

# **PENSION REFORMS AND WORLD BANK-REGULATED LAWS OF THE JUNGLE: THE CASE OF PENSIONERS IN NIGERIA**

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## **Abstract**

Peripheral societies (or better still, non-industrialized, raw materials-exporting states) are originally (and still remain) designed as raw resources supply zone not only in World Bank lexicon but also in global planning and programming of industrialized societies in general. Worker welfare of those both retired and in service may actually not visibly become emphasized in the picture. Thus, workers reaching retirement in Nigeria-type society should indeed be informally regarded as non-productive drain on national resources, such resources being rapidly transferred into private holdings. This paper analyzes the position, characteristics as well as consequences of the current pension scheme adopted by the Nigerian patrimonial state whose implication insensitively seeks to abandon state demonstrative responsibility owed that section referred to as senior citizens in pursuit of the blueprint laid out by alien agencies with questionable, if not suspected destructive agenda.

**Key words:** Private pension scheme, Pension Fund Administrator, Pension Fund Custodian, Pension stakeholder.

## **Introduction**

One of the far-reaching policy decisions by current Nigerian leadership is the reorganization of retired worker reward regulations known as pension. Its formula is universally founded on hospitable or sympathetic considerations aimed at recognizing and rewarding those who had given their time, skill and productive life to public duty. The payment of certain stipends in cash or even in kind not only assists the aged and retired worker but has serious socio-psychological consequences among which is the motivation of prospective public servants who would borrow from the experiences of retired persons.

It is not out of place to consider the payment of pension to deserving retirees as a humanitarian act aimed at improving the welfare of those who left service and therefore handicapped by age. Such act somehow underscores not only the filial, usually moral, obligation to weak citizens but also speaks volumes of the social structure of the pension-paying society. It vicariously encourages every member of the given society to aspire to serving the public rather than privately and exclusively serving self. Further, it contributes to some positive assessment of ageing as nearly every individual cherishes the idea of

passing through the life-course with a confident anticipation of reaching a rewarding old age.

A community or even a state which directive principles or objectives of group conduct recognizes the well-being of its members must unavoidably encode certain moral if not legal obligation to the aged, retired members. Coincidentally, such policies and principles happen to agree with definitive principles of democratization so vociferously proclaimed by even the most gluttonous of capitalist formations.

It does therefore constitute no embarrassment to any polity or state in the twenty-first century to appreciate the payment of pension to retirees who in the Nigerian case constitute no more than ten per cent of the work force (15 ó 64 years) (CIA, 2004). Such highly symbolic but token obligatory payment is, practically assessed, less than two (2) percent of the annual national budget estimate and indeed insignificant when compared with the gross national revenue per annum.

Despite this insignificant and non-consequential charge upon the Nigerian treasury by its erstwhile dedicated and committed citizens who had selflessly given themselves to public service, the Nigerian government had reportedly been unable to õmeet its obligation to retireesö (Udenze, 2006:2). As though it has become a misfortune for the current managers of public affairs in the predominant Nigeria-type societies in the Third World to permit citizens to live longer and attain retirement, such outcome is rather being bemoaned by public authorities. For instance, the director general of National Pension Commission is quoted to have complained that the pre-pension reform laws in Nigeria needed some change because the pension scheme had become õunsustainable due to lack of adequate and timely budgetary provisions and increases in salaries and pensionsö. He goes further to regret that õthere were demographic shifts due to rising life expectancies;ö thus pensioners live longer, which was a phenomenon that affected the support ratio (CBN, 2006:1).

It is the position of this paper that the new pension reform enacted into law in 2004 was intentionally aimed at depriving the pensioners of their token means of sustenance. Further, the law which openly canvasses the privatization of pension in Nigeria is not only a retrogressive measure but aimed at diminishing the patriotic zeal of future volunteers in serving their fatherland through participating and sustaining public institutions. Like other sponsored ideologies fabricated by market-society institutions for exclusive use in the Third World by its less informed but privileged envy elite the reform measure was improperly articulated but hurriedly adopted by state bureaucrats and policy makers who see in the sponsored legal instrument a loophole to enable them insensitively abandon their responsibility to their fellow compatriots. It is also the viewpoint of this contribution that like other similar World Bank-sponsored indoctrination of non-industrial societies who have adopted regular experimentation in developemnt hypotheses as national policy the end objective of these reforms such as commercialization, privatization, rolling back the state, limited state intervention, and so on, is the thorough devastation of communal and humanistic structures in the underdeveloped countries. Such objective, when realized, would keep the ideology-recipient and practicing nations and people less coherent, divided

and actually dependent; a strategy that would scuttle human transformation for genuine development.

### **Pensioners and Pension Act: A Sociological Insight**

One of the most curious legislative and executive dilemma in Nigeria's contemporary public governance is the demonstration of lack of respect for statutes, the smuggling in and enactment of new, hurried, situational, and unpopular regulations which contradict previous, existing ones; and further demonstrating little regard for the provision of the ultimate law of the land, the Constitution of the Federal Republic of Nigeria. Whoever wrote, passed into law, and also assented to the Pension Reform Act, 2004, was clearly or contemptuously violating the un-amended sections of the Nigerian Constitution 1999 and its relevant provisions regarding the objective and directive principles of Nigerian state policy, particularly as it concerns the obligations of the state to its citizens.

The Pension Act, 2004 recommends a contributory pension scheme whereby the worker contributes 7.5 percent of his/her emolument while the employer contributes equal or higher amount totaling, in the case of Federal public servants and the private sector, at least 15 per cent of the worker's earning. Such amount so contributed by the employer and the employee (worker) would be paid into a savings or pension account held by a special pension fund holder known as Pension Fund Administrator (PFA). The PFA is a limited liability company whose portfolio is the transaction of pension business only by retaining the savings account for employees, maintaining books of accounts on transactions relating to the pension fund and also paying the retirement benefits to the employee/customer when such employee matures to pension-benefiting age which, according to the Act, is placed at 50 years.

The Act also establishes another pension fund manager known as the Pension Fund Custodian (PFC) whose main responsibility is the warehousing of the pension fund business assets. The employer sends the contributions directly to the custodian (PFC) who notifies the PFA on the receipt of the contribution. The PFA subsequently credits the retirement savings account of the worker. The custodian would then execute transactions by undertaking activities (undertaker indeed!) relating to the administration of pension fund investments upon instruction by the PFA. The custodian (PFC) should above all be a limited liability company operating in Nigeria with an adequate license as a financial institution (Ahmad, 2006:3).

The contribution is mandatory for all workers in the public service of the Federation and the Federal Capital Territory, Abuja together with workers in the private sector which employs a minimum number of five (5) persons or more. Workers who had roughly not more than three (3) years to retire from the date of the commencement of the act, those who had already retired, and retired court judges and justices, are exempted, their pension being handled by another body.

The Pension Act, 2004 also establishes or endorses the operation of other pension management agencies. The National Pension Fund Commission (PENCOM) is to function as a regulatory body to watch over the pension managers, producing guidelines and other

regulations necessary for the proper administration of pension matters. Another set of six (6) pension departments are also established to continue the administration of pensions outside the contributory framework which is the focus of the Act. These departments are listed as military, police, civilian, customs, immigration and prison, other security agencies, and FCT pension boards (Ahmad, 2006:3). The Nigerian Social Insurance Trust Fund (NSITF) would also function as pension fund administrator and would also collect fund under its umbrella PFA known as Trust Fund PFA. All in all, the fund so contributed under this privatization of pension theory would be invested by PFAs and PFCs in relatively safe and less volatile areas in the Nigerian economy where the Funds might be invested with commensurate returns assured to the beneficiaries (Udenze, 2006:144).

Eight (8) areas of investment of the pension fund were mentioned by the Pension Reform Act, 2004 among which are (i) bonds, bills and other securities issued or guaranteed by the Federal Government and the Central Bank; (ii) bonds, debentures, redeemable preference shares and other debt instruments (the Act is silent about the mission of redeeming outstanding World Bank instrument when the need arises); (iii) ordinary shares of public limited liability companies listed on the Stock Exchange; (iv) bank deposits and bank securities; (v) investment certificates of closed-end investment fund or hybrid investment funds listed on the Stock Exchange register and with a good track record of earning; (vi) units sold by opened investment funds or specialist open-end investment funds listed on the Stock Exchange; (vii) bonds and other debt securities issued by listed companies; (viii) real estate investment, and (ix) such other investments as the Pension Commission may, from time to time, prescribe (Pension Reform Act 2004, s73(1)).

The above profile easily makes the pension fund a big business to be used in attracting more business profit for pension administrators or managers, and also for the national economy. The pension business transaction in Nigeria smacks of the patrimonial polity theory or the classic fascist system. Patrimonial is that political system that is closely related to monarchism in its extreme, dictatorial and primitive form. Both Roth (1971) and Hagopian (1978) agree that in a patrimonial system officials appointed by the absolute ruler exercise considerable power throughout the country. Such officials do not actually constitute a modern type bureaucracy although there are pretensions toward it such as book-keeping especially regarding tax collection. Officials and their minors purchase and own vast territories from where taxation is farmed, some portion kept as profit while the main bulk is remitted to the state for the upkeep of the military institution, the customs, prisons, immigration and the police, all being necessary instruments for the maintenance of the patrimonial-structured law and order, and not necessarily the enthronement of justice and equity. No wonder these state institutions were isolated and removed from the rigid provisions and conditionalities of the Pension Reform Act, 2004 (see 2 30, ss 2(a)).

## **Methodology**

This study uses observational method to carry out its examination of the pension reform processes being embarked upon by contemporary self-professed civilian democratic regime in Nigeria. This observational method extend beyond the work environment to gather comparative data given that the Act as formulated in Nigeria constitutes severe consternation on where bemused employees clamour against possible intrusion of the Nigerian factor (fraudulent practice) in the administration of the scheme which leeway is being provided by the Pension Reform Act, 2004. Sufficient library sources were also consulted to appreciate and document what obtains elsewhere, especially in advanced industrial capitalist states with larger population on retirement as well as large population presently at work.

## **Findings and Discussion**

Several issues need to be addressed by the Nigerian state regarding the fate of pensioners as well as those aspiring to retire under the mandatory contributory pension scheme enacted in the Pension Reform Act, 2004. Such issues include the following which are ignored or wished away by the Act and its sponsors:

- a. The contributory pension scheme in market societies such as the United Kingdom (UK) is one of the strategies for the realization of the goals of social policy which is emphatic on the need to attain equality in social welfare services. It involves the sharing of the good things of life among which include education and career opportunities, welfare services (such as health, unemployment benefits etc) as well as leisure. Contributory benefit therefore is an aspect of social security aimed at providing a type of care by society to the handicapped (retired) individual who had previously contributed to the scheme through taxes and national insurance contributions. Thus, using the experience of industrial societies there is nowhere except in the dependent nations such as Brazil, Nigeria and Chile where the World Bank has succeeded in selling this curious definition of pension scheme.
- b. There seems to be poorly articulated strategy of converting pension contributions to the promotion of financial speculative enterprises in a type of economy whose stability nationally and globally has not been assured. The Pension Act, 2004 pretends to provide such economic regime whose laws are immutable, being cast in permanent socio-economic granite impervious to financial depressions and other market-related melt-down.
- c. The Act is oblivious of sub-Saharan African cultural practices of rotational credit associations which proceeds are immediately used in meeting family obligations and responsibilities such as the care of the elderly, one's own offspring and the extended family whose needs are of primordial necessity. The African contributory benefit pattern does not wait till the beneficiary reaches old age and does not end with one reaching old age.

- d. Much of the emphasis of the new pension reform focuses on private sector ideologies such as private investment, private savings, privatization, personal retirement income, personal PIN and account number, personal purchase of annuity, individual withdrawal of accumulated savings, etc without whatever reference to the social sector as though the human society, within which the individual functions is merely atomistic, anonymous and rather constitutive of rootless, unreflective and isolated individual in a competitive, adversarial wilderness.
- e. Financial investments and investors such as the PFAs and PFCs are divinely ordained guardian angels protecting pensioners' assets whom the Act presents as immaculate and insulated from unwholesome acts of graft, fraud, embezzlement, or even the loss of vital records as a result of an accidental fire incident in the pension commission office, a common and uncured Nigeria factor which is a pastime of the privileged elite and their accomplices.
- f. The pension law seeks to break the rank of the working and toiling people of Nigeria by singling out the security agencies and the judicial personnel for special privilege ignorant of the reality that members of the armed forces, police, customs, etc are domiciled in Nigeria and have their roots in their communities. The identification and separation of members of those institutions is a misinformed, manipulative strategy of attempt at conquest of the whole Nigerian people.

The experience of Chile as a case study in contributory pension scheme being recommended and adopted in Nigeria is highly instructive. It should be recalled that Chile is that South American nation where organized working class party won an election and took over the running of the state and business enterprises in 1970. Workers actually seized power by taking over the estates of absentee landlords (latifundia) and within two years had raised productivity to the level where inflation was reduced, food supply increased and populist energy released which resulted in a monumental reconstruction of society for the benefit of its people (Raptis, 1974:60ff). Fearing the emergence of another Cuba in the continent of South America, international capitalism and economic institutions first imposed embargo on Chilean products in the international marketplace; then followed this strategy with an infiltration of the Chilean military which achieved a sponsored coup d'état that overthrew the working people's government in 1973. To dislodge the working class consciousness from being converted into power in future, the fascist junta had to arrest, summarily try, and execute over 20,000 leaders and organizers of the populist governance lasting between 1973 and 1990. Presently, Chile is one of the heavily indebted countries in South America whose debt profile is roughly US\$42.5 billion in 2003 (CIA, 2004:113).

Apart from this, Chilean case is different in the area of manpower development. Chile has only 2.65 per cent of arable land in comparison with Nigerian's 30.96 per cent in agriculture whereas Chile has 63.0 per cent in services. In other words, Chile's employee population would naturally generate significant revenue to impact upon the GDP placed at US\$9,900 (2003 estimate). The World Bank has reported that privatization of pension has impacted positively on the development of capital market and financial institutions in Chile.

Another widely quoted pension reformer is Brazil, a notoriously debtor nation whose debt profile hovers around US\$223.6 billion (CIA, 2004:76) and whose economy is virtually run by the International Monetary Fund and the World Bank. Even *The WorldFact Book* (2004) published by the US Central Intelligence Agency acknowledges that Brazilian economy is suspended on a ðfloating exchange rate, an inflation-targeting regime and tight fiscal policy, which have been reinforced by a series of IMF programmes. Although Brazil is an oil producer (1.561m bb1/day) she consumes more than she produces (2.199m bb1/day) and has 53.0 per cent of her labour force in services. The World Bank (2005) has recommended, and Brazil accepted and implemented a ðmulti-pillarö pension package which includes zero-pillar (no contribution and no protection in old age); first pillar (contributory system); mandatory second pillar (that can take any form: individual, employee sponsored, defined benefit, etc); and a catch-all scheme called ðinformal intra-family or intergenerational sources, financial and non-financial to support the elderly, including access to health care and housingö (Holzman and Hinz, 2005).

It is instructive to note that there are no pension reforms in the United States, the OECD countries and Japan as found in the Third World jungle. Specifically in the United States, the old age or retirement payment by the state is known as Old Age, Survivors and Disability Insurance (OASDI). The retirement benefits payment is the largest component of the OASDI generated from the payroll taxes of current workers. The payroll tax receipt, investment and other income of OASDI have consistently exceeded benefits, payments and other expenditures which in 2004 showed some surplus of US\$150 billion. The state-sponsored payment continues in the United States and neither the Presidency nor the Congress ever imagines a contributory pension reform.

The practice in OECD countries is not different from that of the US. Europeans insist that social security, particularly pension benefits, should aim at the general enrichment of the concrete substance of civilized life, a general reduction of the risk and insecurity and a kind of equalization between the more and less fortunate at all levels. It is believed in OECD countries that equality of status is more important than equality of income.

## **Conclusion**

Fundamental human understanding of democracy includes the respect for human life, the rule of law, equality, sovereignty of the people and the liberty of the individual. Ingrained into the democratic philosophy is the consistent effort to realize and re-affirm the welfare of humanity within the province governed by a state using this philosophy.

The query by democratic philosophy to rulers of Third World states lies in the re-assessment of their policy choices in line with the democratic ethic. Furthermore, they need to explain the justification for accepting and adopting policies favourable to external interests but not favourable to their own societies particularly when viewed in its longitudinal context. Pension benefits abrogation, the withdrawal of state responsibility to pensioners, and the privatization of retirement payment to entitled persons neither advances and promotes industrial harmony nor extends the frontiers of democracy. Nigeria as well as

other colonial states should by now be sufficiently experienced in hardship to recognize that manipulation of decidedly blind and underdeveloped nations is not only a serious intellectual project but also a practical reality in implementation. This manipulation comes out glaringly in the Pension Reform Act, 2004 wherein leadership is encouraged to demolish not only the solidarity of the work force but to excise it of its motivational content, making public service unenviable. By so doing, prospective work force would voluntarily stay out of public service whereby the elite and their foreign backers would achieve the grand privatization of the state. Such privatization reduces its citizens' service portfolio, and with a privileged security agencies being strengthened to guide and protect such a state, enable foreign interest which is usually mobilized under the World Bank platform to achieve the rapid and uninterrupted resource transfer from the colony to the centre. This, in summary, is the aim of the Pension Reform Act, 2004 as hurriedly enacted into law even with the violation of certain provisions of the 1999 Nigerian Constitution. Nigerian leadership should understand this; and should assume full responsibility for failing to do so.

### **Recommendations**

This study makes the following recommendations:

The Nigerian state has the financial and moral capacity and responsibility to meet its obligations to pensioners and should do so in line with its declared objectives and directive principles of providing good governance for the welfare of her citizens.

The Pension Reform Act, 2004 needs to be abrogated on grounds of its structural deficiencies; as well as its anti-people provisions. It should be replaced by a worker-friendly or people oriented pension scheme that would enable Nigerian public realize themselves and lead respectable and fulfilled life on retirement.

Nigerian labour body needs to galvanize and aim at a number of objectives including the contesting of elections and assuming power with the ultimate aim of providing worker friendly governance for Nigeria.

Nigerian people as a whole through civil society organizations: youths, women associations, religious bodies, students, Academic Staff Union of Universities, other trade unions, and even farmers' associations, need to seek some explanation from Nigerian policy makers and public officers why this country should associate and slavishly dance to World Bank directives which are harmful to the Nigerian national goals and aspirations.

There is a need for universal, free, and compulsory education at all levels to ensure that a greater number of people are enabled to know and claim their rights.



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