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# Contributory Pension Reforms and Employee Risk Perception in the Banking Industry of Lagos State Nigeria

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**Abstract**
The paper examines contributory pension reforms and risk perception in the banking industry of Nigeria of Lagos State, Nigeria. The descriptive survey research design was adopted while the simple random sampling technique was used to draw a sample of 361 respondents. Questionnaire was the main instrument for data collection, measured on a 6-point Likert Scale. 361 copies of questionnaire were administered with a response rate of 60.94%. Data collected were analyzed using the descriptive statistical techniques of Percentiles and Pearson Correlation with the aid of Statistical Package for Social Sciences (SPSS) software for editing and encoding. The result shows that contributory pension reforms significantly affect risk perception among employees of commercial banks in Lagos metropolis, Nigeria ($R = 0.982$, $p < 0.05$). The study recommends that the management of commercial banks and other financial institutions should ensure continuous and adequate training of personnel to aid innovative, creative and efficient pension management strategies to improve employee welfare.

**Keywords:** Contributory Pension Reforms, Risk Perception, Employee Welfare.

## Introduction

The Pension Reform Act 2004 (as amended in 2014), established the National Pension Commission (PenCom), as a body to regulate, supervise and ensure the effective administration of pension matters in Nigeria. It licenses, regulates and supervises pension operation of Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs), Closed Pension Fund Administrators (CPFAs), existing schemes that are approved to continue by the commission and any other pension related institutions (Ahmed, 2006)

Prior to the enactment of the Pension Reform Act 2004, Pension Schemes in Nigeria, the National Social Insurance Trust Fund (NSITF) had been faced with many challenges. The public service operated unfunded Defined Benefits Scheme (DBS) and the payment of retirement benefits were budgeted annually. The annual budgetary allocation for pensions was often one of the most vulnerable items in budget implementation in the light of resources constraints. Ako, (2006)

In many cases, even where budgetary provisions were made, inadequate and untimely release of funds resulted in delays and accumulation of arrears of payment of pension right. It was obvious therefore that the defined benefits scheme could not be sustained (PenCom, 2007).

In the private sector on the other hand, many employees were not covered by the pension schemes put in place by their employers and many of these schemes were not funded. Besides, where the schemes were funded, the management of the pension funds was full of malpractices between the fund managers and the trustees of the pension funds (PenCom, 2007)

The failure of the National Social Insurance Trust Fund (NSITF) and the public sector pension schemes to effectively administer a social insurance and pension system in Nigeria metamorphosed into a crisis from which the Pension Act is founded. This scenario necessitated a re-think of pension administration in Nigeria. Accordingly, the pension was initiated in order to address and eliminate the problems associated with pension schemes in the country. The outcome of the reform was the enactment into law of the Pension Reform Act. 2004 (as amended in 2014) introduced a more robust contributory pension system where the payout will be programmed and guarantee to the beneficiary (PenCom, 2007). This in turn ensures that the employee has to compulsorily save some percentage of his emolument as a way to grow the fund towards his disengagement in the service.

**Statement of Research Problem**

The new Pension Reform Act of 2004 is one of the numerous ‘reforms’ pushed through in 2004 (as amended in 2014) to reduce government expenditure on the social welfare for the populace. The philosophy here is to allow the government and the private sector to shelve a major social responsibility of catering for its workforce after retirement in the form of gratuity and fully funded pension payments. Before now, the positions of things in the workplaces were in two forms, depending on which establishment the workers belong, that is, either the private or public sector. The situation in the public sector of the preexisting pension scheme is that a civil servant or worker working for the government will collect a certain amount of money worked out as gratuity depending on the number of years put into service. The gratuity is expected to be paid immediately the worker stops working. Pensions are also paid immediately on a monthly basis if the worker is of the “pensionable” age.

In the private sector, specifically in Union Bank Plc, the worker collects at the end of his working life with the company gratuity which is expected to be paid immediately the worker disengages from active service. Pensions are also paid immediately on a monthly basis if the worker is of the “pensionable” age.

Isiguzo (2005) argues that in the old contributory system in the private sector, when an employee is dismissed, he may only be able to access his own contributions while his employer withholds his own contribution into the employee’s account. However, with the new Pension Reform Act 2014, the funds deducted from the employee’s salary and the contributions from the employer are deposited into the retirement savings account of the employee independent of the employer’s control. In this circumstance, if the employee is dismissed from service, the employer cannot withhold his portion of the contribution because the fund is already deposited in the retirement savings account of the employee. The Pension Fund Administrator recognizes only the employee as the owner of the account thus make this contributory pension system a new concept in pension administration in the private industry for the employee’s pension account.

This study, however, gives insight into the new Pension Reform Act 2004 and 2014 as amended and examines the effect of the new contributory pension scheme on the employees in the banking industry of Nigeria towards building and securing a better sustainable financial development.

**Objective of the Study**

To examine the effect of the new contributory pension reforms on employee risk perception in the banking industry of Nigeria.

**Research Question**

To what extent has the Contributory Pension Reforms affected employee risk perception in the banking industry of Nigeria?

**Research Hypothesis**

$H_0$: Contributory Pension Reforms do not significantly affect risk perception in the banking industry of Lagos State, Nigeria.

**Significance of the Study**

Although the new scheme is being adjudged to be better than the old scheme in that it is expected to help remedy the deficiencies and inadequacies prevalent in the old scheme. It was also viewed that it will be of great benefit to every employee to develop its financials even after retirement. The study examines how value perception of the new contributory pension system and how it has impacted the development of the employee in the many ways.

This study goes a long way in restoring hope to the Nigerian workers, give an insight on the New Contributory Pension Scheme and encourage the Nigerian workers on the need to embrace it. This study also will be of great use in managing pension and pension related problems more effectively and efficiently, because information provided will serve as good basis for realistic decisions.

**Literature Review**

The history of Nigeria’s pension system dates back to the year 1951 when the first pension scheme was inaugurated in the country. According to Balogun (2006), Nigeria’s first ever legislative instrument on pension matters was the Pension Ordinance of 1951 which had a retroactive effect from 1st January, 1946. The law provided public servants with both pension and gratuity. The Nigerian social security scheme came into being in 1961 by the Act of Parliament, which established National Provident Fund. The National Provident Fund the first legislation enacted to address pension matters of private organizations was a compulsory social security saving scheme to which both the workers and their respective employers contribute in equal proportions for the benefit of the workers.

The scheme provided for lump sum cash payment to a member when his employment ceases due to old-age or disability. In order to have an in-depth knowledge and understanding of the direction of changes in pension reform, it would be germane to first of all understand the antecedents of pension system in Nigeria. In the public sector, (both civil and public services, statutory bodies), pensions were governed by the Pensions Act of 1979, later the Pensions Act of 1990 as amended by the Pensions Regulations of 1991. The Act provided for benefits in terms of gratuity and pension payments. Gratuity is a single, lump sum payment while pension is a periodic payment, normally on monthly basis for life. The scheme was a compulsory and non-contributory one, which created a right to monetary collection by public servants and an obligation on the part of government to make payment. Before April 1974, gratuity and pension for public servants were not treated as rights but as privileges. The applicable law provided that no officer shall have an absolute right to pension or gratuity, Section 6(1).

However, effective from 1974, they became rights to which a qualifying public servant was entitled to claim from the government. The general pension scheme for civil servants was financed from government general revenue on a "pay-as-you-go" basis and not from a special fund established for the purpose. Under the Pensions Act of 1979, both gratuity and pension were salary rate related and were financed wholly by the government without contribution by the workers. Pensions Decrees 102 and 103 (for the military) of 1979 were enacted with retroactive effect from April, 1974 Ahmed, (2006).

The police and other Government Agencies' Pension Scheme were enacted under Pension Act No.75 of 1987. This was followed by the Local Government Pension Edict which culminated into the establishment of the Local Government Staff Pension Board of 1987. In 1993, the National Social Insurance Trust Fund (NSITF) scheme was established by decree No. 73 of 1993 to replace the defunct National Provident Fund scheme with effect from 1 July, 1994 to cater for employees in the private sector of the economy against loss of employment income in old, invalidity or death. Before 2004, most public organizations operated a Defined Benefit (Pay-As-You-Go) scheme and final entitlements were based on length of service and terminal emoluments.

The defined benefit pension scheme in Nigeria was plagued by many problems among which were poor funding due to inadequate budgetary allocations for instance shortage of budgetary release relative to benefits resulted into unprecedented and unsustainable outstanding pension deficit estimated at over N2trillion before 2004 Balogun, (2006), weak, inefficient and non-transparent administration. There was no authenticated list/data base on pensioners and about 14 documents were required to file for pension claims. Restrictive and sharp practices in the investment and management of pension funds exacerbated the problems of pension liabilities and over 300 parastatals' schemes were bankrupt before the defined benefit scheme was finally jettisoned and replaced with the funded contributory benefit scheme in July, 2004.

## Methodology

The study adopts survey design to enhance a comprehensive examination of the variables. A sample of 361 respondents was randomly selected from the target population of 3,616 Pensionable members of staff and Pensioners/Retirees of commercial banks in Lagos metropolis, Lagos State, Nigeria. A structured questionnaire was used in collecting the required primary data from the respondents. The questionnaire was divided into two parts A and B. Part A contained items on the demographic variables and Part B contained items to measure the active variables of Pension Reforms and Risk Perception. The data collected were analyzed using descriptive and inferential statistical techniques of Percentiles and Pearson Product Moment Correlation to determine the extent of relationship between the Contributory Pension Scheme and Employee Risk Perception among commercial employees in Lagos metropolis. The questionnaire was rated on a six-point Likert Scale of Extremely High (6), Very High (5), High (4), Average (3), Low (2), and Very Low (1). The Simple Percentile and Regression Analysis statistical techniques were used to aggregate the responses and test the hypothesis.

## Results and Analysis

$H_0$: Contributory Pension Reforms do not significantly affect risk perception in the banking industry of Lagos State, Nigeria

**Table 1:** Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .982[a] | .965 | .965 | 2.39001 |
| a. Predictors: (Constant), NCPS | | | | |

Table 1 show that there is a very strong positive relationship between contributory pension reforms and risk perception among employees of commercial banks in Lagos metropolis, Nigeria with correlation coefficient of 0.982. The coefficient of determination is 0.965 and the adjusted R square value is 0.965, indicating that about 96.5% variations in employee risk perception is accounted for by contributory pension reforms.

**Table 2:** ANOVA[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 34615.745 | 1 | 34615.745 | 6060.014 | .000[b] |
| | Residual | 1245.250 | 218 | 5.712 | | |
| | Total | 35860.995 | 219 | | | |
| a. Dependent Variable: EMRE | | | | | | |
| b. Predictors: (Constant), CPR | | | | | | |

Table 2 (the ANOVA table) is used to test the validity of the model under consideration and it gives F-value of 6060.014 and p-value of 0.000 indicating that the model is adequate and sufficient and can be used to relate the relationship between contributory pension scheme and employee risk perception among employees of commercial banks in Lagos metropolis, Nigeria Hence we accept the alternative hypothesis since the p-value is less than the level of significance.

Therefore, we conclude by accepting the alternate hypothesis that contributory pension reforms significantly affect risk perception among employees of commercial banks in Lagos metropolis, Nigeria

**Table 3:** Coefficients[a]

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -.579 | .532 | | -1.088 | .278 |
| | CPR | 1.069 | .014 | .982 | 77.846 | .000 |
| a. Dependent Variable: EMRP | | | | | | |

The model is:
EMRE = -0.579 + 1.069CPR
Where,
EMRP implies Employee Risk Perception
CPR implies Contributory Pension Reforms
From the model in table 3, it shows that contributory pension reforms are significantly related with p-value of 0.000. It also indicates that a unit increase in contributory pension reforms will cause a unit increase in the employee risk perception.

## Conclusion

Pension Managers should recognize that the synergy among all the stakeholders is desirable towards the successful implementation of the contributory pension reforms to enhance value perception among employees across the various sectors of the economy. The study strongly recommends to the management of commercial banks and other financial institutions, continuous and adequate training of personnel to aid innovative, creative and efficient pension management strategies to improve employee welfare.

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