The Nigerian public pension scheme: The need for reform

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Chibuike U. Uche

holds a doctorate in banking and finance from the London School of Economics and Political Science. He is currently a senior lecturer in banking and finance at the University of Nigeria, Enugu Campus, Nigeria.

Ogbonnaya C. Uche

is a chartered accountant by profession and is currently a Commissioner in the Government of Imo State, Nigeria. In the past, he has been Special Adviser on Economic Affairs to the Government of Imo State, Nigeria and a Consultant to the Federal Government of Nigeria. He has also served on the board of several companies.

Abstract This paper analyses the Nigerian public pension problems from their origins. It argues that the current public pension scheme in Nigeria is unsustainable. This is so because the sheer size of public sector bureaucracy in Nigeria makes it difficult for the government to meet the basic salary needs of its institutions, much less meet the pensions needs of those who have retired from these institutions. It also unjustifiably favours Nigerians who belong to the public service to the detriment of the majority of the people who work in the private sector. Finally, it inhibits the ability of the government to undertake its other developmental duties, such as the provision of developmental infrastructure and other capital projects. Without such capital investments, the potential for economic development and growth in the future will be greatly impeded. There is therefore a need for reform of the current pension system in Nigeria.

Keywords: *Nigeria; pensions; government; development; public sector and reform*

Introduction

In recent times, the issue of public pension reform in Nigeria has become a topical issue.¹ The various legislative arms of Government have at different times conducted public hearings on the issue with the view of enacting legislation that will reform the entire scheme. Also, a 39-man committee on pension reform, which was set up by the federal government, has recently submitted its report. The dire situation of the current Nigerian pension scheme is perhaps best captured in a recent press report of the findings of the above committee:

‘The steering committee on pension reforms in the public sector set up by the Federal

Government submitted its report last week with the revelation that the Government is currently owing its pensioners about one trillion Naira. In a three volume report... the committee... recommended among other things that, the government should create a pool of funds from which each parastatal, ministry or organization would draw, after an actuarial determination of both gratuity and pension liabilities has been made; That the government should provide about 30 percent of the estimated liabilities and issue bonds for the other 70 percent’.²

The current position is even more remarkable when one considers the fact that the entire Nigerian public service constitutes less than 2 per cent of the population.³ Of equal significance is the

Chibuike U. Uche
Department of Banking and
Finance, University of
Nigeria, Enugu Campus,
Nigeria.

Tel: +2 3442 453 550;
Fax: +2 3442 459 791;
E-mail:
chibuikeuche@hotmail.com

fact that the outstanding pensions liability is more than 50 per cent of the total budgets of the federal government for 1999, 2000 and 2001 put together and far more than each of the budgets.⁴ Under the current circumstance, the payment of both current pensions and arrears represents a major drawback on the finances of the government. This situation has no doubt made it difficult for government to make any meaningful investments in developmental projects.⁵

This paper will attempt to analyse the pensions problem from its origins and offer suggestions for restructuring the public pension scheme. The paper, in the main, argues that the current public pensions scheme in Nigeria is unsustainable. This is so because the sheer size of public sector bureaucracy in Nigeria makes it difficult for the Government to meet the basic salary needs of its institutions, to say nothing of meeting the pensions needs of those who have retired from these institutions. Furthermore, it unjustifiably favours Nigerians who belong to the public service to the detriment of the majority of the people who work for the private sector. Finally, the sheer size of the Government bureaucracy and its attendant pensions liability inhibits the ability of Government to undertake its other developmental duties, such as the provision of developmental infrastructure and other capital projects. Without such capital investments, the potential for economic development and growth in the future will be greatly impeded. There is thus need for the reform of the current pension system in Nigeria. To achieve its aim, the paper is divided into parts. The first part discusses the various types of pension schemes, while the second part critiques the various laws governing public pensions in Nigeria. Following this is a section discussing the changing social and economic

environment that has influenced the development of the various pension schemes in Nigeria, while the next part critiques the practice of Nigerian public pension schemes. The final part concludes the paper.

The idea and types of pensions

Over the years, a major concern to all societies — developed or undeveloped — has been the welfare of the aged in their midst. This has led to the evolution of various forms of arrangements that aim to achieve the above objective. In most of these systems, the aged, formally or informally, make some form of sacrifice during their productive years for which they are expected to reap the benefit during their less productive years.⁶ Along these lines, it has been suggested that:

‘As we grow old, we work, produce and earn less, and therefore need a secure source of income to see us through life. Societies and Governments have developed mechanisms to provide income security for their older citizens as part of the social safety net for reducing poverty. But these arrangements are a concern for all of us — rich as well as poor, young as well as old — because the arrangements adopted can either help or hinder economic growth’.⁷

In most developed countries, this mechanism has been formalised in institutions, while in some developing countries they are based on culture and tradition and are less formalised. Some developing countries such as Nigeria also practise both the formal and informal systems of providing for the aged in our midst.

As expected, the informal system has a longer history of existence. Over the years, various societal developments have put extensive pressure on this system. Perhaps the most influential development

that led to the evolution of more formal forms of social security systems has been the rapid growth of an urban labour force. It has, for instance, been suggested that:

‘The concept of protecting the elderly dates back millennia, with the active members of an extended family supporting their elderly relatives, in the expectation that they, in turn, will be supported by the younger members of the family. A similar concept also applied to disabled relatives and to the widows and orphans of deceased family members. This informal intra-family system can break down of course as in the case of families where no one is economically active or where the active members do not earn enough. However, the main reason which prompted the development of more formal arrangements in this respect was the rapid growth of the urban labour force due to the progress of industrialization, and its alienation from the traditional family setting’.⁸

Despite this, informal systems remain important. This is especially so in Nigeria because a majority of its people still work in the informal sector. In fact, as already mentioned, less than 2 per cent of the Nigerian population work for government. For the majority of the working population who are otherwise employed, the informal system of pensions remain their main expected source of security for their old age. Although private pension schemes are allowed under Nigerian law, they are few and far between.⁹

Formal pension schemes date back to the 19th century. From the very beginning, two divergent models emerged. It has, for instance, been suggested that the first broad system of social insurance was created by the government of Germany under Chancellor Bismarck, between 1883 and 1889. Under this scheme, financing is based mainly on contributions from

employers and employees. This scheme was thus mainly self-financing.¹⁰ Other countries like the USA, Austria, Belgium, France, Germany, Italy and Spain subsequently adopted this German model.

In 1891 Denmark introduced a benefit model, which was tax financed from the general revenue offering means-tested benefits to the elderly poor. After the Second World War, the means test was relaxed and a universal flat benefit was made to all citizens meeting specified age and residency requirements. Other countries such as Finland, Norway, Sweden, the Netherlands, Australia, Canada, New Zealand, and the United Kingdom subsequently adopted the Danish model. These countries, however, differ in forms of financing. In Ireland, the Netherlands, Finland, Norway, and the United Kingdom, for instance, the basic benefits are mainly financed from payroll contribution. In contrast, countries like Australia, Canada, Denmark, and New Zealand finance these basic benefits from general revenue. Over the years, however, the German model has been gaining more converts.¹¹

In general, the arguments tend to favour a shift from the government-managed, defined benefit pay-as-you-go (PAYG) approach to defined contribution, fully funded schemes managed by the private sector. The arguments for a shift to a more market-based system of pensions have been extensively documented. It has, for instance, been suggested that such a move would positively impact on the citizens’ savings habits and the development of the country’s capital market. Along these lines, it has been argued that:

‘While the quantitative impact of funded schemes on the rate of savings is debatable, there can be little doubt about its qualitative

effects. Pension reform and the promotion of funded schemes causes a large shift in favor of long-term financial savings. It also forces people to start saving at a younger age. The availability of substantial amounts of long-term resources has considerable potential benefits for the modernization of capital markets, stimulating financial innovation... and improving information disclosure'.¹²

Another advantage of a funded scheme is the argument that it can enhance job mobility and promote healthy working habits. Along this line, it has been argued that:

'Because the link between contributions and pensions is neither direct nor apparent in a DB [defined benefit] scheme, contributions may be viewed as more akin to taxes, thus implying a disincentive to work. Final salary DB schemes may also increase labour immobility because changing jobs has significant costs in terms of foregone pension rights. Furthermore, DB schemes can be abused to the extent that pay can be deferred to later years in a manner unrelated to productivity with a view to boosting final salary pensions. By the same token, evasion of contributions can also be a concern. DC [defined contribution] schemes need not share these later problems insofar as they have a strong benefit link, although such links may be broken if the rates of return earned by funded schemes is artificially held well below market rates (eg through the government influencing choice). Moreover, DC pensions are fully portable from job to job, and therefore no impediment to labour mobility'.¹³

Another advantage of the funded pension scheme is the fact that it can help to promote transparency in the pensions scheme. This is so because workers at all times can see the value of their portfolio and determine its adequacy or inadequacy. An extension of this argument is the fact that workers will

perceive a direct link between the contributions made and the benefits they will ultimately receive.¹⁴

Not all commentators agree with the assertion that a shift to funded pensions will be beneficial to the public. One of these opposing views is that:

'The notion that a shift from pay-as-you-go to funded pensions will raise growth rates and increase income is an article of faith rather than an empirically established proposition. Nevertheless, many governments are now considering ways of privatizing some or all of their public pension liabilities, believing that private funded pensions will solve the long-term problem of paying for retirement. In fact, privatization cannot achieve this goal unless it is accompanied by substantial behavioral changes, regardless of what happens to the rate of economic growth, because pensioners' incomes can only be sustained at their current relative levels in the future if people defer a larger proportion of their current income to consumption in old age. Whether they do this through a tax benefit system by using the public pay-as-you-go pension or through capital accumulation in a private funded pension scheme is a secondary issue'.¹⁵

Implicit in the above argument is that the PAYG system is always in its pure form — where current outlays of pension benefits are paid out of current revenues from an earmarked tax, usually on serving workers. This is, however, not always the case. In Nigeria, as will be seen in the next section, workers do not, at least directly, set aside any funds for old age. Rather, their pension is a charge on the consolidated revenue fund of the Government. In other words, the pensions liability of government workers has become a burden on the entire nation, rather than on serving public servants.

Public pensions in Nigeria

The Pensions Act of 1974, as amended, currently governs the administration of public pensions in Nigeria. Perhaps the most striking provision of this Act is the fact that it stipulates that public pensions should not necessarily be related to the previous contributions of such civil servants for pensions purposes. In fact, it should be treated as a first charge on the national resources of the country.

According to the Act:

‘There shall be charged on and paid out of the Consolidated Revenue Fund of the Federation such sums of money as may from time to time be granted by the Federal Government by way of pension and gratuity in accordance with this Act’.¹⁶

Interestingly, this provision was supported by the 1974 report of the Nigerian Public Service Review Commission. Essentially, the Commission endorsed the idea of an unfunded pensions scheme and argued that such pensions should be seen as a right, not a privilege.

According to the report:

‘The historic rationale for pensions for public employees in Nigeria ... has been that of an *ex gratia* payment, whereby pensions or gratuities are awarded by the employer at his sole discretion as rewards for long and faithful service of his employees. The amount of pension is decided unilaterally by the employer and is usually paid out of current income We are convinced that the time has come to replace this outmoded rationale with the more modern concept which considers the payment of pensions or gratuity as deferred pay or continuance of salary. Pension, in this context, reflects money withheld during the period of employment and returned with interest to the employee after he has ceased being able to work The vesting of pensions rights to the employees does not imply that pension plans should cease to be non-contributory. It means that pensions

benefits must be seen as an extension of pay’.¹⁷

Other provisions of the Pensions Act include that no person shall be granted a pension or gratuity except on his retirement from the public service in any of the following circumstances:

- on voluntary retirement after serving for ten years, for the period up to 31st March, 1977, and for 15 years as from 1st April, 1977,
- on compulsory retirement at the insistence of the Minister in charge of pensions¹⁸
- on compulsory retirement for the purpose of facilitating improvements in the organisation of the officers’ department or ministry so that greater efficiency or economy may be effected
- on the advice of a properly constituted medical board certifying that the officer is no longer mentally or physically able to carry out the functions of his office
- on total or permanent disablement while in the service
- on the abolition of his office¹⁹
- if he is required by the Federal Civil Service Commission to retire on the grounds that his retirement is in the interest of the public, and
- if he retires, with the prior consent of the Minister, to take up an appointment in a local government.²⁰

In the event that an officer dies in service after the completion of the minimum period of qualifying service, his next of kin shall be entitled to such pension and gratuity that would have been payable to him if he had retired on the date of his death. Any pension payable shall be paid for a period expiring at the end of five years after his death. It is, however, lawful for the total

to be paid at once. If, however, the officer dies before completing the minimum qualifying period of ten years, his next of kin shall be paid his one year's salary as a death gratuity.²¹

Where an officer is killed in the course of his official duty and through no fault of his own, his next of kin shall be entitled to the gratuity to which the officer would have been entitled at the date of his death. Where the deceased officer leaves a widow, she is entitled to receive a pension, for life, at a rate not exceeding one third of the deceased officer's accrued pension at the date of his death. This is, however, subject to the widow remaining unmarried and being of good character. Where the deceased officer leaves more than one widow, the Minister may grant a pension to one or more of such widows provided that such pensions shall not exceed the total value of the pension which would have been granted to a sole widow. Furthermore, if the deceased officer has children, each child, until he or she attains the age of 18, shall receive a pension of an amount not exceeding one ninth of the deceased officer's last pay.²² If, however, the deceased officer has only one child, the child shall be entitled to two thirds of the deceased officer's accrued pension until he or she is 18.²³ In general, the Act restricts the maximum gratuity and pension receivable by any public servant to 300 per cent and 70 per cent of his last pay.²⁴

Aside from these generous provisions, the Nigerian Constitution also provides that pensions be reviewed every five years or together with any federal civil service salary reviews, whichever comes earlier. Public service pensions are also not taxable.²⁵ Civil servants of the states are also similarly protected. For instance, section 210 of the Nigerian Constitution states that pensions of such civil servants be reviewed every five years or together

with any state civil service salary reviews, whichever comes earlier.²⁶

For some sections of the federal public service, the conditions are even more favourable. Take, for instance, the case of military officers whose pensions are governed by a separate act: the Armed Forces Pensions Act of 1974. This Act explicitly grants very generous pensions for military personnel who participated in the Nigerian Civil War, especially for the entire period of the war (1967-1970). The Act stipulates that:

'In the computation of the pensionable service and qualifying service for the purposes of this Act — (a) where an officer served in any of the armed forces of the Federation during the period between 27th May 1967 and 15th January, 1970 — (i) each completed year of war service shall count as two years; (ii) a period of war service exceeding four months and not included in the completed year shall count as one year; and (iii) a period of war service not exceeding four months and not included in a completed year or in a period of kind mentioned in sub-paragraph (ii) of this sub-section shall count as six months; (b) any period of service other than war service over six months and not included in a completed year shall for the purposes of the First Schedule of this Act as relates to officers entitled to a pension, count as one year.'²⁷

The Act also provides for some retired officers to earn as much as 300 per cent of their last pay as gratuity and 80 per cent of their last pay as a pension.²⁸ Generous retirement conditions are also granted to judicial officers.²⁹ Their retirement benefits are governed by the Pension Rights of Judges Act of 1985. This Act provides that any person who has held office as a judicial officer for a period of not less than 15 years shall be entitled to a pension for life at a rate equivalent to his last annual salary in

addition to other retirement benefits he may be entitled to. If, however, a person holds such an office for less than 15 years, he shall be entitled to a pension for life at a rate *pro rata* the number of years he served as a judicial officer in relation to the period of 15 years, or to the pension and other retirement benefits to which he is entitled under his terms and conditions of service, if any, whichever is the higher. In other words, if a person has held office as a judicial officer for less than 15 years, he shall on retirement be entitled to a pension calculated on the basis of the more favourable of the following options:

- a pension calculated on the basis of the relevant provisions of the Pensions Act which allows for the aggregation of the total length of service as a judicial officer and any other pensionable service in the public service of the Federation or a state; or
- pension for life calculated at a rate *pro rata* the number of years he served as a judicial officer in relation to the period of 15 years.³⁰

Where, however, a person retires as the Chief Justice of Nigeria, he will be entitled to pension for life at a rate equivalent to his last annual salary in addition to any other retirement benefits to which he may be entitled. This is irrespective of whether or not he has held office as a judicial officer for not less than 15 years.³¹

In recent years, however, the bracket of privileged public servants have been expanding. Presidents, vice-presidents, state governors, deputy governors and even some university professors have all procured agreements to retire on their salaries. On the face of it, such privileges have immense benefits, especially for the receiving groups. In practice, however,

actualising such privileges is becoming increasingly more difficult. Perhaps more important is the fact that such privileges have an even greater negative impact on the wider society. The changing social and economic environment has, over the years, made this point more explicit.

The changing social and economic environment

The Nigerian Civil Service had its origins in the colonial Government. Given the fact that most colonial officers were working outside their home countries, they were granted very generous conditions of service. It was, for example, not unusual for such officers to have official residences, domestic servants, official cars and drivers among other benefits. With the attainment of independence, however, the foreign colonial officers gradually left the country and their positions were filled by local people. These locals unfortunately retained most of the conditions of office of their predecessor colonial officers irrespective of the fact that their social conditions were different. Government service at the time was very attractive. The oil boom of the 1970s further encouraged the Government to get directly involved in more areas of economic activity.

In its Second National Development Plan of 1970, the Government made explicit its interest in challenging the foreign dominance of commerce and industry in Nigeria. On indigenism, the plan clearly stated that:

‘Experience has shown, through history, that political independence without economic independence is but an empty shell. The validity of this statement derives from the fact that the interests of foreign private investors in the Nigerian economy cannot be expected to coincide at all times and in

every respect with national aspirations. It would be naive, indeed dangerous to hope that in the process of industrial development, a set of national objectives will automatically be achieved by their mere declaration. A truly independent nation cannot allow its objectives and priorities to be distorted or frustrated by the manipulations of powerful foreign investors. It is vital, therefore, for Government to acquire and control on behalf of the Nigerian Society, the greater proportion of the productive assets of the country'.³²

Government, at the time, also rejected the idea that it should hand over its interests in the indigenous industries to indigenous businessmen if and when they acquired the business know-how for operating such industries. The Government argued that such views:

'flowed from the narrow conception of the role of Government in national development which is not tenable in Nigerian circumstances. The aim of Development Planning in Nigeria is that economic growth should be accompanied by general development. In other words, the benefits of economic advancement should be distributed as widely as possible over the entire society. Government, as the most important single institution for ensuring the translation of growth into development through the provision of economic and social services, must have at its disposal, resources sufficient for achieving these goals of society. Today, industry and mining are the fastest growing sectors of the economy and are therefore likely to be important generators of resources for future development. It follows that Government must play a leading role in these two sectors in order to harness the fruits of economic growth for the overall development of the Nigerian society'.³³

In other words, the Government saw the profits from state-owned industries as a source of finance for economic development. The Government was

therefore, at least at the time, not willing to compromise its position.

In 1972 and 1977, in line with the second national development plan, the Government promulgated the Nigerian Enterprises Promotion Decree (NEPD). Essentially, these Decrees enabled the Government to take over the control of most foreign businesses in Nigeria. Government went on to further establish its own wholly owned corporations even in areas such as insurance, banking and oil refining. The 1974 report of the Nigerian Public Service Review Commission aptly noted that:

'Running the public service is now big business, requiring big business management. Today the public services of Nigeria are involved in affairs that were beyond the imagination of our civil servants 15 years ago. We are now selling insurance and minting coins; we are sailing ships and refining oil; we are communicating all over the world and throughout the Federation; we are banking and building. Tomorrow, we shall be forging steel, and educating every young Nigerian through his primary years. All this is in addition to the regular work of government that itself has continued to expand along with all these new dimensions'.³⁴

As the size of government exploded, so its productivity fell.³⁵ It was therefore no surprise that in July 1975, when General Murtala Mohammed came to power through a military coup, one of the first things he did was carry out a drastic purge of the entire public service sector. This has been explained thus:

'The mass retirement exercise was strictly a disciplinary measure which was seen to be necessary in order to avoid the collapse of the system ... which had deteriorated sufficiently to warrant drastic measures For too long, strong negative reinforcement had been neglected in the public service.

More emphasis was given to security than to contingent reinforcement to produce. This was unfortunate for although management's attitude to rewards and punishment has changed for the better over the ages, no organization has yet devised a way of doing without the 'application of penalties which lead to an inhibition of undesired behavior'.... An organization that cannot discipline its members ceases to be an organization, and that the Nigerian public service before July 29, 1975 almost became.³⁶

At the time, the paying of pensions and other retirement benefits to retired workers constituted few problems for the Government. In fact, in most cases, the Government even paid three months' salary, in addition to other entitlements in lieu of notice. A typical retirement letter at the time read:

'This is to inform you that the Federal Military Government has directed that you be retired from the public service with immediate effect and with full benefits. I am instructing the finance officer to work out your final entitlements and to pay you, in addition to your retirement benefits, three months' salary in lieu of notice. You will vacate official quarters, if you are occupying any, as well as hand over all official property in your possession, within two weeks of this letter'.³⁷

The Murtala Mohammed Government was unfortunately short-lived and subsequent governments continued to expand the size of the civil service for various political, social and developmental reasons. From a structure of three regions at independence, the country now has 36 states. The number of local government areas has also grown in phenomenal terms rising from 83 divisions at independence to the current 769 local government areas.³⁸ The effect of this increase in numbers has been the replication of administrative structures

across all these areas and its attendant bureaucratic problems. In fact, some of the so-called new states and local government areas are simply not viable, and depend almost wholly on the federation account for their existence. Under such circumstances, the additional bureaucratic costs of such establishments far outweigh their benefits. According to a former Nigerian President:

'It is hard to see what contribution the creation of yet more states will make to our recovery and progress ... civil servants will earn rapid promotion and businessmen and women a fresh wave of contracts for more prestigious buildings and projects. This will be it ... no new resources are likely to be generated either from taxes, production or services. Dependent on federal handouts and ill equipped to perform their functions, the new states will simply be a drain on already limited resources... This is not development. It is absurdity'.³⁹

The need for a total rethink of the entire system, however, came in the early 1980s when adverse oil prices began to negatively impact on the Nigerian economy. After several years of import control regulations and import licensing, the Babangida Administration, under pressure from the International Monetary Fund and the World Bank, launched the Structural Adjustment Programme (SAP) in July 1986. It was designed to achieve balance of payment viability by altering and restructuring the production and consumption patterns of the economy, eliminating price distortions, reducing the heavy dependence on consumer goods imports and crude oil exports, enhancing the non-oil export base, rationalising the role of the public sector, accelerating the growth potential of the private sector and achieving sustainable growth.⁴⁰ To achieve the above objectives, the main strategies of the programme were the adoption of a market-determined

exchange rate for the Naira, the deregulation of external trade and payments arrangements, reductions in price and administrative controls and more reliance on market forces as a major determinant of economic activity. Despite the laudable objectives of SAP, Government lacked the political will to reduce the size of the Government apparatus. Despite its dwindling revenue, the Government was constrained to meet the recurrent demands of an over-bloated workforce and engage in other developmental programmes. This put strain on the scarce resources of the country thus negatively impacting on the value of the local currency. This in real terms depreciated the value of workers' salaries extensively. Since then, public service unrest and strikes have been a recurring theme in the nation's economy.

Under the military, demand for standard of living indexed wages was resisted. Since the return to civilian rule, however, things have been different. Wage increases have become the order of the day. It has, for instance, been recently noted that:

'From all available indications, Nigerian federal, state and local government workers and legislators, all comprising a mere 2 per cent of the Nigerian population are now doing very well, salary on paper wise ... with some salaries doubling or even tripling over the past two years. In fact, the development — galloping salaries — has been one of President Obasanjo's undeniable "dividends of democracy" to the public sector. A State Chief Justice told me not too long ago that his monthly salary had surprisingly tripled and that he really did not need such a big increase in Nigeria. A university lecturer confessed to me that she was doing quite nicely now ... and that I should now consider coming back home to the University system. President Obasanjo not too long ago admonished a University Lecturer in Calabar who was asking him

about the slow pace of economic growth in the country, reminding him (that is the lecturer) of his salary increase since his (that is Obasanjo's) assumption of office since May 1999. In his latest BBC speech, the President also said that the salaries of policemen (a force of roughly 120–150,000) have been 'doubled'.⁴¹

The result is that we now have a vicious cycle of both strikes and unending wage negotiations. This is because higher public wage obligations by the Government have only satisfied public servants in the short run. The absence of any meaningful economic growth and increased government expenditure has constantly put pressure on government resources, leading to the devaluation of the local currency. This brings us back to where we started: deteriorating wages in real terms. From university lecturers to judiciary, strike has now become the norm. Remarkably, even the police force, which is supposed to be an emergency service provider, has not been spared:

'Despite warning signals and widespread rumors of discontent over welfare, which started since last year, the police authorities assured President Olusegun Obasanjo that their men would not go on strike February 1. But the junior policemen did the unexpected when they embarked on what has turned out to be the first police revolt in the country's 42 years of independence. The junior policemen kept faith in accordance with leaflets the National Union of Policemen, NUP, had earlier distributed and faxed to various stations The fax message, which was circulated to all police commands in the country, reeled out the grievances of the policemen who were chiefly protesting the 12 months non-payment of their rent allowance Since September last year, more than 150,000 policemen were reportedly restless over the non-payment of their lodging (housing allowance)'.⁴²

It is, however, not only wages that inflation affects. Pensions are also affected by inflation. With the depreciation of the local currency, Government has, on several occasions, been forced to review the pension it pays to its retired public servants. This is, however, a matter of policy. Getting paid regularly has been a much more difficult task.⁴³

The practice of public pensions in Nigeria

As has already been mentioned, during the oil boom period, the payment of pensions in Nigeria was no issue. Government, aided by its oil wealth, simply paid its pensions. Furthermore, the Nigerian bureaucracy was still a young one and most of the first generation government employees had then not matured for retirement. Since then, however, things have changed extensively. Dwindling government revenues from oil now makes it difficult for them to pay the salaries of a bloated civil service, not to mention the pensions of retired workers. In fact, the pensions crisis has now become a major source of worry. It has, for instance, been asserted that:

‘In Nigeria, when federal and state workers approach their retirement age, they begin to experience uneasy sleep. It is a dreadful experience. Something that ought to be a source of happiness turns into a nightmare. Nobody, neither the federal nor state government, cares about the plight of pensioners in Nigeria. People who are approaching retirement age and those who have retired should feel happy and proud of their contributions to their country. They should not be laden with the extra burden of worrying about when the next retirement entitlements would be paid, or how to appease the arrogant and uncaring bureaucrats who sit astride other people’s money’.⁴⁴

In Lagos State, in 2001, for instance, more than 550 pensioners lost their lives without getting their entitlements. Also some pensioners were owed up to 30 months pensions arrears. Because labour leaders are more occupied with fighting for the currently employed workforce, some pensioners have resorted to placard carrying to demand their pensions.⁴⁵ Even when these pensioners are paid, they are subjected to inhuman treatment such as queuing for long hours. This is unacceptable especially when one considers the average age of these pensioners. A recent public notice widely publicised in the media for the pensioners of one of the government parastatals read:

‘The Management of the Federal Airports Authority of Nigeria (FAAN) is streamlining the payment of pensions to its retired staff, to ensure that only those who are eligible receive their pensions. And also do so promptly. Consequently, the authority is embarking on an audit of its pensioners all over the country To ensure that the exercise is successful, management requires pensioners to submit the following documents to the paying officials: (i) Letter of engagement while in active service; (ii) letter of retirement; (iii) pensioners’ identity card; (iv) Bank passbook or evidence of current account; (v) June 2002 pay-slip; (vi) Two (2) passport photographs; (vii) They will also be required to complete pensioners’ information form to be countersigned by the paying officer from the Headquarters. Pensioners are advised to go to their various pay points for this exercise as non-compliance may result in the stoppage of their pensions’.⁴⁶

In fact, almost all pensioners from all arms of Government have been subjected to similar requests in recent times. This is explicit proof that the entire civil service is inefficient. Such demands simply show that the Government has no

Table 1: Formula for pensions and gratuity calculations based on percentage of final salary in respect of retirement after 31st March, 1977

Years of service	Gratuity as percentage of final pay (%)	Pension as percentage of final pay (%)
10	100	—
11	110	—
12	120	—
13	130	—
14	140	—
15	100	30
16	110	32
17	120	34
18	130	36
19	140	38
20	150	40
21	160	42
22	170	44
23	180	46
24	190	48
25	200	50
26	210	52
27	220	54
28	230	56
29	240	58
30	250	60
31	260	62
32	270	64
33	280	66
34	290	68
35	300	70

Source: Pension Act of 1974 (as amended), Laws of Federal Republic of Nigeria, 1990

reliable records of its own. Because the civil service has failed in such basic responsibility as record-keeping, they expect individuals to produce records dating back to the beginning of their working lives.

Indeed, no section of the public service is spared this nightmare. Highly respected Government agencies like the military and the judiciary all face this late payment of pensions problem. Recently, for instance, a former judge of the Federal High Court, Justice Rasheed Kasim, publicly protested about the persistent problem of unpaid entitlements for pensioners. As someone who left the court in August 2001, and who has been subjected to the regular 'run around' by bureaucrats, such an experience is a sad reminder of the kind of shoddy treatment to which even highly placed

civil servants are subjected. Seven months after he exited the judicial service, his retirement papers were still being shuffled around from one office desk to another.⁴⁷ In the military, there are also problems with pensions.

According to a recent news report:

'Defense Minister, Lt. General Theophilus Danjuma (rtd) yesterday disclosed that the Federal Government Monday released N15 billion for the payment of military pensions and gratuities Testifying before the Senate Committee on Public Accounts, Danjuma said N10 billion was earlier released by the Federal Government last month for the payment of pensions to ex-service men, thereby making a total of N25 billion released this year so far to address the problem of payment of pension arrears. Commenting on the new method of payment of pensions through banks,

Danjuma indicted ministry staff for appointing banks, which had no large network of branches without his knowledge. Stating that at least N3.2 billion is required monthly to settle pensions and gratuities, Danjuma said it was obvious that the pension burden is increasingly becoming a heavy one for the Federal Government to bear alone with the result that pensioners live from hand to mouth. Danjuma cited 600 per cent increases in pensions during the past six years without corresponding increase in appropriation as well as the thriving industry of fraud within the system as some of the numerous problems hampering the payment of pensions and gratuities'.⁴⁸

While some have interpreted the nationwide public pensions problem to be a consequence of dishonesty on the part of the Government, the truth is that it is much more complex.⁴⁹ Government is no longer in a position to pay its bloated wage and pension bills. Perhaps more important is the fact that the public pensions scheme, as currently constituted, treats unfairly the majority of Nigerians who never get the chance to be public servants.⁵⁰ A situation where the majority of government resources are used to service the interests of the minority of its people is unfair. This is even more so when one considers the fact that such a scenario makes it difficult for the Government to invest in any meaningful capital project, which is essential for the economic development and growth of the nation. A restructure of the entire public pensions system is therefore imperative at this point.

Conclusion

Reforming the Nigerian public pensions system will, however, not be easy. It definitely requires some radical measures. First of all, the Constitution and all the laws relating to public pensions have to be amended in order to remove the

provision that public pensions is a charge on the consolidated revenue of the federal government. This will lay the foundation for a shift in government policy on pensions from a defined benefit to a defined contribution scheme. The implication of this is that in the future, government workers, like other private sector workers, will have their pension benefits correlated to the contributions they and their employers make during their active working life. The impact of the above reform on public service will no doubt be immense. At the very least, it will make public service less attractive and increase labour mobility between the public and private sector. This will be a more practical approach than that proffered by the Public Service Review Commission. Specifically, the Commission recommended that:

'With regard to mobility from the private sector to the public service and vice versa, we are sure that this can be encouraged if the Joint Tax Board were to require that private sector plans contain certain specific provisions before they may be approved. Such provisions should include one requiring the full vesting of an employee's retirement benefits earned to the date of his withdrawal from service, provided he has served for a minimum of five years. The vesting should be in the form of a benefit payable at the employee's normal retirement date, or earlier total and permanent disability'.⁵¹

This is especially so because, as has already been mentioned, such private pension funds are still not very common in Nigeria. Without a government-guaranteed pensions package after retirement from public service, most workers will opt for the private sector where they will be more efficient and productive, rather than continue in the vicious cycle of strikes and inefficiency that has come to characterise Nigeria's public service.

Another incentive for a shift to a funded defined contribution scheme is the fact that under such a scheme, pension savings could become a major source of development funding. This will be a welcome departure from the current position in Nigeria where it is a drain on government resources that would have otherwise been used for long-term investments. Admittedly, the shift from a defined benefit to a defined contribution public pensions scheme will not solve all the pensions problems in the country. The pensions liability of those who have already retired will continue to constitute a problem for the government for a very long time. In this regard, the recommendation of the recent government committee on pensions reform, mentioned earlier, that the government should create a pool of funds, partly from direct funding and partly by issuing bonds, from which each parastatal, ministry or organisation would draw to clear their outstanding gratuity and pension liabilities could well be a possible approach to addressing the problem. Doing nothing, however, will only continue to compound the problem.

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References

- 1 This is, however, not restricted to Nigeria. A recent report of an international organisation noted that: 'Systems providing financial security for the old are under increasing financial strain throughout the world. Rapid demographic transitions caused by rising life expectancy and declining fertility means that the proportion of old people in the general population is growing rapidly. Extended families and other traditional methods of supporting the old are weakening. Meanwhile, formal systems, such as government-backed pensions have proved both unsustainable and very difficult to reform. In some developing countries, these systems are nearing collapse. In others, governments preparing to establish formal systems risk repeating expensive mistakes. The result is a looming old age crisis that threatens not only the old but also their children and grandchildren, who must shoulder, directly or indirectly, much of the increasingly heavy burden of providing for the aged': World Bank (1994) 'Averting the old age crisis', World Bank, Washington DC, p. xiii. See also: Glaessner, T. and Valdes-Prieto, S. (1998) 'Pension reform in small developing countries', World Bank Policy Research Working Paper Number 1983, The World Bank, Washington DC, p. 1.
- 2 ThisDay [Nigeria] Newspaper, 1st July, 2002.
- 3 Aluko, M. (2002) 'Of salaries, pensions and unemployment in Nigeria', unpublished monograph.
- 4 The total federal government budgeted expenditure for the said years were: N358bn (1999), N665bn (2000); and N937bn (2001).
- 5 It has recently been argued that: 'the 1962 [National Development] plan made an argument that you must not spend beyond 10% of your resources on administration and the minute you begin to spend about 15%, then there is a problem Now, in today's Nigeria, every arm of Government, or tier of Government spends ... more than three quarters of its revenue on running cost. And this is the tragedy of the Nigerian situation'; *Vanguard [Nigeria] Newspaper* (2002) September 13, p. 15.
- 6 See, for instance, Davis, E. P. (1993) 'The structure, regulation, and performance of pension funds in nine industrial countries', World Bank Policy Research Working Paper Number 1229, The World Bank, Washington DC, p. 2; Demircuc-Kunt, A. and Schwarz, A. (1995) 'Costa Rican pension system: Options for reform', World Bank Policy Research Working Paper Number 1483, The World Bank, Washington DC, p. 3.
- 7 World Bank (1994) Ref. 1 above, p. 1.
- 8 Iyer, S. (1993) 'Pension reform in developing countries', *International Labour Review*, Volume 132, Number 2, p. 187.
- 9 This is currently governed by the Nigerian Social Insurance Trust Fund (NSITF) Act of 1993. The following categories of workers are required by law to register under this scheme: (1) every worker who is employed by a company incorporated or deemed to be incorporated under the Companies and Allied Matters Decree 1990; (2) every worker who is employed by a Partnership irrespective of the number of workers employed by the partnership; (3) every worker employed by any other employer or organisation other than those mentioned in (1) and (2) above, which has a place of business in Nigeria and the number of workers employed is not less than five. The following are the categories of workers exempted from contributing to the NSITF Scheme: (1) a worker employed in the Federal Republic service, State or Local Government Service who is entitled to the benefit of any scheme or pension on terms substantially similar to those prescribed by the Pensions Act; (2) A worker

- entitled to Diplomatic or equivalent status under the Diplomatic Privilege and Immunities Act; (3) any foreign National who is employed in Nigeria for a period less than six years at a time. Also, if the foreigner is covered by the social security scheme of any country; and (4) a minister of religion engaged in the propagation of religious activities.
Government of Nigeria, Nigeria Social Insurance Trust Fund Act Number 73 of 1993, (sections 10 and 11).
- 10 Iyer, see Ref. 8 above, p. 188.
- 11 'From the 1950s on the Nordic countries plus Canada all added a second tier of earnings related pensions to produce a [German plus Denmark model]. The UK joined this group in 1975 ... but then partially abandoned it in the 1980s under Margaret Thatcher when 'contracting out' to private providers was encouraged. Australia (1992) followed a different path by making employers pensions mandatory. Pure ... [Denmark] ... models remain only in Denmark, Ireland, the Netherlands and New Zealand': Myles, J. and Quadagno, J. 'Recent Trends in Public Pension Reform: A Comparative View', in Banting, K. and Boadway, R. (1997) (eds) 'Reform of retirement income policy: International and Canadian perspectives', Queen University, Kingston, p. 251.
- 12 Vittas, D. (1995) 'Sequencing social security, pension and insurance reform', World Bank Policy Research Working Paper Number 1551, World Bank, Washington DC, p. 9. It has also been further argued that: 'A dominant pay-as-you-go public pillar also misses the opportunity for capital market development. When the first old generations get pensions that exceed their savings, national consumption may rise and savings may decline. The next few cohorts pay their social security tax instead of saving for their own old age (since they now expect to get a pension from the government), so this loss in savings may never be made up. In contrast, the alternative, a mandatory funded plan, could increase capital accumulation — an important advantage in capital-scarce countries. A mandatory savings plan that increases long-term saving beyond the voluntary point and requires it to flow through financial institutions stimulates a demand for (and eventually supply of) long term financial instruments — a boon to development. These missed opportunities in a pay-as-you-go public pillar become lost income for future generations — and another source of intergenerational transfer. Additionally, large pay-as-you-go public pillars often induce expenditures that exceed expectations — because of population aging, system maturation, poor design features such as early retirements and high benefit rates, and opportunities for political manipulation that lead to these poor design features. The costs of the system — whether covered by higher contribution rates or subsidies from the general treasury — makes it difficult for the government to finance important public goods — another growth inhibiting consequence', in World Bank (1994) 'Averting the old age crisis', p. 13.
- 13 Hemming, R. (1998) 'Should public pensions be funded?' International Monetary Fund Working Paper Number WP/98/35, p. 21.
- 14 Heller, S. (1998) 'Rethinking public pension reform initiatives', International Monetary Fund Working Paper WP/98/61, p. 7.
- 15 Johnson, P. (1997) 'Fiscal implications of population aging', Philosophical Transactions of the Royal Society London, Series B Volume 352, p. 1901.
- 16 Government of Nigeria, Pensions Act of 1974 [CAP 346 of 1990], Section 2.
- 17 Public Service [Nigeria] Review Commission Main Report (Lagos, Federal Ministry of Information, 1974, paragraphs 727–730).
- 18 The retirement age before 31st March, 1977, was 55 years. For subsequent periods the retirement age is 60. The Minister charged with responsibility for pensions may, however, require an officer to retire from the service at any time after he has attained the age of 45 years subject to three months' notice in writing of such requirement being given; Government of Nigeria, Pensions Act of 1974, Section 4.
- 19 Section 7 of the Act provides that: '(1) Where as a reorganization in a department or ministry, it becomes necessary to abolish an office and the holder of such office cannot be transferred to another office, the Federal Civil Service Commission may require such officer to retire on three months notice of such requirement being given to him. (2) Where an officer retires under the provisions of subsection (1) above, he shall in addition to the appropriate pension ... be entitled to 10 per cent of his pension and gratuity as compensation for premature retirement; so however that his total award shall not exceed 7 per cent of his salary as pension and 300 per cent of his salary as gratuity. (3) Where an officer who is required to retire in pursuance of subsection (1) of this section has not completed the minimum period qualifying him for a gratuity or pension, the Minister may grant him a gratuity equal to his one year's salary'; Government of Nigeria, Pensions Act of 1974.
- 20 Government of Nigeria, Pensions Act of 1974, Section 3.
- 21 *Ibid.*, Section 5.
- 22 For the purposes of the Pensions Act, the word 'child' includes: a posthumous child, a child born out of wedlock and a step child or child adopted in a manner recognised by law (including customary or Islamic) before the death of the officer; *Ibid.* Section 6 [3].
- 23 *Ibid.*, Section 6 (1 & 2).
- 24 See Table 1.
- 25 See Constitution of the Federal Republic of Nigeria 1999 (Lagos, Federal Government Press, Section 173)
- 26 In practice, however, the Federal Government is mainly responsible for pensions at both the federal, state and local government level. For example, the law setting up the Anambra State Broadcasting

- Corporation (1976), which is a state owned institution, explicitly places the pensions liability of the staff of the institution on the federal government: Anambra State [Nigeria] Broadcasting Corporation Law of 1976, Section 26. The Local Government Law of the same State also stipulates that: 'The amounts payable in respect of pensions, gratuities and other retiring benefits shall be charged upon and paid out of the Consolidated Revenue Fund of the Federal Government': Anambra State [Nigeria] Local Government Law of 1976, Section 77.
- 27 Government of Nigeria, Armed Forces Pensions Act of 1974 [CAP 23 of 1990], Section 1 (2).
- 28 *Ibid.*, First Schedule.
- 29 This includes the holder of the office of the Chief Justice of Nigeria, a Justice of the Supreme Court or the President or Justice of the Court of Appeal, the office of the Chief Judge or the judge of a High Court, a Grand Kadi or Kadi of the Sharia Court of Appeal of a State, or President or a Judge of the Customary Court of Appeal of a State; Government of Nigeria, Pension Rights of Judges Act of 1985 [CAP 347 of 1990], Section 3.
- 30 *Ibid.*, Section 2.
- 31 *Ibid.*, Section 1.
- 32 Government of Nigeria (1970) 'Second National Development Plan 1970-1974, Federal Government Printers, Lagos, p. 289.
- 33 *Ibid.*
- 34 Public Service [Nigeria] Review Commission Main Report, Paragraph 28.
- 35 It has, for instance, been suggested that: 'The typical Nigerian worker does not seem to have much value for work except perhaps as a means of earning his livelihood. He does not see his work as a duty or contribution either to the progress of his organization or that of the society in general. Perhaps this partly explains why he does not care about customer satisfaction ... The problem of lack of sense of commitment seems to be more pronounced in public institutions Because he is dissatisfied and appears to be poorly motivated and lacks sense of mission, the Nigerian worker cares little about how well he serves the customer. While in the U.S., for example, you find a worker and a customer exchanging greetings, in Nigeria you find a worker and a customer exchanging words'; Ifechukwu, J. (1977) 'Work attitudes in Nigeria', *Management in Nigeria*, Vol. 13, No. 8, p. 39.
- 36 Ejiofor, P. (1981) 'Management in Nigeria: Theories and Issues', Africana Educational Publishers Nigeria Limited, Onitsha, p. 233.
- 37 *Ibid.*, p. 232.
- 38 Ekpo, A. (1992) 'Fiscal federalism and local government finance in Nigeria', in 'Fiscal Federalism and Nigeria's Economic Development: Selected Papers for the 1999 Annual Conference of the Nigerian Economic Society', Nigerian Economic Society, Ibadan, p. 242.
- 39 Quoted in Suberu, R., (1998) 'States' creation and the political economy of Nigerian federalism' in Amuwo, K., Agbaje, A., Suberu, R. and Herault, G. (eds) (1998) 'Federalism and political restructuring in Nigeria', Spectrum Books Limited, Ibadan, p. 286.
- 40 Central Bank of Nigeria (1995) 'Monetary Policy in Nigeria', CBN Briefs, Research Department Series 95/03, p. 4.
- 41 Aluko, see Ref. 3 above.
- 42 *Ibid.*
- 43 An example is the current confusion surrounding the fate of the pensioners of the Nigerian Airways. A recent Nigerian news magazine noted that: 'The management of Nigeria Airways Limited appears to be having sleepless nights over the debts arising from pensions and gratuity of its retired workers. NewsWatch learnt that the airways had applied to the Ministry of Establishment for a grant of N3.406 Billion to pay all pension liabilities with effect from April 2002. More than 3000 retired workers are suffering from non-payment of gratuity and pension in the Nigerian Airways Limited. Last week the retired pensioners carried out a peaceful protest calling on the management of Nigeria Airways to pay them their enhanced pension stipends of 142 per cent with effect from May 2000 had not been implemented by the management of the Airways. This is in addition to the outstanding arrears of 150 per cent for fourteen months, 30 per cent for eight months and 142 per cent for 20 months ...'; *NewsWatch [Nigeria] News Magazine*, 21st July, 2002.
- 44 Obijiofor, L. (2002) 'An Art of Ingratitude', unpublished paper, p. 1.
- 45 *The Guardian [Nigeria] Newspaper*, 21st May, 2001.
- 46 *Ibid.*, 14th August, 2002, p. 28.
- 47 See Ref. 44 above, p. 2.
- 48 Aluko, see Ref. 3 above.
- 49 It has, for instance, been argued that: 'The problem of non-payment of pension entitlements in Nigeria is a simple matter complicated by acts of human dishonesty. It is a human problem but not insurmountable. It is a problem that requires sheer grit, commitment and determination to overcome. It requires people in positions of authority to assume their responsibilities and show accountability in the discharge of their duties. It is not enough for Nigerians to whinge about the problems that exist in their country. They must be seen to be tackling those problems. There is no better time than now to begin to take decisive action. Civil servants who fail to carry out their duties should be shunted aside and their jobs given to other workers who are prepared to perform. Any senior bureaucrat who wants to experience the real impact on pensioners of non-payment of entitlements should attempt a simple experiment: put aside your salary for one month and watch how you would survive the testy period. Watch also your mood swings, including the physical and physiological changes in your attitudes and behavior. Human beings do not like to be denied their rights. So too do pensioners'; Obijiofor, see Ref. 44 above.
- 50 The Public Service Review Commission Main

Report explicitly stated that: 'We find that in general the Nigerian public service pensions plans, particularly the Pensions Act, compare very favorable with other plans in Nigeria or elsewhere. They are certainly more generous than are their private sector

counterparts... Therefore, we recommend that all these pensions plans be continued'; Public Service [Nigeria] Review Commission Main Report, paragraph 731.

51 *Ibid.*, paragraph 766.