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# An Assessment of Accountability and Transparency of Pension Fund Administration in the New Contributory Pension Scheme

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***Abstract***
*The Nigerian pension administration has in the past four decades faced serious challenges that have militated against its smooth operations. According to accounts from scholars, some of these areas concern corruption and poor governance structure of the Nigerian pension system. The introduction of the new Contributory Pension Scheme is a robust legislation by the government under the Pension Reform Act 2014 to improve Nigeria's pension system and to standardize its operations by ensuring that retirees get their pension benefits as and when due. But its introduction has been a subject of continuing intellectual debate amongst scholars, experts and stakeholders as regards its significance, efficacy and sustainability. The study assesses the accountability and transparency of pension fund administrators in the new contributory Pension Scheme in the Federal Capital Development Authority (FCDA). The study used the public choice theory to assess the effectiveness of PenCom and its partners, the Pension Fund Administrators. Questionnaires and interviews were used to elicit responses from 162 retirees of the FCDA. The interview conducted with stakeholders was used to validate responses from questionnaires. Descriptive statistics was used in analyzing responses elicited from respondents through questionnaires, from the sampled population. Findings from the study revealed that corruption in the previous pension scheme has started to re- surface in the new Contributory Pension Scheme. The study suggested thatthe periodic review of the Act is recommended to keep its provisions in tune with emerging realities of economic and social changes.The study also suggested that the contributed pension funds should be with kept in the custody of the Nigerian Sovereign Wealth Fund (NSIA), established under the Nigerian Sovereignty Investment Authority Act, so as to put it beyond the reach of government encumbrances.*
***Key words:*** *Pension, Retirees, Corruption, Transparency, Accountability*

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## I. Introduction

Broadly speaking, accountability refers to the process of holding actors responsible for their actions. More specifically, it is the concept that individuals, agencies and organisations (public, private and civil society) are held responsible for executing their powers according to a certain standard (whether set mutually or not) (Tisné, 2010: 2). By general consensus, accountability ideally involves both answerability the responsibility of duty-bearers to provide information and justification about their actions and enforceability the possibility of penalties or consequences for failing to answer accountability claims (Goetz and Jenkins, 2005). Conceptual debates on accountability and transparency range far and wide, but our focus here is on the social contract that exists between the citizens and the government, including partners, saddled with huge responsibility of social accountability.

For more than a decade, an international consensus has been in place, holding that, throughout the world, corruption and poor governance deter foreign investment, cripple economic growth and development, and even fuel state failure. Through government, nongovernment, and commercial networks, the international community has banded together to promote transparency and accountability as the best precautions against and remedies for corruption and poor governance. Formal and informal mechanisms of transparency and accountability encourage government officials to act in the public interest. Without public access to records of governance and other information, public resources may be squandered and mismanaged (Schedler, Diamond, and Plattner, 1999).

One of the major deficiencies of the Defined Benefit Scheme (DBS) that lead to the introduction of the new Contributory Pension Schemes, according to pension scholars, has been the lack of transparency in the administration of the defined benefit scheme (Amujuri, 2009). Although the difficulty associated with enforcing transparency and accountability in the management of pension fund in the old scheme was hugely acknowledged, but the level of corruption that permeated the scheme is better imagined (Aigbepue and Ojiefo, 2014:52).

PenCom Annual Report (2017) indicates that the core value of the new Contributory Pension's Scheme lies in its transparency, responsiveness, integrity, pro activity and professionalism coined in the acronyms (TRIPP). According to Aigbepue and Ojiefo, (2014:52); Okechukwu, Okala, &Uche,(2014:163)the Pension Reform Act 2014,introduced safeguards that ensure stiffer sanction on PFAs and PFCs who might want to defraud the pensioners or would-be-retirees. They also stressed that the scheme has generated a pool of long term investible funds which has already impacted positively on the growth of the nation's economy.

Furthermore, the scheme also anticipate the sophisticated mode of diversion of pension assets, such as diversion and/or non-disclosure of interests and commissions accruable to pension fund assets, and it has created new offenses and provided for stiffer penalties that will serve as deterrence against mismanagement or diversion of pension fund assets under any guise. The act has also empowered PenCom, subject to the fiat of the Attorney General of the Federation, to institute criminal proceedings against employers who persistently fail to deduct and/or remit pension contributions of their employees within the stipulated time. They can also take proactive corrective measures on licensed operators whose situations; actions or inactions jeopardize the safety of pension assets (Anazodo, Ezenwile, Chidolwe, &Umetiti, 2014:187: Okechukwu, Okala, &Uche, 2014:163).

In spite of these values, which by all standards, were superior to those of past pension schemes, scholar and experts have alerted that the bane of past pension schemes – **corruption (financial misappropriation)** may likely affect the efficacy of the new pension if some drastic measures are not taken (Essien&Akuma 2014:39).

For instance, Nwagu (2014) has revealed that the security mechanisms put in place to safeguard the pension funds investments under the new scheme; were mostly centred on mismanagement of funds, theft, misappropriation of pension funds, and devices against all sorts of corrupt practices, but failed completely in making provisions against domestic or global economic recession or total crash of pension funds investments in the stock exchange market or other investment ventures. In such difficult and unpredictable situations, who bears the brunt when there is an economic crash?

Similarly, Anazodo et al., (2014:187) has also expressed reservations about the regulatory efficacy of the regulator PenCom due to obvious ecological factors, maintaining that; the National Pension Commission is a product of the Nigerian environment. With a litany of failed regulatory agencies, citing regulatory bodies like Nigerian Communication Commission, National Broadcasting Commission, Nigerian Electricity Regulatory Commission, National Food, Drug Administration and Control etc. And the obvious consequence has been poor delivery of services by these agencies to the detriment of Nigerians. He also went further to stress that these anomalies are not from the regulatory body but the ecological factors, upon which they exist,thus questioning the transparency and accountability mechanism of the contributory pension scheme.

**Statement of the Problem**

It is the Pension Fund Administrators (PFAs) that reconciles contribution and payment made with the Pension Fund Custodian (PFC), in order to ensure efficient and effective management of pension funds and to ensure transparency and accountability. ThePFAsalsodevelop fine accounting system which has a healthy interface with the accounting reporting standard developed by PenCom,which indicates elaborate measures put in place to ensure accountability in the management of pension funds by the Pension Reform Act 2014, but has this entire measure yielded the desired fruit?

Unfortunately, there are emergent issues according to scholars, of lack of accurate financial records.There are also issues of lack of provisions against domestic, or global economic recession,which might crash pension funds investments in the stock exchange market or other investment ventures, including the problem of interference with pension fund asset by the government. Some of these issues have led to doubt and cynicism by scholars and experts about the transparency and accountability mechanism of the scheme, which have to be addressed urgently, in other to avert the collapse of the new scheme, hence putting all the efforts, resources and enthusiasm of stakeholders into jeopardy.

**Objectives of the Study**

The study carries the following objectives:

The broad objective of the study is to access the level of transparency and accountability or financial openness on the part of PFAs.

The specific objectives of the study are to:

(1) Find out the level of adherence of the PFAs,to the provision of the act with respect to the management of pension funds.

(2) Ascertain the level of interdependent of pension funds from government interference.

**Theoretical Framework**

The study adopts the public choice model. The public choice model came at a time where the public choice movement was predominantly on the rise politically and amongst researchers. The dominant idea it proposed was that individuals were mainly motivated by self-interest. However, Public Choice (PC), which passionately advocated that market principles be applied in public administration (and many other areas as well), followed immediately (Buchanan and Gordon 1962), and in the realm of public administration this later evolved into New Public Management. The public choice advocates essentially asserted that economic incentives guide human action and therefore that self-interest would certainly interfere with public interest in public administration enterprises. A quite credible explanation was provided for why bureaucracies tend to grow and why self-interest tends to replace public interest.

The theory explains the nature of the relationship between contributors and the pension fund administrators and custodians that guarantees efficient administration of the scheme, by ensuring transparency and accountability in the management of contributor's funds. As explained earlier, the public choice implies that the PFAs/PFCs are essentially guided by human action, and self-interest. Essentially they prioritize economic incentives at the expense of retiree's interest, hence questioning their level of transparency and accountability.

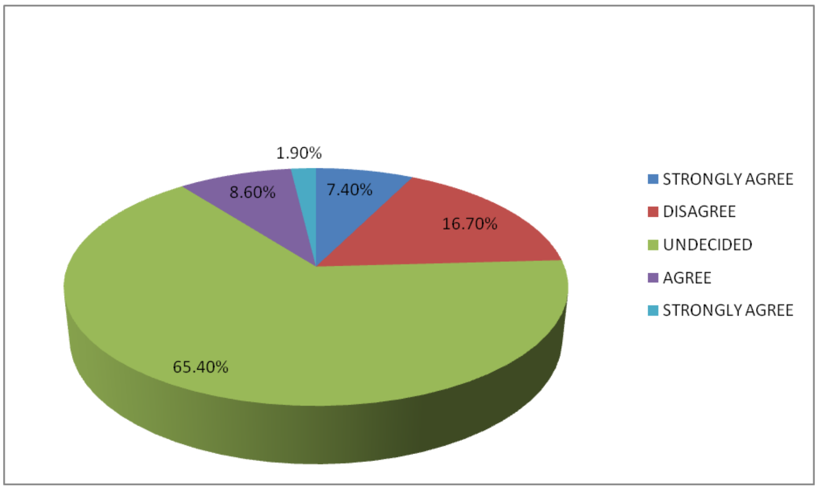
## II. Research Methodology

The survey design was used. A total of 170 samples were randomly distributed to retirees of the FCDA, out of which a total of 162 questionnaires were retrieved representing 82 percent of the sample frame. Among the population sample, the top hierarchy of PenCom and officials of the FCDA pension officewere further engaged in an in-depth interview. The data were presented in graphs and charts and analyzed with simple percentages. Qualitative analyses of the interview response were equally done in order to validate the findings from the questionnaire.

**Data Presentation and Analysis**

**Figure 1**

*PFA report to PenCom any unusual occurrence with respect to pension funds which in his view could adversely affect the right of the owner of RSA*




Source: Field Work 2021

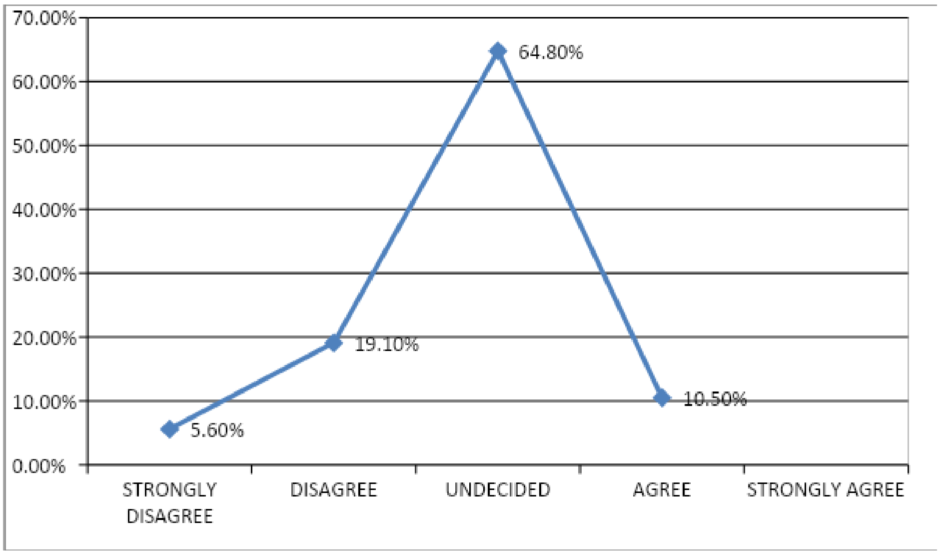
Figure 1, indicates that 7.4% and 16.7% disagreed, however 65.4%, were neutral while 8.6% and 1.9% agreed that the PFAs are reporting to PenCom any unusual occurrence with respect to pension funds which could adversely affect the right of the owner.

**Implication**

The response from figure 1 reveals that overwhelming majority of the respondents were uncertain that PFAs would report to PenCom any unusual occurrence with respect to pension funds which could adversely affect the right of the owner, given their decision to stay neutral. In this regard, we report that PFA reports to PenCom any unusual occurrence with respect to pension funds which could adversely affect the right of the owner as provided for in the Pension Reform Act, is still confusing to the retirees, judging by the ambiguity of their response.

Figure 2

*PFA report to PenCom if any employer is in default of remittances*




Source: Field Work 2021

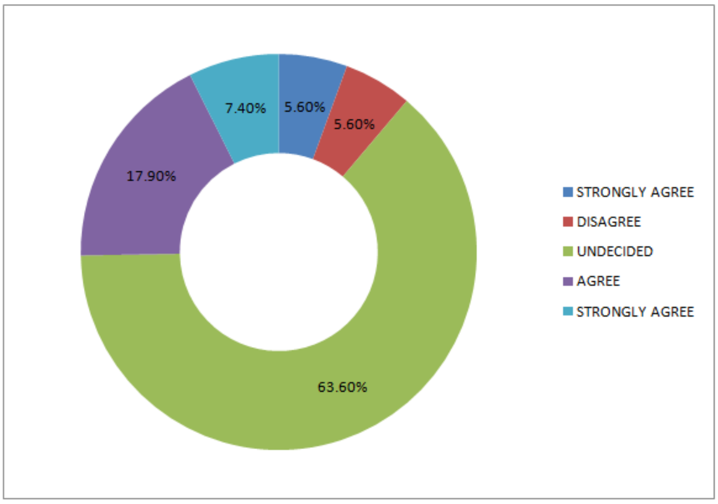
Similarly, figure 2, reveals that 5.6% and 19.1% disagreed, 64.8 were undecided while, 10.5% agreed that PFA report to PenCom if any employer is in default of remittances.

**Implication**

The response from figure 3, disclosed that most of the respondents were not surethatthe PFAs would report to PenCom if any employer is in default of remittances, given their decision to stay neutral. In this regard, we report that it is extremely cynicalto rely on the forgoing claim, judging by the uncertainty of their response.

**Figure 3**

*PFAs/PFCs does not utilize pension fund or assets to meet its own financial obligation*




Source: Field Work 2021

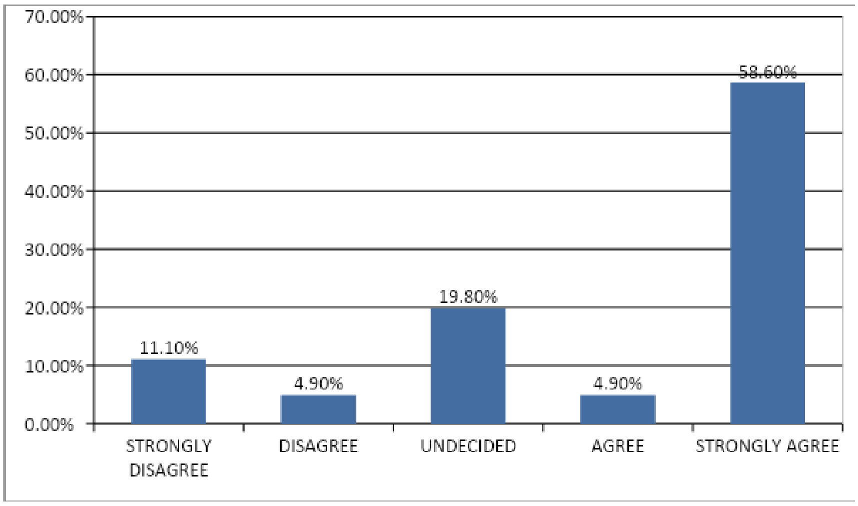
In the same vein, reacting to the assertion in figure 4 reveals that 5.6%and 5.6% disagreed, 63.6% were undecided,while17.9% and 7.4% agreed,that PFAs does not utilize pension funds or assets to meet its own financial obligation.

**Implication**

The response from figure 3 indicated that a vast majority of the respondents were still uncertain with the statement that, PFAs/PFCs do not utilize pension funds or assets to meet their own financial obligation. In this regard, we report that it is still very doubtful and speculative to rely on the claim.

Figure 4

*PFAs/PFCs give annual report to contributors through national dailies and public notice board of Organizations*




Source: Field Work 2021

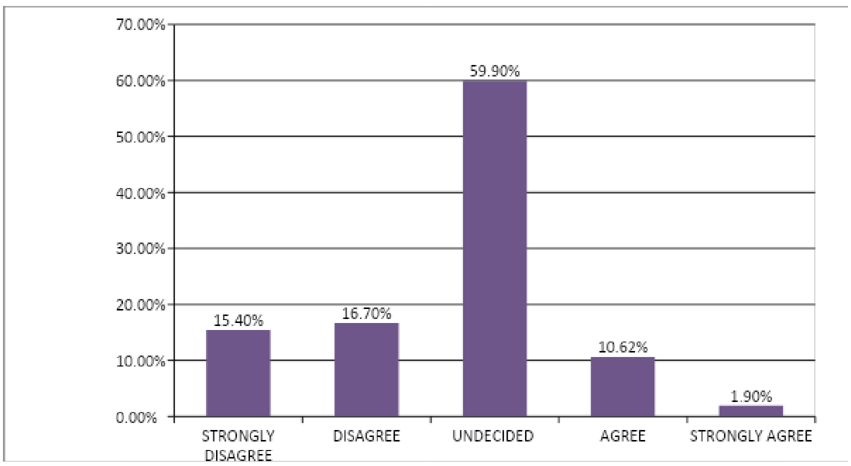
The statement in figure 4, reveals that11.1% and 4.9%, disagreed, 19.8% were undecided, while 4.9% and 58.6% agreed that PFAs/PFCs give annual financial report to contributors through national dailies and through public notice board of organizations.

**Implication**

The response from figure 4 commonly accepts the view that PFAs/PFCs give annual financial reports to contributors through national dailies and through public notice boards of organizations. In this regard, we report that PFAs/PFCs give annual financial reports to contributors through national dailies and through public notice boards of organizations.

Figure 5

*PFAs keeps proper books of account and record showing and record showing income expenditure and asset*




Source: Field Work 2021

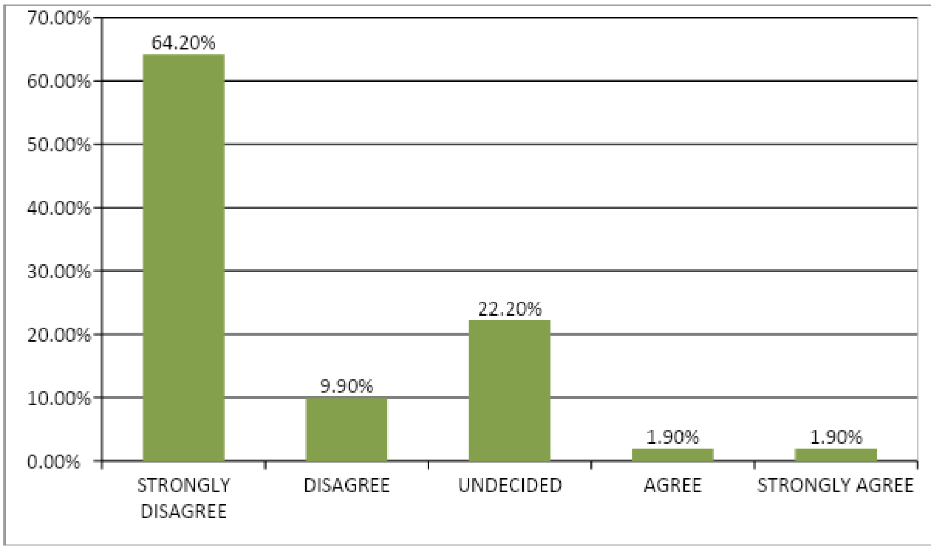
Responding to the statement in figure 5, which states that PFAs keeps proper books of account and record showing income expenditure and asset, 15.4% and 16.7% disagreed, 59.9% were undecided, while 6.2% and 1.9% agreed respectively.

**Implication**

The response from figure 5 implies that most of the respondents are still in doubt with regards to the statement that PFAs keep proper books of account and record showing income expenditure and assets. Hence, we report that it is extremely speculative to rely on the assertion.

Figure 6

*Private management of the pension funds is independent of government control, ensures security of the pension fund and availability on demand*




Source: Field Work 2021

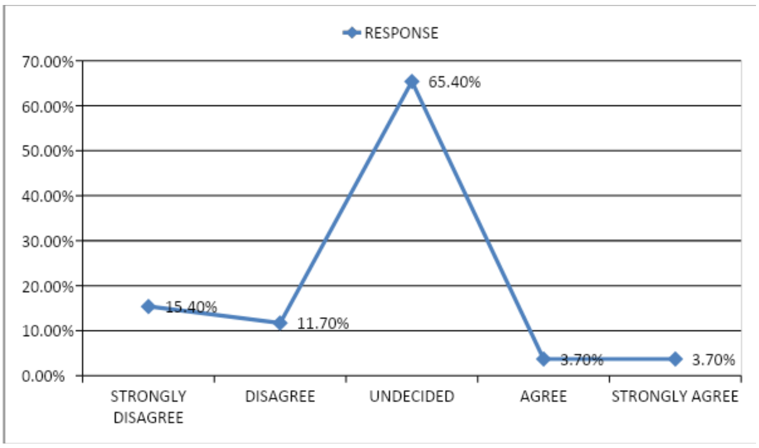
Reacting to the statement in figure 6, which states that private management of pension fund, is independent of government control, and ensures security of pension fund, 64.2% and 9.9% disagreed, 22.2% were undecided, while 1.9% and 1.9% agreed respectively.

**Implication**

The response from figure 6 implies that a large part of the respondents settled with the view that private management of pension funds is not independent of government control, and ensures security of pension funds. Thus, we report that government constantly interferes in the administration of pension fund.

Figure 7

*PFAs/PFCs are penalized for refusing to disclose relevant information to external auditors*




Source: Field Work 2021

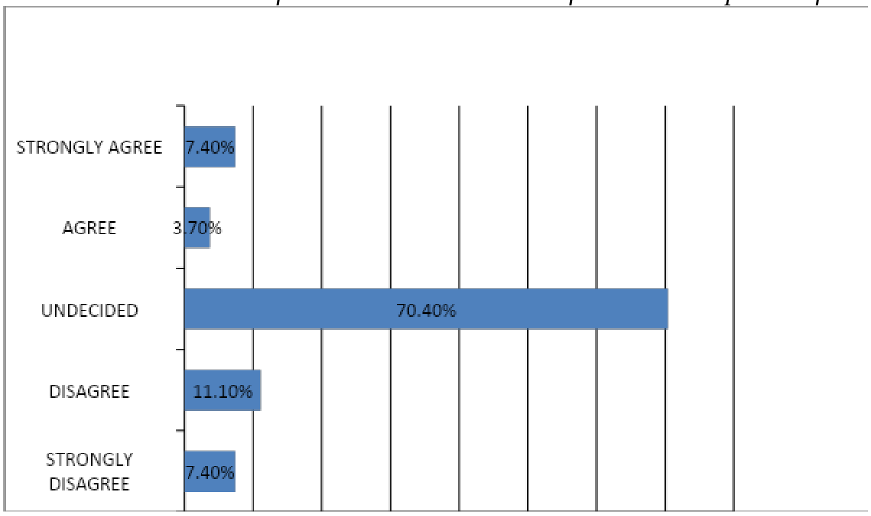
Responding to the statement in figure 7, which states that PFAs are penalized for refusing to disclose relevant information to external auditors, 15.4% and11.7% disagreed, 65.4% were undecided, while 3.7% and 3.7% agreed respectively.

**Implication**

The response from figure 7 implies that anover whelming numbers of the respondents are neutralto the statement that: the PFAs are penalized for refusing to disclose relevant information to external auditors. Therefore we report that the statement is still doubtful, and cannot be completely relied upon.

Figure 8

*Government does not interfare in the administration of accumulated pension funds*




Source: Field Work 2021

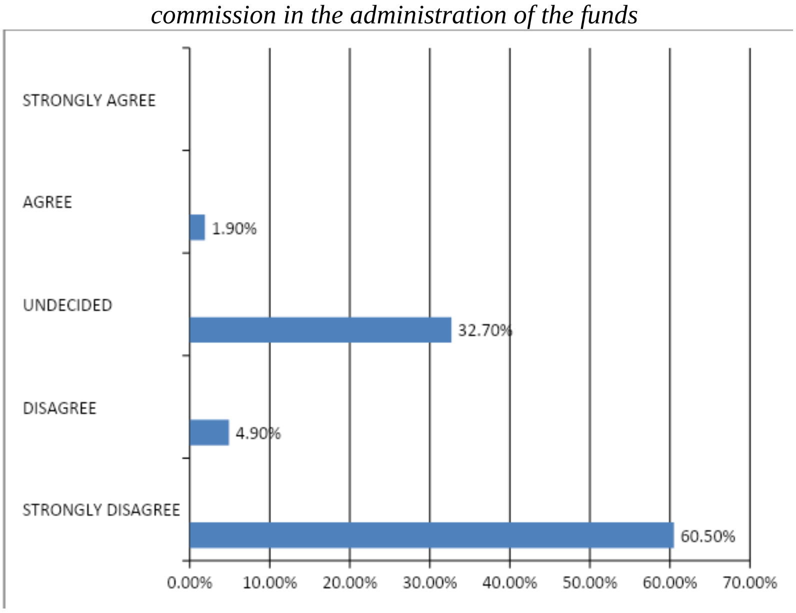
Reacting to the assertion in figure 8, which states that government, does not interfare in the management of pension fund, 7.4% and 11.1% disagreed, and 70.4% were undecided, while 3.7% and 7.4% agreed respectively.

**Implication**

The response from figure 8, implies that the bulk of the respondents were neutral that the government does not interfare in the management of pension funds. In this regard, we report that retirees are still doubtful about the capacity of the scheme to hinder government control.

Figure 9

*Security of the pension fund is not guaranteed due to government interference through the national pension commission in the administration of the funds*




Source: Field Work 2021

Meanwhile reacting to the claim in figure 9, which states that security of pension fund is not guaranteed due to government interference through the national pension commission in the administration of fund, shows that 60.5% and 4.9% disagreed,32.7% were undecided, while, 1.9% agreed.

**Implication**

The response from figure 9 implies that the majority of the respondents concede that security of pension funds is not guaranteed due to government interference. As such, we report that the sanctity of pension fund is not free from the encumbrances of government control and regulations.

## III. Summary of findings

This paper found out that:

1. Respondents are still in doubt as to the statement that PFAs reports to PenCom any unusual occurrence with respect to pension funds which could adversely affect the right of the owner.
2. PFAs/PFCs give annual financial reports to contributors through national dailies and through public notice boards of organizations.
3. There is no strict adherence to the provisions of the act which provides that PFAs should keep a proper book of account and record showing income expenditure and assets.
4. The private management of pension funds is not independent of government control.
5. Retirees are doubtful of the capacity of the scheme to hinder government control.
6. That security of pension funds is not guaranteed due to government interference.

## IV. Discussion of Findings

Findings as seen in the forgoing section show that retirees who are the primary focus of this research are still heavily in doubt as regards the level of transparency and accountability of the new Contributory Pension’s Scheme. Interview conducted with a senior official of FCDA indicated gap in communication between RSA holders and PFAs which can be linked to a breach of communication between the agent and principal.According an official of the FCDA pension office, the PFAs are rather lost in quest to attract new client into the scheme, but careless about the already existing client. This has made the retirees to lose complete trust in the activities of the PFAs, doubting their level of sincerity with funds. Retirees are even clamoring for the old scheme to return, as they claim that, the various PFAs are only interested or concerned about the profit they will amass from each RSA holder’s contributions.

But the rationality of such opinions has been questioned by officials of the PFAs and PenCom in an interview conducted with them. Dr. Umaru Farouk Aminu, Head of Research and Corporate Strategy Department, who represented the DG National Pension Commission (PenCom) explained that PenCom was very stringent initially on pension fund administrators and pension fund custodians on rules and guidelines compliance to ensure operational stability in the industry. Although investment regulation is multi-purpose and this has guaranteed little flexibility in the Commissions supervisory and regulatory roles, as such the operators are being given the opportunity to invest in other areas like real estate investment, foreign investment, etc subject to the Commission approval. He affirmed that the National Pension Commission always changes with time and development in the industry.

Dr Aminu also confirmed that the Commission does not interfere in the business of investing pension funds provided the operators adhere strictly to subsisting guidelines and obtains the Commission’s approval before embarking on any investment venture whatsoever. He pointed out that pension funds are being regulated by another Agency - Security and Exchange Commission (SEC), to understudy the viability of any investment venture with pension funds on behalf of the Commission, its effects on the principals and agents interests in the business before approval is given on such investment. He maintained that the supervisory and regulatory role of PenCom guards against fraud, gross mismanagement, and corruption.

Dr Aminu further assured that there is an inbuilt mechanism in the Act for defaulters to be penalized, and disclosed that Trustfund Pension Fund Administrator Management Board was sacked and a new Management Board was reconstituted because the formers activities run counter to pension fund administration subsisting rules and guidelines approved by the National Pension Commission. Dr. Aminu said there are checks and balances in the system, and the various regulations passed by PenCom over the years have been geared towards more openness, transparency, accountability and empowering contributors and beneficiaries of the scheme to be the major players in the pension industry, unlike in the previous era of closed system that was burdened with corrupt practices.

On the spate of overwhelming revelations of fraud in pension industry, Onuoha, (2012) cited in Nwagu, (2014) relying on the submissions of Dave Uduanu, the chairman, Pension Fund Operators Association Of Nigeria (PENOP), explained that the massive corruption being unearthed in the administration of pensions in the public sector, under the defunct defined pension system, cannot happen in the new dispensation, and the incidents are not connected to the new contributory pension scheme. Optimistically, healso assured 'that contributors in the new Contributory Pension Scheme are robust, safe and poised to help retirees live well after their active life in employment'.

## V. Conclusions

At the onset when the PRA 2006 was passed, subsequently amended in the year 2014, the noble intentions of the scheme was very clear, which is to ensure that retirees get their pension benefits as and when due, and to assist improvident individuals. The new Contributory Pension Scheme is a blend of successes and disappointments. At the inception of the scheme in 2006, the scheme was greeted with a high enthusiasm with regards to its objectives. The CPS is regarded as one of the most outstanding success stories, which have demonstrated resilience in its 14 years of operations, especially the contributory nature of the scheme, as well as strong regulation that has resulted in a transparent well-structured scheme. However the scheme is not without its own problems,as shown in the several findings of this study. In spite of these, generally the scheme is considered an improvement of the past defined benefit scheme, if only proffered solutions to some of the teething challenges militating against its smooth operation can be taken.

## VI. Recommendation

Periodic review of the Act is recommended to keep its provisions in tune with emerging realities of economic and social changes. Especially grey areas that has being highlighted by concerned pensioners as it concerns benefit calculation, poor adherence to the provision of the act, poor treatment of pensioners by PFAs, among other. Further input to strengthen the Act should be broad-based to capture the input of organized labour and other stakeholders in the act of governance.

The safe keeping of pension fund should be enhanced so as to put it beyond the reach of government encumbrance. As such, it strongly suggested that pension fund should be with kept in the custody of the NigerianSovereign Wealth Fund (NSIA), established under the Nigerian Sovereignty Investment Authority Act. The NSIA is a ring fenced investment funds, for stabilization, for future generation and an infrastructure fund.

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