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A Compared Analysis of the Structure and Nature of Contributory Pension Scheme between Nigeria and India.

Nasiru Modibbo[1], Sambo Suleiman[2] & Abdu Azarema[3]
[1]Phd Resarch Scholar Public Administration. Career Point University Kota Rajastan State india,
[2]Phd Resarch Scholar Public Administration. Career Point University Kota Rajastan State india
[3]Scholar Public Administration. Career Point University Kota Rajastan State India.

Abstract: *Problems of high expenditure burden, disparities of scheme and demographic changes forced countries like India and Nigeria to reform and adopt contributory pension schemes as a major. A compared analysis of the scheme through a content analysis revealed similarities with regards to privatisation, government regulatory role, skewedness of the scheme in favour of government and dissimilar in the areas decentralisation level, and flexibility. Therefore the study concluded by acknowledging the inevitability of pension reform in both countries and thus suggested that india should reconsider its structure of pension administration for the benefit of economy of scale and Nigeria should adopt a flexible pension policy with regards to withdrawals by adopting the Indian measure or even make it better.*

Key words*: Compared, Analysis, Structure and Nature, Contributory Pension Scheme.*

1. Introduction

Governments all over the world have strived in different fashions to provide services to its citizens based on the ideology it deems fit and necessary. The ideological foundations have changed overtime due to changes in civilisation, human needs, external pressure and other environmental factors. China socialist has now embraced market socialism while the capitalist west and there economic allies are sinking deeper into new institutional economics in issues that has to do with service deliveries or more precisely adopting a lot of pattern changes in public policy issues. In order to propagate its ideologies of service deliveries the western world in 1980s through International Monetary Fund (IMF) and World Bank (WB) exploited the economic weaknesses of developing countries like Nigeria who were unable to settle their dept from London and Paris Club to adopt some policy pattern changes with regards to currency devaluation, privatisation, subsidy removal on utility goods and service, deregulation etc. a strategy of rolling back the frontiers of the State.

Since then, Nigeria had become a regular passenger in the train of IMF and WB with regards to state policy administration. According to Dlakwa (2009) IMF has thus become the international broker for rich countries and financial houses as such impose policy options on poor countries. This is very obvious in its most recent undertaking of pension reform where it join the bandwagon of most countries of the world in adopting paradigmatic pension reform approach or commonly knows as contributory pension scheme. The contributory scheme is expected in the long run to address the problems of corruption, delay in payment of benefit, reduce fiscal pressure on budgets, expand private participation etc.

Similarly, after July 1991 India adopted the way of economic development based on the concept of globalisation and liberalisation in the field of banking operations, foreign trade, and industrial sector. According to Mathur "the new economic policy is multi sectoral and the objective is to improve the efficiency". The thrust of the new economic policy is towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system through liberalisation, privatisation, foreign investment equity, full convertibility etc. The continuance of Indian state activity in this direction resulted in joining the bandwagon of most countries of the world by reforming its pension sector in order to avoid or get rid of myriad of problems of high pension expenditure, lack of coverage of informal sector of the economy etc. it is against this backdrop that this study intends a comparative analysis of the features of both schemes between the two countries because both countries did their reform in 2004 and adopted a contributory pension scheme.

2. Statement of problem

According to Koripamo-Agari and Yunusa (2009), the problems in Nigeria revolves around lack of adequate and timely budgetary provision coupled with rising life expectancy, increasing number of employees, poor implementation of pension due to inadequate supervision and regulation of the system and too many private sector employee were not even covered by the form of pension scheme. Another major problem in Nigeria was the non-payment or delay in the payment of pension and gratuity by the Federal and State governments (Orifowomo , 2006). In most cases funds are not readily available to pay even if the state governors are willing to pay. Other problems include administrative bottle necks, bureaucracies, corrupt tendencies and inefficiencies of civil service and economic downturn have resulted in erratic and the nonpayment of terminal benefit as at when due.

Similarly, In India, a variety of problems plaque the pension system with gradual collapse of the traditional old age support mechanism and the rise in elderly population highlights the needs for strengthening the formal channels of retirement savings (Ranadew Goswanni 2006). The imperative, and more proximate reasons for pension reform are also well know-skewed coverage of the existing benefit scheme, favoring organised workforce while informal employment is on the rise, worsening expenditure, unfair treatment of private sector workers vis-a-vis public sector employee, an under developed private annuity market and finally the need to increase the domestic rate of savings through higher contractual savings. (Ranadew Goswanni 2006).

3. Objective /Methodology

The different disposition of both countries in terms of location, population and development will explain a lot of things in the study. It is thus important to compare and analyse the structure and nature of the schemes in the area of i. expanding the frontiers of private organisation ii. employee benefit iii. Creation of unification iv.coverage etc. of both schemes in order to extract important ideas that will help both countries.

The authors have employed both descriptive and analytical methods. This approach drew on official records, policy pronouncements and a considerable volume of related literature. In respect of official records, extant provisions of 2004 and 2014 gazette of the Federal Republic of Nigeria and that of India, and the reports of the various committees especially in India. (OASIS Committees) were used. A literature review provides a range of discussions on the topic. The analysis/discussion that follows draws on findings from this theoretical research.

4. Structure of Nigerian scheme.

It's important features are:

i. Pension Commission (PENCOM)

It is the government regulatory body that regulates the overall activities of granting licences to Pension Fund Administrators (PFA), Pension Fund Custodians (PFC) and Provide guide to investment of pension assets. It is an autonomous body with full powers to sanction any abnormality as far as pension funds are concerned

ii. Contributory System

The employer contributes a minimum of 10% while the employee contributes 8% irrespective of whether it is private or public. The private bodies with employee of above five are mandated to contribute. An employer is obliged to deduct and remit contributions to a custodian within 7 days from the day the employee is paid his salary. It is also **Fully Funded** which means that the contributions are deducted immediately from salary of individual and transferred to the relevant retirement savings account. By so doing, the pension funds exist from the onset and payment will be made when due. The **Individual Accounts** are non withdrawable. The employee opens a retirement savings Account with a Pension Fund Administrator (PFA) of his choice. This individual account belongs to the employee and will remain with him through life. He may change employers or pension fund administrators but the account remains the same.

iii. Life Insurance Policy

In addition to the contribution rates every employer shall maintain life insurance policy in favour of employee for a minimum of three times the annual emolument of the employee..

iv. Pension Fund Administrator (PFA)

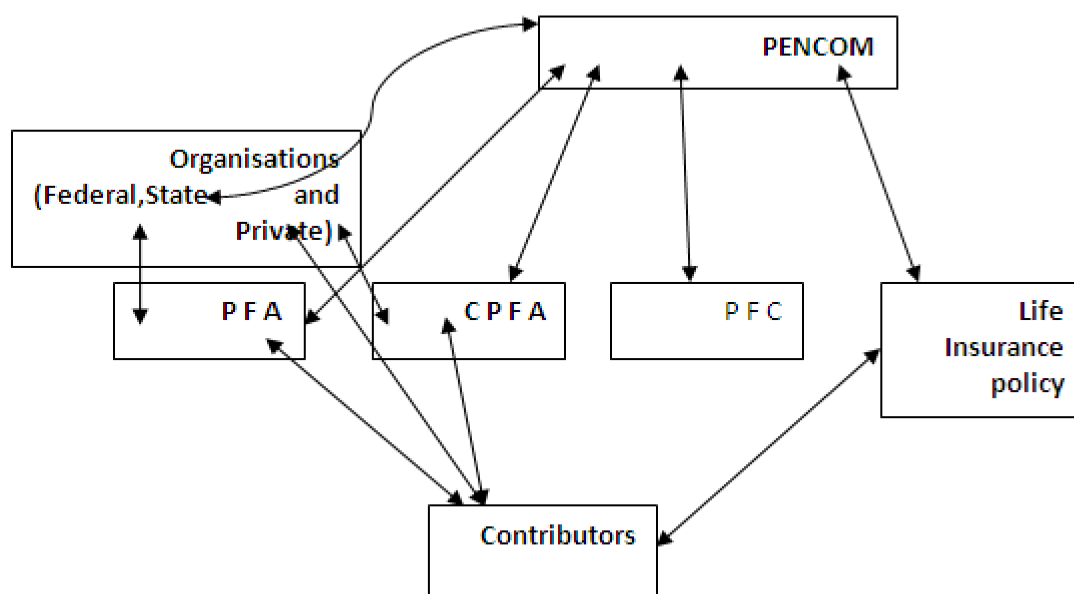
It is the organisation that opens retirement savings accounts for employees, invest and manage the pension funds in a manner as the Commission may from time to time prescribe, maintain books of account on all transactions relating to the pension funds managed by it, provide regular information to the employees or beneficiaries and pay retirement benefits to employees in accordance with the provision of pension.

v. Pension Fund Custodian (PFC)

It is responsible for the warehousing of the pension fund assets. The employer sends the contributions directly to the custodian, who notifies the PFA of the receipt of the contribution and the PFA subsequently credits the retirement savings account of the employee. The custodian will execute transactions and undertake activities relating to the administration of pension fund investment upon instructions by the PFA.

vi. Closed Pension Fund Administrator (CPFA)
Any employer managing pension fund assets of one Billion Naira and above can apply for a licence as a CPFA in order to manage such funds directly or through a wholly owned subsidiary dedicated exclusively to the management of such pension fund assets. On issuance of the licence, the commission will supervise and regulate the activities of the closed PFA. Shell Nigeria has so far been licensed as a CPFA; shell Nig. **Closed Pension Fund Administrator ltd.**

Below is a diagram illustration of the structural relationship within the new pension scheme. It shows a bottom up approach in the sense that the contributor can contact his PFA directly if the need arises for any explanation. In cases where difficulties persist, the contributor will contact his organisation with the knowledge of the PFA for more clarifications with regards to delay in contributions of 10%. However the contributor has no direct contact with the custodians of his savings.



Source: *Constructed by the Author 2017*

5. Structures of Indian Scheme

i. Pension Fund Regulatory and Development Authority (PFRDA)
It is an autonomous body charged with the responsibility of establishing standards, developing and regulating pension funds to protect the interest of the subscribers. The regulations are in the critical areas of pension which has to do with fund transfer, record keeping, fund management and custodial services.

ii. National Pension Service (NPS)
It is designed on defined contribution where the subscriber contributes to his own account. It has two levels of account, Tier I and II. The tier I account is mandatory while the Tier II is voluntary. Subscribers are free to withdraw from their savings from tier II account whenever they wish. In extreme circumstances the individuals may withdraw from tier I account on the conditions of **health,higher education,marriage and building a house** but only 25% of the 10% of an employee contribution after a minimum 10 years contribution which can be done not more than three times before retirement. The aim of NPS is to create a pension Indian society where by indigenes from the non formal sectors are encourage to join the pension scheme through a programme called "Swavalanva Yojana‟. The benefit of this scheme in terms of fixed pension will be guaranteed by the government and the government will also make contribution to those accounts on behalf of its subscribers. Under this scheme a subscriber would receive a minimum fixed pension of Rs.1,000 per month and in multiple Rs.1,000per month, therefore up to a maximum of Rs.5,000 per month depending on subscribers contribution.

iii. Central Record Keeping Agency (C R A)
Approved by the PRRDA and entrusted with the record keeping of the data of individual

subscribers. It also acts as an interface between the different intermediaries in the NPS system.

iv. Point of Preference (POP)

Approved by the PFRDA, they include mainly commercial Banks who act as the first point of interaction of the NPS subscribers under the NPS architecture. The authorised branches of a POP called (POP-SPS) act as a collection points and extend a range of customers' service to NPS subscribers.

v. NPS Trust and Trustees Banks

The NPS trust is responsible for taking care of the funds under the NPS. The trust holds the account with a bank and designated as trustee bank. The trustee banks remits funds to the entities vis person funds, annuity service (ASP) and subscribers on receipt of instructions from CRA.

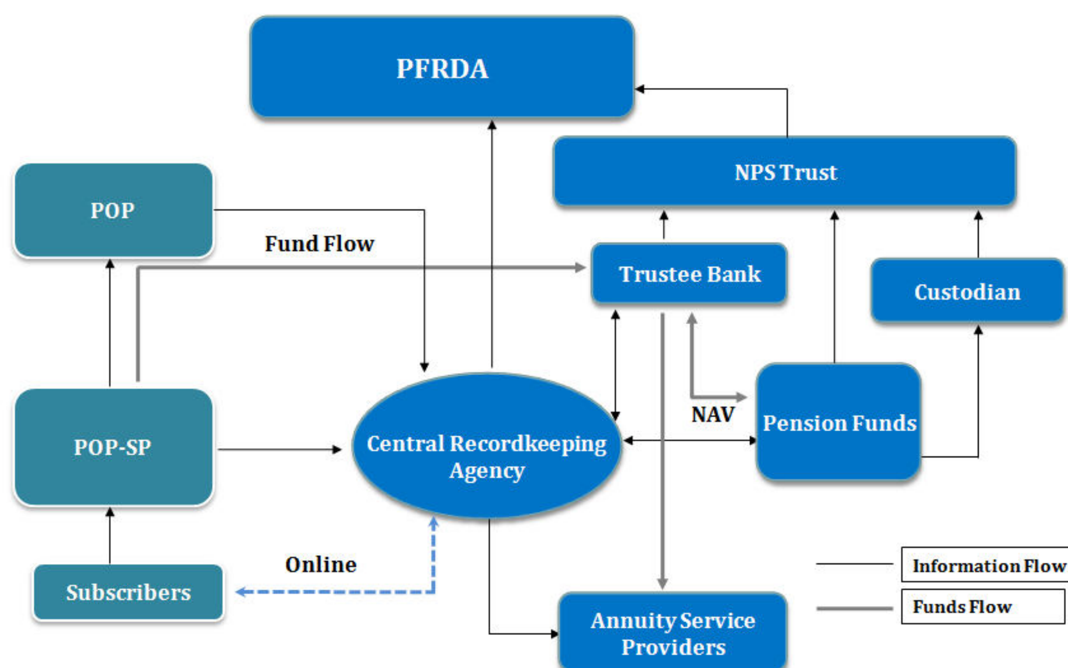
vi. Pension Funds Managers (PFM)

Appointed to invest the pension funds contribution of all subscribers in various schemes. The schemes are Equity (E), Corporate Bonds (C) and Government security (G) in order to ensure minimal impact on subscribers' contribution even if there is a market down turn. He has the choice of selecting investment mix as par as his appetite is concern.

vii.Annuity Service Provider/Insurance Companies

They are life insurance companies regulated by PFRDA for investing subscriber retirement savings in annuity scheme and delivering monthly pension to the subscriber.

Below is the NPS structure or architecture in India.



SOURCE: www.NPS architecture 2004

6. Discussion Based on the Structures and Natures of both Schemes

i. Similarities

A cursory look and indebt analysis at both schemes show that the whole idea of involving the private sector in the affairs of managing pension funds is more in skewed in favour of government because it relieves the government pension liability in the future and nothing more. Also the employee receives less 60% in India, 50% in Nigeria as lump sum as against 80% gratuity in the old scheme of defined benefit scheme. A second look reveals a good sense of expansion of private sphere in managing the economy because the governments in both countries assumes a regulatory role in order to guide and control the activities of the private bodies with regards to investment of pension funds to ensure massive impacts in the economy. In addition, government regulatory role ensure the security of pension funds. Thirdly, both schemes reveal unifications of scheme between

public and private sector which will in the long run create labour stability in especially the private organisation since benefits are now based on contributions. Fourthly, both schemes show wide coverage in order to cover the unofficial sector of the economy through "swavalamba yojana" package in India and micro pension scheme in Nigeria. These packages are aimed to boost the economy through generating more savings and also solve the demographic problem of projected growth in old age especially in India where Mukal (2007) noted that Indian old population is expected to reach 200 million in 2030.

ii. Dissimilarities

Firstly, the Indian scheme is over decentralised compared to Nigerian scheme. It has over six levels (PFRDA,POP,POP-SP,CRA, PFM, Annuity providers,Trust banks, Custodians) involved in pension fund management while Nigeria has only four (PENCOM,PFA,PFC,Annuity providers) . An analysis of the functions of PFM,Trust banks and custotodians seems similar as such a duplications of role compared to Nigeria where the PFC those the all the functions assumed to be done by PFM,Trust Banks and custodians, and also the role of POP and CRA is combined in the PFA or CPFA in Nigerian scheme. Based on these scholars such as Renuta and Susan (2014) noted that "NPS is unnecessary fragmented due to multiplicity of scheme and it will in consequence affect the quality of public policy analysis". Although, the CRA concept, if applied in Nigeria may go a long way in curbing embezzlement of pension funds. Secondly, a close look at the both schemes shows less level of privation from the Indian side because states banks like SBI, LIC, UTI, are involved. Government post office serves a POP, government experience agencies can apply to serve as CRA. The source of concern is that since all the level were existing organisations before the reform it may not result to creative job opportunities unlike in Nigeria where most of the PFA were newly created purposely to compete for customers account. Thirdly, the Indian scheme has a better coverage because despite its low level of awareness the swavalamba yojana scheme is quite functioning evidence from **www.NPS performance online value research**; whereas the unofficial sector in Nigeria is yet to be engaged. Fourthly, the Indian scheme is more flexible and employee friendly because of its withdrawal provisions on grounds of health, education, marriage, and construction of house; while in Nigeria no provision exist until retirement. In addition to this employees in India are given the opportunity to choose from different investment packages by the PFM to invest in government securities, corporate bonds, and equity.

7. Conclusion/Recommendation

This study concludes by affirming to the fact that the problems of pension constitute a major issue of in most countries of the world which necessitates the attention of public Administration through public policy.

Based on the findings of this study both governments should look in to the possibilities of balancing the scale of advantages to both government and subscribers in order to avoid tilt in government favour. The Indian government should look again at the functions of its levels of pension fund administration in order to enjoy an economy of scale. Whereas Nigeria should evolve a more employee flexible withdrawal packages in some critical areas of human existence just like the Indian case. Nigeria should also fast tract its implementation of the micro pension scheme for the purpose of wider coverage and attracting savings. Also in order curb corruption and embezzlement of pension funds the Nigerian government should adopt a modified concept of CRA because it will have the advantage of checking the excess of State and Local government.

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