Act in 1951 called the Pension Ordinance which had retrospective effect of January, 1, 1946. The law made provisions for the public servants to be entitled to both pension and gratuity. This Pension Ordinance was the most subsisting legal framework dealing with the Nigerian Pension Matters until in 1961 when the National Provident Fund (NPF) was set up for non - pensionable private sector employees. In 1979, the Basic Pension Decree 102 establishing the Civil Service Pension Scheme was signed by former Head of State, General Olusegun Obasanjo. Thereafter, the Nigeria Social Insurance Trust Fund (NSITF) was established to replace the NPF scheme. The Police and other Government Agencies' Pension Scheme were enacted under Pension Act No. 75 of 1987. Thereafter, the Local Government Pension Edict which culminated into the establishment of the Local Government Staff Pension Board of 1987 (See Balogun in Adeoye, 2015).

To address the decline in government revenue which affected payments to Pensioners, continue rise in the size of the Public Service and also guarantee payment to government retirees, the Federal Government set up a technical committee which consulted widely and drafted the Pension Reform Act, which was passed into law by the National Assembly in 2004. The Pension Reform Act

of 2004 provided for the Establishment of the National Pension Commission to regulate, supervise and ensure the effective administration of pension matters in Nigeria. The Establishment of Transitional Provisions for both the Public and Private Sectors; and The Establishment of Contributory Pension Scheme for both Public and Private Sectors. The Regulatory reform is meant to Ensure that every worker receives his retirement benefits as and when due, empower the workers & assist them to save in order to cater for their livelihood during old age, Establish uniform rules, regulations and standards for administration of pension matters, and Secure compliance & promote wider coverage (Ahmad, 2007).

In 2014, the Pension Reform Act (PRA), was Amended to provide effective oversight and administration of the Nigerian Pension Industry. Some of the key points of the new amendments are:

- Contribution to the Scheme: Under the Act, both employer and employee are required to make a minimum of 10% and 8% respectively of the employee's monthly emoluments (7.5% of the employee's monthly basic, housing and transport allowances by both parties under the repealed Act).
- Investments: The Act also made provision for expanded investment opportunities to include specialist investment funds and other financial instruments the Commission may approve.
- Pension Protection Fund: A pension protection fund is created under the Act to include an annual subvention of 1% of the total monthly

wage bill payable to employees in the public sector, an annual pension protection Levy.

- Withdrawal from the Retirement Savings Account: An employee who disengages from employment or is disengaged before the age of 50 and unable to secure employment within 4 months of disengagement is allowed to make withdrawals from the account although not exceeding 25% of the total amount credited to the retirement savings account.

3.0 THE FSS2020 PENSION SECTOR

The Financial System Strategy (FSS) 2020 was launched in 2007 and reviewed in 2012. This led to the introduction of Pension as a Sector to support, strengthen, develop and create a robust and vibrant Pension Industry in collaboration with the National Pension Commission as the main driver of the Industry. The Pension Sector is one of the Five Sectors of the FSS2020 Program with Mortgage, Financial Market, Insurance and the MSMEs contributing towards making Nigeria one of the 20th Largest Economy amongst emerging Markets.

3.1 Objective of the Pension Sector.

The three objectives of the Pension Sector in the FSS2020 Strategy Map are:

- Collaborate with other regulators and key stakeholders to structure and develop products suitable for pension investments.
- Enable PFAs to partner with international counter-parties to structure and invest in domestic infrastructure projects.
- Proactively lobby and advocate for government support for projects to qualify

for long term financing.

3.2 Transformational Programs

The FSS 2020 Pension Transformational Programmes are Strategic Initiatives that will help the Sector actualize and achieve its strategic objectives. They are actionable activities that if achieved, will leapfrog the industry to enviable heights. They Include:

3.2.1 Align stakeholders to accelerate contribution to pension funds.

This Program provides additional and alternative ways to accelerate contributions to Pension funds through Incentives, building awareness, promote benefits of saving for the future, and changes in Rules & Regulations as well as enforcement.

The Benefits of this program is to Increase the size of investible pension funds, Attraction of International Investors and Increase wealth creation & welfare for pension contribution. The key deliverables will include design of Rules and codes adaptation suggestions for all key institutions, Enforcement, supervisory framework, Sensitization programmes for informal sector and setting up of a Comprehensive database.

3.2.2 Enable infrastructure investments

This program will develop and deliver a set of advocacy & capacity building initiatives to ensure long term financing of projects with PFA funds. This will be done by reviewing and assessing the full list of infrastructure projects which require long term financing, developing and building awareness for the investments criteria for long term financing using pension funds with relevant government organizations. The Benefits will include: Creation of

Investment windows for PFA's; deepening the capital market & provide exit strategy for pension investments; and Creating awareness & new products for long term financing. Some of the expected deliverables are Criteria for infrastructure projects suitable for Pension & Insurance financing, Capacity building for Senior Leadership team – Training, Seminars, Education & Support and Confirmed Criteria for investments.

3.3 Achievements

- Contributory Pension Scheme (CPS): There has been significant increase in the number of states and organizations keying into the scheme, thereby deepening the pension fund asset and expanding the coverage of the Contributory Pension Scheme.
- Efforts are ongoing to ensure that Pension Compliance Certificate be a prerequisite for the access to the CBN intervention fund of N220 Billion to MSME and N140 Billion for market women and Farmers.
- The Informal sector and provision of 3 employees as minimum to enroll in the CPS is being implemented.
- Micro pension scheme: Sensitization and awareness are ongoing to enlighten the informal sector and on the benefits and importance of the Micro pension scheme using the technology platform.
- The pension Fund Investment Income Tax now exempted to enable investment of Pension fund in infrastructure.
- The Pension investment regulations had made allowances for pension funds to be invested for infrastructure development through bonds and funds from 15% to 40% of the total pension assets.

- The Pension Portfolio Fund (PPF) has been introduced.
- 70% of the present Pension Asset of over N5.8 Trillion, is in form of FGN Bond.
- New Products are being identified and developed capable of attracting Investment in the Pension Fund for long time infrastructure.
- Promotion of Co-investment from Diaspora intensified.

The NSIA (Nigeria Sovereign Investment Authority) has been nominated as managers for the Pension fund to be deployed to the infrastructure development in Nigeria

3.4 Challenges

The challenges of the pension sector are highlighted below:

- Inadequate sensitization campaigns to the public on the workings of CPS.
- Low level of compliance from states, informal sectors and organized Private sectors.
- Inadequacy of infrastructure bonds and infrastructure funds that meet the criteria for pension fund investment in the capital market
- Strict monitoring / administration of pension funds

- Bridging the capacity gap of PFA.

4.0 PLANNED INTERVENTIONS

Below are the highlighted sector interventions, which if carried out, are believed to prompt a vibrant sector contributing positively to the growth of the economy.

- Facilitate Capacity Building for the stakeholders.
- Facilitate sensitization programs for informal sector and OPS.
- Facilitate the use of pension funds for infrastructure development and real sector financing.
- Facilitate the inclusion of Pension education in school curriculum.
- Organize Pension workshops and seminars for the industry to develop broad range technical expertise,
- Increase capacity in the financial sector on product development in the capital market.
- Review the extant laws to facilitate the issuance of products in the capital market.
- Expedite the creation of a platform to facilitate the development of infrastructure investment

products.

- Organize Pension workshops and seminars for the industry to develop broad range technical expertise.
- Identify international investors and trade missions to provide platform for collaborations to increase foreign investments in domestic products.
- Organize annual international events to facilitate improved bilateral relations.

5.0 CONCLUSION

A strong pension market in Nigeria is dependent on prompt settlement of contributors/retirees when required. PENCOM is aware of this challenge and must work hard to restore investors trust and confidence in the industry. Corruption is the bane of Nigeria and retirees who own the pension fund must be given that confidence that their savings are safe. With proper legal and regulatory framework in place and efficient enforcement machinery, it is envisaged that by year 2020 over 20 million persons would have keyed into the CPS and the asset would tremendously grow to over 12 Trillion.

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