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An Analysis of the Pension Reform Act 2014

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Abstract: *This study presented a comprehensive analysis of the Pension Reform Act 2014 in Nigeria, a legislative measure designed to overhaul the country's pension system and transition from a defined benefit scheme to a contributory pension scheme. The study examines the Act's key legal provisions, its impact on various stakeholders, and its effectiveness in addressing the challenges associated with Nigeria's previous pension systems, such as funding inadequacies, delays in benefit payments, and a lack of transparency. The research employs the doctrinal method, utilizing primary sources like legislation, judicial decisions, and secondary sources such as textbooks, legal encyclopedias, and scholarly articles to provide an in-depth understanding of the Act's framework and its implementation. Key findings from the study reveal that the Pension Reform Act 2014 has significantly improved transparency and accountability within the pension system, primarily by mandating regular contributions from employers and employees, thereby linking pension benefits directly to contributions and investment returns. Furthermore, the Act has strengthened regulatory oversight, with the National Pension Commission (PenCom) playing a pivotal role in enforcing compliance and protecting contributors' interests. Furthermore, the study identifies critical gaps in the Act's reach, particularly in extending pension coverage to Nigeria's informal sector workers, and highlights the challenges of achieving optimal investment returns due to conservative strategies adopted by Pension Fund Administrators (PFAs). The study concludes with several recommendations aimed at enhancing the effectiveness and sustainability of the pension system.*

Keywords*:* pension reform, defined benefit, contributory pension scheme, national pension commission.

INTRODUCTION

The pension system in Nigeria has undergone significant transformations over the years, evolving in response to the country's socio-economic needs and demographic changes. Before the introduction of the Pension Reform Act of 2014, Nigeria's pension landscape was characterized by a defined benefit (DB) scheme that was largely unsustainable and fraught with numerous challenges, including poor management, lack of adequate funding, and corruption. This unsustainable state of affairs necessitated the introduction of a comprehensive reform aimed at addressing the deficiencies inherent in the previous pension system.[1] Historically, Nigeria's pension system can be traced back to the colonial era with the establishment of the Pension Ordinance of 1951, which applied to both public sector workers and a few private sector entities. Over the decades, several amendments and new legislation were introduced to cater to the growing number of retirees and to adjust to the economic realities of the time. Despite these efforts, the pre-2014 pension system was plagued by numerous issues, including delays in payment of retirement benefits, inadequate coverage of the workforce, and the insolvency of many pension schemes due to poor management and corruption.[2]

The challenges of the pre-2014 pension system were compounded by Nigeria's demographic changes and economic conditions. With an increasing population and a rising number of retirees, the financial burden on the government and private employers to meet pension obligations grew substantially. The defined benefit system, which guaranteed a specific payout upon retirement, became unsustainable as the ratio of active workers to retirees declined. The financial crisis and economic downturns further exposed the vulnerabilities of the existing pension system, highlighting the urgent need for reform.[3]

In response to these challenges, the Nigerian government enacted the Pension Reform Act of 2004, which introduced a contributory pension scheme (CPS) to replace the defined benefit scheme. This reform marked a significant shift from a pay-as-you-go system to a fully funded and privately managed scheme, where both employees and employers contribute a portion of the employee's salary to a retirement savings account. The 2004 Act aimed to ensure a more sustainable pension system by promoting savings culture, improving transparency and accountability, and reducing the government's pension liabilities. However, the implementation of the 2004 Act was not without its challenges, as issues related to regulatory oversight, compliance, and operational inefficiencies persisted.[4]

Recognizing the need to address these ongoing issues and to strengthen the regulatory framework governing pensions, the Nigerian government introduced the Pension Reform Act of 2014. This Act aimed to consolidate the gains made under the 2004 reform and to address the shortcomings that had been identified over the preceding decade.[5] The 2014 Act retained the contributory pension scheme but introduced several key changes to improve its effectiveness and coverage. It

[1] Stella, U. E., & Beauty, U. C. 'Pension Reform Act 2014 and the Future of Public Service Prospective Seniors: A Prognostic Analysis.' (2023),22(1), *Global Journal of Social Sciences*, 1-7.
[2] ibid
[3] ibid
[4] Aluko, Olukemi Ajibke, and others. "2014 PENSION REFORMS: REALITIES AND CHALLENGES OF IMPLEMENTATION IN OSUN STATE." (2023) 5(2), *Journal of Research Administration*, 13488-13498.
[5] ibid

expanded the scope of the pension scheme to include more categories of workers, increased the minimum rate of contributions, and enhanced the powers and functions of the National Pension Commission (PenCom) to ensure better regulation and supervision of the pension industry.[6]

The Pension Reform Act 2014 represents a critical step towards achieving a more comprehensive and sustainable pension system in Nigeria. It seeks to ensure that retirees receive their benefits in a timely and predictable manner, thereby providing a safety net for the elderly and contributing to social stability. Moreover, by promoting a culture of savings and financial planning, the Act aims to foster economic growth and development by channeling pension funds into productive investments.[7] However, the effectiveness of the Pension Reform Act 2014 in achieving its objectives depends on several factors, including the adequacy of regulatory oversight, the commitment of employers to comply with the contribution requirements, and the capacity of pension fund administrators to manage pension assets prudently.[8] As such, this study seeks to critically analyze the legal provisions of the Pension Reform Act 2014, assess its impact on the pension system in Nigeria, and identify potential areas for further reform to enhance its effectiveness and sustainability.

By examining the legal framework and the practical implications of the Pension Reform Act 2014, this study aims to contribute to the ongoing discourse on pension reforms in Nigeria and to provide insights that can inform future policy and legal developments in this important area of social security law.

CRITICAL EVALUATION OF THE PENSION REFORM ACT 2014

The Scope of the Pension Reform Act of 2014

The Nigerian Pension scheme was modeled after the British System being her colonialist. The system was the defined benefit scheme at inception but transformed into the defined contribution scheme after it became obvious that the Nigerian Government could not sustain the scheme. The concept of Pension as defined in the Pension Reform Act of 2014 is “a fund into which a sum of money is added during an employee’s employment years and from which payments are drawn to support the person’s retirement from work in the form of periodic payments”

Pension fund means an investment fund within the pension scheme which is intended to accumulate during an individual working life from contributions and investment income, with the intention of providing income in retirement from the purchase of an annuity or in the form of a

[6]Oigbochie, Abel Ehizojie, and Andrew Aondohemba Chenge. "The New Contributory Pension Scheme Administration and Prompt and Regular Payment of Pensioners in Nigeria: An Appraisal." (2023), 17(1), *Asian Journal of Advanced Research and Reports,* 24-31.
[7] ibid
[8] ibid

programmed withdrawal, with the possible option of an additional tax free cash lump being paid to the individual[9]

Pensions in the past in the public sector were paid through budgetary allocations to be kept in the Consolidated Revenue Fund and civil servants made direct contributions to the pensions they were paid at the end of their service. In most cases, the amount of funds released was usually insufficient to meet outstanding pension liabilities. The entire system was therefore plunged with widespread corruption as no accurate record of actual pensioners existed. The Defined Benefit Scheme became unsustainable as a result of lack of adequate and timely budgetary provisions, increase in salaries and pensions, weak administration, less transparency and cumbersome processes leading to bureaucracy and highly liable to corrupt practices.

In the private sector, many employees were not covered by the pension schemes put in place by their employers and the schemes were not adequately funded and full of malpractices. All of these and the sufferings encountered by pensioners during their verification exercises to collect their pension lead to the collapse of the pension old regime. The President Olusegun Obasanjo Administration[10] had a rethink about the pension structure in the country and came up with the most outstanding reform which lead to the enactment of the Pension Reform Act of 2004. With the enactment of the Pension Reform Act, Nigeria successfully migrated her pension system from the unfunded defined benefit pension scheme to the funded defined contribution pension scheme. There is no doubt that the reform has brought about gains of the generation of additional funds for economic activities and drastic reduction of corruption in pension administration.

The Pension Reform Act 2014 was enacted to repeal the Pension Reform Act of 2004 after its operations for ten years to correct and address the challenges faced in the implementation process and make provision for the continuous governance and regulation of the administration of uniform contributory pension scheme for public and private sectors in Nigeria, and for related matters.[11] The Pension Reform Act[12] is divided into fifteen parts (Part I-XV) of 121 sections with two schedules. The 15 parts deals with different subjects ranging from the objectives and applications, contributory pension scheme (CPS), Retirement Benefits, Retirement Savings Account, National Pension Commission (PenCom) among others.

[9] Harlem, An Overview of the Pension Reform Act, 2014 and Contributory Retirement Savings (2023) <https://harlemsolocitors.com> accessed 05/04/2024, Section 120 Pension Reform Act, 2014-Pension Fund. Available at: http://www.pencom.gov.ng/pra2014 accessed on 25th August 2024

[10] The Mr. Fola Adeola Pension Reform Committee in 2003 recommended the establishment of the National Pension Commission (PenCom) as an industry regulator and proposed the introduction of the Contributory Pension Scheme (CPS) that lead to an exponential growth and stability in the pension system.

[11] Footnote (n19),

[12] PRA, 2014

The Contributory Pension Scheme (CPS)

The Contributory Pension Scheme was first introduced into the Nigerian Pension Scheme through the Pension Reform Act of 2004. Although by the provision of Section 5 of the Labour Act,[13] the concept has always been part of our laws but was not applied. It is simply described as an arrangement where both the employer and the employee contribute a portion of an employee's monthly emolument for the employee's retirement.

The Act[14] provides that "There is established for any employment in the Federal Republic of Nigeria, a Contributory Pension Scheme (in the Act referred to as 'the Scheme") for payment of retirement benefits of employees to whom the scheme applies under this Act. The Contributory pension is paid into a Retirement Savings Account (RSA). Employees in the public and private sectors as well as self-employed persons are expected to open Retirement Savings Account with a Pension Fund Administrator.[15]

The minimum rate of contribution into the RSA for public and private sectors is eighteen (18) percent of the employee's monthly salary. Ten (10) percent contribution by the employer and eight (8) percent contribution by the employee.[16] The Act also provides for self employed workers to open RSA under the Micro Pension Plan into which they can make regular contributions and withdrawals in line with specific guidelines issued from time to time by PenCom.[17] Pension Funds Administrators are required by law to invest the contributions in the Retirement Savings Account of contributors to earn return on investment. The income generated from investing pension contributions is distributed into the RSAs of contributors based on the proportion of the assets in the individual RSAs.

The notification always gladdens their hearts that they wish they can put all their investments into their RSA. The Pension Fund Administrators are definitely doing a fantastic job. The retiree upon retirement is entitled to a lump sum payment out of the balance in the RSA, thereafter the monthly payments starts. The monthly payments are paid through either the Programmed Withdrawal or Life Annuity. The programmed withdrawal is paid the Pension Fund Administrators by sharing the balance on the RSA of the retiree with a life expectancy formula and then paid monthly to the retiree. On the other hand, the Life Annuity operates by the retiree buying up a life insurance policy with the balance on his RSA from an insurance company who takes up the responsibility of paying

[13] The Labour Act of 1990. s. 5
[14] PRA, 2014, Part II, Section 3
[15] Section 11 of the PRA 2014
[16] Section 4 (1) of the PRA 2014
[17] Section 2(3) of the PRA 2014 provides that employees of organizations with less than three employees as well as unemployed persons shall be entitled to participate under the Contributory Pension Scheme in accordance with Guidelines issued by the Commission. The categories of persons referred to in Section 2(3) of the Act constitute the vast majority of the working population.

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the retiree his pension for life. This can only be achieved when the retiree has attain the age of fifty and is unable to secure another job [18]

However, where an employee voluntarily retires, disengages or is disengaged while still under fifty (50) years of age, the contributor can have access to twenty-five (25) percent of his RSA, provided that such employee is unable to secure another employment after four months of such retirement or disengagement. Another situation is where an employee who has been contributing under the CPS dies before retirement; the benefits of the dead employee will be paid to the named beneficiary as provided under a Will, or to the next-of-kin. In the absence of any of the above named persons, the benefits will be paid to any person appointed by the probate registry as the administrator of the estate of the deceased. Lastly, the Contributory Pension Scheme ensures that the pensioner gets a monthly stipend regularly at old age.

Objectives of the Scheme

The Act has four major objectives as provided in the Act. The objectives of the Pension Reform Act[19] are as provided below:

1. The objectives of this Act are to :-
   (a) Establish a uniform set of rules, regulations and standard for the administration and payments of retirement benefit for the Public Service of the Federation, the Public Service of the Federal Capital territory, the Public Service of the State Governments, the Public Service of the Local Government Councils and the Private Sector
   (b) Make provision for the smooth operations of the Contributory Pension Scheme
   (c) Ensure that every person who worked in either the Public Service of the Federation, Federal Capital Territory, States and Local Government or the Private Sector receives his retirement benefits as and when due; and
   (d) Assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age.

The Pension Reform Act of 2014 was signed into law to address the challenges faced in the implementation processes of the PRA 2004. In addition, new provisions were also made to particularly strengthen the powers of the commission to resolve conflicts in addition to providing stiffer penalties for infractions. The Act also addressed issues relating to pensions of political office holders and professors[20] as well as provides incentives for increasing coverage of the scheme through allowing contributors to use portion of the balances in their retirement savings account to make equity contributions towards owning a residential property.

[18] Frequently Asked Questions, www.penscom.gov.ng accessed 24/08/24
[19] Section 1 (a-d) of the PRA 2014, Adebayo Adekola; Reconsidering objectives of the Pension Reform Act, 2014 (2022) <www.punching.com/rec> accessed 19/08/24
[20] Section 6(2) of the PRA, 2014

Major Highlights of the Pension Reform Scheme of 2014

The Pension Reform Act of 2014 was enacted to repeal the Pension Reform Act of 2004 and it reviewed most of the provisions of the Act to include the following:

Participation and Contribution

The Act made an increase in the rate of contribution from what was obtainable under the 2004 Act. Under the Act, employers are now to contribute a minimum of ten (10%) of the monthly emolument while the employees are to contribute a minimum of eight (8%) from his emolument. The employer and employee can on their own decide to increase the total percentage of contribution and inform the commission of their decision. The employee can also on his own in addition to the contributions made, decide to voluntarily contribute to his retirement saving account.21 The required number of employees required for an organization to participate in the Contributory Pension Scheme was reduced from minimum of five employees to three employees. This has increased the level of participation in the scheme and it is also beneficial for employees in small scale employment.

Access to Benefits in Event of Loss of Job

The Pension Reform Act 2014 has reduced the waiting period for accessing benefits in the event of loss of job by employees from six (6) months in the Pension Reform Act of 2004 to four (4) months. This is done in other to ease the stress of loss of job on the part of employees and to give them a new start as early as possible.[22]

Enhanced Coverage of the CPS and Informal Sector Participation

The Pension Reform Act 2014 makes provision that would compel an employer to open a Temporary Retirement Savings Account (TRSA) on behalf of an employee that failed to open an RSA within three months of assumption of duty. This was not required under the Pension Reform Act of 2004. It is important to note that the scope of the monthly emolument has been given a wider definition than before. Monthly emoluments under the Act are defined as the total emoluments as may be defined in the employees' contract of employment but shall not be less than a total of basic salary, housing allowance and transport allowance.23

Sanctions and Punishments

a. Corrective Actions on Failing Licensed Operators

The Pension Reform Act 2004 only allowed PenCom the power to revoke the license of erring pension operators but does not provide for other interim remedial measures that may be taken by PenCom to resolve identified challenges in licensed pension operators. Accordingly, the Pension reform Act 2014 now empowers PenCom to take proactive corrective measures on licensed

[21]Dawodu, OpeyemiNaimot. "Pension Administration in Nigeria: Lessons and Reflections." (2018) *Wayne State University Law School Research Paper* 2023.
[22] Section 7(2) PRA, 2014
[23] ibid

operators whose situation, actions and inactions jeopardize the safety of pension assets. This provision further fortifies the pension assets against mismanagement and or systemic risks.[24]The Pension Reform Act of 2014 prescribes for upward review of penalties and sanctions to pension defaulters and employers which fail to remit deducted monies of their employees.

b. Power to Institute Criminal Proceedings against Employers for Persistent Refusal to Remit Pension Contributions

The Act now empowers the National Pension Commission to institute criminal proceedings against employers for persistent refusal to remit pension contributions subject to the fiat of the Attorney General of Federation. The Nigerian worker is excited about this new development.25 The Pension Reform Act of 2004 only allowed PenCom to revoke the license of defaulting pension fund operators but does not provide for other interim remedial measures that may be taken by PenCom to resolve identified challenges amongst licensed operators.

c. Upward Review of the Penalties and Sanctions

The sanctions provided under the Pension Reform Act 2004 were no longer sufficient deterrents against infractions of the law. Furthermore, there are currently more sophisticated mode of diversion of pension assets, such as diversion and/or non-disclosure of interests and commissions accruable to pension fund assets, which were not addressed by the PRA 2004. Consequently, the Pension Reform Act 2014 has created new offences and provided for stiffer penalties that will serve as deterrence against mismanagement or diversion of pension funds assets under any guise. Thus, operators who mismanage pension funds will be liable on conviction to not less than 10 years imprisonment or fine of an amount equal to three times the amount so misappropriated or diverted or both imprisonment and fine.[26]

As it is clear that the benefits of pensions are enormous, we still have some adamant employees who still refused to join this scheme. The Pension Reform Act 2014 takes good care of this category of staff by compelling an employer to open a Temporary Retirement Savings Account (TRSA) on behalf of an employee that failed to open an RSA within three months of assumption of duty.[27]

d. Recovery of Pension

The employees who have been involved actively in the scheme often complain about recovery of pension after loss of job. Their worries usually centers on the stipulated waiting period after a job loss. The PRA 2014 has given employees a reason to smile as the Act has reduced the waiting period for accessing pension benefits in the event of loss of job from six (6) months to four (4)

[24] Section 54 PRA 2014, Pension Reform Act: Enforcing Compliance
[25] ibid
[26] Pension and Pension Reform in Nigeria, http://www.palgrave-journals.com/pm/journal/v15/full/pm200931a.html (accessed 21/08/24)
[27]Agunyai, Samuel Chukwudi, SaheedOgundare, and Samuel IheanachoEbirim. "Analysing the Utility-Value and Sustainability of the Funded Contributory Pension Scheme (CPS) in Nigerian Civil Service." (2023) *African Renaissance* 2023, 145-169.

months. So in a sad case where an employee loses his job, he can quickly smile to the bank to access his pension benefits after four months.[28]

Finally, it is clear that the new Pension Act of 2014 is quite advantageous to the employees than the previous Act as some key issues have been addressed such as upward review of the penalties and sanctions, enhanced coverage of the contributory pension scheme and informal sector participation, upward review of rate of pension contribution, opening of Temporary Retirement Savings Account for adamant employees and quick access to benefits in the event of loss of job.

e. Utilization of Pension Funds for National Development

The Pension Reform Act 2014 also makes provision that will enable the creation of additional permissible investments to accommodate initiatives for national development in the real sector, including infrastructure and real estate development.[29] This is provided without compromising the paramount principles of ensuring the safety of pension fund assets.

f. Restructuring the System of Administration of Pensions under the Defined Benefits Scheme (PTAD)

The Pension Reform Act 2014 makes provisions for the repositioning of the Pension Transition Arrangement Directorate (PTAD) to ensure greater efficiency and accountability in the administration of the Defined Benefits Scheme in the Federal Public Service such that payment of pensions would be made directly in to the pensioners bank accounts in line with the current policy of the Federal Government.[30]

Judicial Decisions on the Enforcement of the Powers of PenCom

Recent court decisions on enforcement of the Powers of PenCom reflect an increasing effort by Nigerian courts, particularly the National Industrial Court of Nigeria (NICN), to protect the rights of retirees and address non-compliance with pension laws. The NICN has consistently reinforced the legal obligations of employers and pension fund administrators (PFAs) under the Pension Reform Act 2014, ensuring that pensioners receive their entitled benefits.

In the case of ***Registered Trustees of Nigeria Union of Pensioners v. National Pension Commission & 3 Ors***,[31]the Nigeria Union of Pensioners (NUP) challenged the National Pension Commission (PenCom) for failing to properly enforce pension laws and protect the rights of pensioners. The court ruled in favor of the NUP, holding that PenCom had a statutory obligation under the Pension Reform Act, 2014, to ensure that pension administrators remit contributions accurately and timely. The court ordered PenCom to implement stricter oversight measures and compensate the affected pensioners.

[28] Ibid, 150
[29] Ibid, 161
[30] ibid
[31]Suit No. NICN/LA/357/2022, Judgment delivered on 7th February 2025.

Also, in ***National Pension Commission v. The Centagon International School,***[32]the PenCom filed a case against The Centagon International School for failing to remit pension contributions for its employees. The NICN ruled that the failure to comply with statutory remittance obligations under the Pension Reform Act, 2014, constituted a breach of contract and fiduciary duty. The court ordered the immediate remittance of outstanding contributions and imposed penalties on the school for non-compliance.

In another case at the National Industrial Court between ***National Pension Commission v. Fradro International Ltd,***[33]PenCom sought to enforce compliance with pension remittance regulations by Fradro International Ltd. The NICN ruled that the company's failure to remit contributions violated the Pension Reform Act, 2014. The court imposed fines and ordered the company to pay outstanding contributions with accrued interest.

Furthermore, in ***National Pension Commission v. Kaduna Electricity Distribution Company Plc,***[34] it involved the Kaduna Electricity Distribution Company's failure to remit pension deductions from employees' salaries. The NICN reinforced the employer's statutory obligation to ensure that pension contributions are promptly remitted and ordered the company to pay outstanding amounts with penalties.

Lastly, in ***Mr. Ofunlana Oladimeji v. Pensions Alliance Limited***,[35]the claimant alleged that Pensions Alliance Limited failed to pay the appropriate lump sum from his pension fund upon retirement. The NICN held that the Pension Reform Act, 2014, required timely payment of retirement benefits and awarded damages for the delay.

These cases underscore the growing willingness of Nigerian courts to hold employers and government agencies accountable for pension violations. However, the enforcement of court decisions remains a challenge due to bureaucratic delays and political interference. Strengthening the enforcement capacity of PenCom and enhancing judicial oversight are necessary to improve compliance with pension laws.

Transfer of Entitlements from Old Existing Schemes to the New Scheme

The Nigeria Pension Reform Act of 2014 introduced a new Contributory Pension Scheme (CPS) to replace the old defined scheme. The transitioning arrangements from the old Defined Benefit Scheme to the Contributory Pension Scheme is provided for by the Act[36]. The transitional arrangements include the following:

[32]Suit No. NICN/ABJ/186/2022, Judgment delivered on 16thMay 2023.
[33]Suit No. NICN/ABJ/384/2019, Judgment delivered on 28th June, 2022.
[34]Suit No. NICN/KD/37/2023, Judgment delivered on 16th July, 2024.
[35]Suit No. NICN/LA/180/2023, Judgment delivered on 2nd October, 2024.
[36] Section 15(1-5), 39-52 of the PRA 2014

Existing pensioners: Those already receiving pensions under the old scheme shall continue to receive their pensions, and are not affected by the new scheme. Employees who had retired before June 2014 are exempted from the new scheme and shall continue to receive their pensions under the old scheme. Employees, who retired between June 2004 and June 2014, are eligible to choose between the old scheme and the new scheme. Employees, who were in service as of June 2014, are automatically transferred to the new contributory pension scheme. Employees who joined the public service after June 2014 are automatically enrolled in the new contributory pension scheme.[37]

Retirement Benefit Calculation: for employees transitioning to the new scheme, their past service is reckoned in accordance with the old scheme's formula, while their future service is reckoned under the new scheme.

Payment of Accrued Rights: the Federal Government and state Governments are required to pay accrued pension rights to the Pension Fund Administrators (PFAs) for employees transitioning to the new scheme.

However, under the PRA 2004, the pension funds contributed to the NSITF before the commencement of the new pension scheme including the income shall remain with the NSITF for a minimum period of five years from the commencement of the Pension Reform Act 2004.[38] NSITF shall establish a company to be licensed by the National Pension Commission as a PFA which will manage the pension funds in accordance with the provisions of the Pension Reform Act 2004. A contributor or beneficiary under NSITF Act can only move his pension contributions under NSITF to another PFA after a period of 5 years from the date of commencement of the Pension Reform Act 2004.[39]

The contributions into NSITF made by those exempted from the new scheme shall be computed and credited into their respective RSAs opened by the NSITF pending the retirement of such contributors. Any company operating a defined benefit scheme that is desirous of continuing the scheme must, in addition to satisfying other conditions specified in the Act, open RSAs so that the pension funds can be held by a custodian. Computation of the accrued pension rights to be credited to the RSAs shall be done by actuarial valuation.[40]

An actuarial valuation of his/her accrued retirement benefits will be made and the amount plus his contributions to date will consist of his/her retirement benefits in his/her RSA which can only be accessed at the age of 50 years. Withdraws from the RSA will depend on the professional advice of the PFA having regard to the provisions of the Pension Reform Act 2004 which provides for

[37]Pillah, Tyodzer Patrick. "Retirement in the Federal Civil Service of Nigeria: Conceptual Issues." (2023) 9 (1) *International Journal of Public Administration and Management Research,* 40-46.
[38] ibid
[39] ibid
[40] ibid

lump sum withdrawal, programmed withdrawals or purchase of annuity.[41] The transitional arrangement for the private sector is provided for in sections 50 to 52 of the Act. Section 50 (1) provides that "Notwithstanding any other provisions of this Act, any pension scheme in the private sector existing before the commencement of this Act may continue to exist.

However, among other things, the pension funds and assets are to be fully segregated from the funds and assets of the company and held by a custodian. Every employee is given the option of continuing under the old scheme or joining the scheme established under section 3 of the PRA 2014. An employer who opts to manage its pension fund shall apply to be registered as a "Closed Pension Fund Administrator" and its operations shall be subject to the supervision of PenCom.[42]

Effectiveness of the Legal Provisions

The Pension Reform Act 2014 represents a transformative shift in Nigeria's pension system, emphasizing a contributory approach to enhance sustainability and efficiency. Evaluating the effectiveness of its legal provisions reveals significant advancements as well as ongoing challenges.

Improved Fund Accumulation and Management

One of the primary successes of the Pension Reform Act 2014 is the improvement in pension fund accumulation and management. The Act mandates regular contributions from both employers and employees, which has substantially increased the volume of pension assets available for investment.[43] This shift from a defined benefit to a contributory scheme links benefits directly to individual contributions and investment returns, fostering a more sustainable and transparent system. Pension Fund Administrators (PFAs) are required to manage these funds according to stringent guidelines set by the National Pension Commission (PenCom), ensuring a structured and regulated approach to fund management. This has led to enhanced investment diversification and better returns on pension assets, addressing some of the financial inadequacies of the previous system.[44]

Enhanced Regulatory Framework

The effectiveness of the Pension Reform Act is also evident in the strengthened regulatory framework. PenCom, as the regulatory body, has been granted comprehensive powers to oversee PFAs and Pension Fund Custodians (PFCs). The Act requires these entities to adhere to specific operational and financial standards, which has improved regulatory oversight and accountability. PenCom's role includes licensing, monitoring, and enforcing compliance, which helps ensure that pension funds are managed in accordance with legal requirements. This regulatory rigor has been

[41] Frequently asked questions, www.pencom.gov.ng, accessed 23/08/24
[42] ibid
[43]Kotun, Ahmed Ishola, AbayomiOlarewajuAdeoye, and WaidiAdeniyiAkingbade. "Managing Pension Risks in Public Sector: A Study of Lagos State Government Public Service." (2023) 12(3) *Journal of Financial Risk Management*, 275-293.
[44] ibid

instrumental in improving the overall governance of the pension system, although challenges in enforcement and consistency remain.[45]

Transparency **and Disclosure**

The Act has introduced significant enhancements in transparency and disclosure. PFAs are required to provide regular, detailed statements to contributors, outlining their account balances, contributions, and investment performance. This increased transparency enables contributors to track their retirement savings more effectively and holds PFAs accountable for their management of funds.[46] Additionally, PenCom is mandated to publish annual reports on the state of the pension system, offering insights into fund performance and regulatory activities. While these measures have improved transparency, there are still concerns about the adequacy and timeliness of disclosures, which can affect contributors' confidence in the system.

Coverage and Inclusivity

Another critical aspect of the Act's effectiveness is its impact on pension coverage. The Act aims to extend pension coverage to all employees in the public and private sectors, including workers in informal and self-employed sectors over time.[47] While progress has been made in covering formal sector employees, challenges remain in fully integrating informal sector workers and self-employed individuals into the pension system. The implementation of comprehensive coverage is still a work in progress, and additional measures may be needed to address these gaps effectively.

Challenges and Areas for Improvement

Despite its advancements, the Pension Reform Act 2014 faces several challenges that affect its overall effectiveness. Issues such as delays in benefit payments, regulatory compliance, and the need for improved mechanisms for dispute resolution highlight areas where further improvements are necessary.[48] Addressing these challenges requires ongoing evaluations of the Act's provisions and potential legislative adjustments to adapt to evolving needs and economic conditions. Strengthening PenCom's capacity to manage emerging risks and enhancing the efficiency of the pension system will be crucial for ensuring that the reforms achieve their intended outcomes and provide sustainable retirement security for all contributors.[49]

Impact on Stakeholders

The Pension Reform Act 2014 has had a profound impact on various stakeholders within Nigeria's pension system, including employees, employers, Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs), regulatory bodies like the National Pension Commission (PenCom), and

[45] ibid
[46] ibid
[47] Afolabi, Adeoye A., and Lourens J. Erasmus. "Financial performance adequacy of pension fund managers in Nigeria." (2023).
[48] ibid
[49] ibid

the government. Understanding the diverse effects on each stakeholder group is essential to comprehending the overall effectiveness and reach of the reform.[50]

Impact on Employees and Pension Contributors

For employees, particularly those in the formal sector, the Pension Reform Act 2014 has brought about greater security and transparency regarding their retirement savings. The Act mandates that both employers and employees make regular contributions to individual Retirement Savings Accounts (RSAs). This has shifted the pension system from a defined benefit model, where benefits were often unpredictable and underfunded, to a contributory scheme that directly links benefits to the amount saved and the investment returns generated.[51] This structure offers employees greater control over their retirement savings and more predictability about their post-retirement income. Moreover, the regular statements from PFAs detailing contributions and investment performance provide transparency and allow employees to monitor their funds closely. However, for informal sector workers and those in precarious employment, the impact has been less significant due to the limited reach of the Act into these sectors.[52] There is a need for further policy innovation to extend pension coverage to these often-overlooked groups.

Impact on Employers

The Act has introduced clear obligations for employers, requiring them to contribute a minimum of 10% of an employee's monthly salary to their RSA, while employees contribute a minimum of 8%. This has led to increased financial responsibilities for employers, particularly in industries where employee turnover is high or where there are many low-wage workers.[53] The regular remittance of pension contributions has also necessitated more robust payroll systems and compliance mechanisms within organizations to ensure timely and accurate payments. While some employers may see these obligations as an additional financial burden, many have recognized the benefits of providing a secure retirement plan for their employees, which can improve employee morale and reduce turnover. Furthermore, compliance with the pension scheme enhances an employer's reputation, positioning them as responsible and attractive employers in the labor market. However, challenges remain for employers, especially small and medium-sized enterprises (SMEs), where cash flow issues and administrative costs can complicate compliance.[54]

Impact on Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs)

For PFAs and PFCs, the Pension Reform Act 2014 has provided a significant business opportunity by increasing the number of contributors and the volume of funds under management. PFAs are tasked with investing these funds according to guidelines set by PenCom, balancing the need for security, liquidity, and returns. This has led to a more competitive environment among PFAs, each

[50] ZWINGINA, Christy. "Contributory Pension Scheme and Human Development Index in Nigeria." (2023).
[51] ibid
[52] ibid
[53]Olugbenga, Ariyo Clement, Ezugwu Christian Ikechukwu, Okparaka Vincent Chukwuka, and Agbo Ishmael Umunnakwe. "Contributory Pension Scheme and Workers Investment in Nigeria." (2024) 8 (4) *International Journal of Research and Innovation in Social Science,* 2230-2242.
[54] ibid

striving to offer better returns and services to attract and retain contributors. The increased volume of funds has allowed PFAs to diversify their investment portfolios more broadly, potentially leading to higher returns for contributors.[55] However, with these opportunities come challenges, including the need for strong governance structures, robust risk management practices, and adherence to strict regulatory compliance standards. PFCs also face heightened responsibilities, as they are tasked with the custodianship of pension assets, ensuring their safekeeping, and accurate record-keeping. The increase in regulatory scrutiny and the need for greater transparency have necessitated significant investments in compliance and risk management frameworks for both PFAs and PFCs.[56]

Impact on Regulatory Bodies (PenCom)

The Pension Reform Act 2014 significantly expanded the role and authority of the National Pension Commission (PenCom), the regulatory body overseeing the pension industry. PenCom's responsibilities include licensing PFAs and PFCs, ensuring compliance with the Act's provisions, and protecting the interests of pension contributors. The expanded scope of PenCom's duties has necessitated a greater focus on regulatory oversight, including regular audits, inspections, and the enforcement of compliance through fines and other penalties.[57] This increased regulatory role has enhanced the transparency and accountability of the pension system, building trust among contributors and stakeholders. However, the expanded mandate has also placed a considerable burden on PenCom, requiring it to develop and maintain sophisticated regulatory frameworks, enhance its enforcement capabilities, and keep pace with the evolving financial landscape. The effectiveness of PenCom in fulfilling these roles is crucial for maintaining the integrity and stability of the pension system, but it requires continuous capacity building and adaptation to new challenges.[58]

Impact on the Government

The government, as a stakeholder, benefits from the Pension Reform Act 2014 by reducing its direct financial liability for pensions. Under the previous defined benefit scheme, the government bore the brunt of pension payments, leading to significant fiscal pressure, especially in times of economic downturn or when revenue collections were low. By transitioning to a contributory pension scheme, the government has shifted much of the pension liability to the private sector, thereby reducing its financial burden.[59] Additionally, the pension funds generated under the Act have become a significant source of domestic investment capital, contributing to national economic development. However, the government retains the role of policymaker and regulator, and it must ensure that the legal framework remains robust, inclusive, and adaptable to future

[55] ibid
[56]Odeh, O. L., and Lambert U. Edigin. "Challenges and Prospects of Contributory Pension Scheme in Nigeria." (2015) 32 (2) *Dynamics of Public Administration*, 142-154.
[57] ibid
[58] ibid
[59] Ahmed, Nurudeen Bello, Anthony KehindeAfolayan, and Bello AlaoOlarenwaju. "Effect of Voluntary Contribution on Contributory Pension Assets of Federal Government Employees in Kwara State." (2023) 12 (1) *African Journal of Management and Business Research*, 179-191.

economic conditions. There is also the ongoing challenge of ensuring that the pension system is inclusive, reaching all segments of the workforce, including those in the informal sector.[60]

Impact on the Broader Economy

Beyond the direct stakeholders, the Pension Reform Act 2014 has broader implications for the Nigerian economy. The accumulation of pension funds has created a substantial pool of long-term capital, which is essential for financing infrastructure projects and other long-term investments. This can stimulate economic growth, generate employment, and contribute to overall economic stability. Moreover, by providing a secure retirement income for a growing segment of the population, the Act contributes to social stability and reduces the burden on social safety nets.[61] However, the effectiveness of these broader economic impacts depends on the sound management of pension funds, the strength of regulatory oversight, and the ability of the economy to absorb and effectively utilize the growing pool of pension capital.

In summary, the Pension Reform Act 2014 has had a multifaceted impact on various stakeholders, reshaping the landscape of retirement savings in Nigeria.[62] While it has introduced significant benefits, such as increased transparency, better fund management, and reduced government liabilities, it also presents challenges that need to be addressed to enhance its effectiveness and inclusiveness. Continued efforts to strengthen regulatory frameworks, expand coverage, and ensure equitable access to pension benefits are essential for realizing the full potential of the pension reforms.

Challenges of the Pension Reform Act 2014

The administration of pension in Nigeria has experienced inconsistency in policies due to its many challenges since inception. Such challenges include the delay in payment of pensions and gratuities to deserving retirees fueled by lack of accountability, poor leadership, embezzlement of pension funds, inaccurate pensioner's records and gross incompetence on the path of Pension Administrators. This situation has condemned many pensioners of the civil service into untold hardship, abject poverty and squalor. Many pensioners have resorted to begging for survival while some have died waiting for the payment of their pensions and gratuities.[63]

In terms of poor leadership, the looting of pension funds remains one of the most egregious acts of corruption in Nigeria's public sector. The most notorious case is the **Abdulrasheed Maina scandal**, which exposed systemic corruption within Nigeria's pension administration system.[64]

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[60] ibid
[61] ibid
[62] ibid
[63] Pension Reforms in Nigeria; Benefits and Challenges (2023), Adedoyin Adebayo, (The Labourers' Guide) <linkedin.com> accessed on 12/08/2024
[64] ibid.

Abdulrasheed Maina, the former Chairman of the Pension Reform Task Team (PRTT), was appointed to oversee the reform of Nigeria's pension system. However, instead of strengthening the system, Maina masterminded a complex scheme that resulted in the theft of over ₦2 billion from pension funds.[65] In 2021, Maina was convicted by the Federal High Court in Abuja for money laundering and misappropriation of pension funds. The court found that Maina used shell companies to divert pension funds into personal accounts and real estate investments in Nigeria and Dubai.[66]

The scale of the Maina scandal was staggering. Testimonies during the trial revealed that Maina created fake pensioners and manipulated the payment system to divert funds meant for legitimate pensioners. The scandal also implicated several high-ranking officials within the Pension Office, underscoring the systemic nature of corruption within the pension system.[67]

The consequences of the Maina scandal were far-reaching. Thousands of pensioners were left without their entitlements, leading to widespread financial hardship among retirees. The reputational damage to Nigeria's pension system also undermined public confidence in the government's ability to protect retirement savings.[68]

In response to the scandal, the Federal Government introduced several reforms, including enhanced oversight by PenCom and stricter penalties for pension fund mismanagement. However, the structural weaknesses that enabled the Maina scandal, including poor internal controls, political interference, and lack of transparency, remain unresolved.[69] Strengthening the regulatory framework, improving whistleblower protections, and enhancing financial reporting standards are essential to prevent future abuses of pension funds.[70]

Challenges of the Pension Reform Scheme in the Public and Private Sector

Some of the major challenges of the Pension reform Act of 2014 are as discussed below:

(i) Investment of Pension Funds

An element of the Contributory Pension Scheme as enshrined in the Pension Reform Act 2014 is the mandatory investment of pension funds by the Pension Fund Administrators. As a cardinal hallmark of the scheme, investment of pension funds is intended to enhance the Retirement Savings Account balances of the workers.[71] It is in recognition of this laudable vision that the Act[72]

[65]Ubhenin, Oscar Edoror. "An assessment of the effectiveness of the Nigerian 2004 pension reform policy." (2012) (17) *Pensions: An International Journal* 289-304.
[66] Ibid.
[67] Ibid.
[68]Dawodu, Opeyemi Naimot. "Pension Administration in Nigeria: Lessons and Reflections." *Wayne State University Law School Research Paper* 2023 (2018).
[69]Ibid.
[70] Ibid.
[71]Chike A. Ezenwa, PHD and Obinna Victor Obiagwu, PHD, Pension Reform Act 2014 and Challenges of Pension Administration in Nigeria (2020), Global Journal of Arts, Humanities and Social Sciences, Vol. 8, No. 8, pp 18-29
[72]PRA 2014 in part xii, section 85(1)

states that: *all contributions made under the Act shall be invested by the pension fund Administrators with the objectives of safety and maintenance of fair returns on amount invested*.

Furthermore, the Act indicates in section (86) subsections (a-i) the modes of investment of pension funds which include bonds, bills, debentures, redeemable preference shares and other debts instruments issued by the Federal Government, Central Bank of Nigeria amongst other credible institutions. Over the years, there appears to be some laxity in the execution of this investment process by the pension fund Administrators. Workers are usually in the dark with respect to how their funds are thriving in the investment market. According to public opinion[73] views have been expressed that the new pension system priorities private investors over contributors in respect to returns on invested funds. In practice there is considerable overlapping of interests between pension fund custodians and pension fund administrators, both of which are characterized by the involvement of interest in the banking industry.[74]

The exclusion of contributors from the investment decisions of the PFAs Inspite of the fact that they ultimately have implications for pension savings account, put the workers in a difficult position. The atmosphere of secrecy surrounding the operations of the pension fund investment diminishes the credibility and transparency of the process. It is rather a deliberate strategy to undermine and sabotage the interest of unwary working population as it relates to their pension funds. Commenting on the vexed issue, Olunde noted that pension fund administrators fail their customers in terms of providing clear information about their investment strategies.[75]

A survey of PFA websites showed that many have not been updated for at least two years. Moreover virtually all companies were in breach of Pencom's guidelines to publish the rates of returns of the Retirement Savings Account (RSA) fund at the end of each financial year and to make unit prices for their RSA funds readily accessible on their websites. The silence on rates of returns appears to be no coincidence and covers up negative returns once inflation and management charges are factored in.[76]

Apart from inflationary pressures, the near total restriction of investment of pension funds in Federal Government of Nigeria securities is another debilitating factor. According to nairametrics.com, statistics have shown that over 73% of the pension funds with the PFAs in Nigeria are invested in FGN securities. Similarly, 52% of the funds were invested in FGN bonds, while 19% were invested in treasury bills. Also the PFAs invested a meager 2.7% pension funds in real estate properties and 7% in bank securities. It is cogent to realize that Nigeria's Pension asset has grown. It grew by 228 billion naira in October 2019 to end the month with an asset value

[73] ibid
[74] ibid
[75]Olunde, Cletus Adeyemoh. "INTERROGATING THE IMPLEMENTATION OF THE CONTRIBUTORY PENSION SCHEME IN NIGERIA." (2023) 7(1) *Wukari International Studies Journal*, 14-14.
[76] ibid

of N9.81 trillion.[77] Recently the commissions' most recent report shows that assets under management (AUM) of the regulated pension industry increased by plus 6% to NGN19.5 trillion in January, 2024.[78] However, despite the remarkable growth witnessed in recent years, we believe that the pension industry still has the potentials for significant growth given the relatively underpenetrated state of the industry.

Nigeria's ratio compares unfavorably with the 29.4% (2020) average for a group of 78 countries based on World Bank data.[79] Despite the introduction of the Micro Pension Scheme in 2019, which was aimed at increasing the pension participation rate and boosting inclusion in the country, particularly in the informal sector, recent data suggests that the country's pension coverage is still low. [80]

Nigeria's low level of pension participation can be linked to a combination of factors including the high level of unemployment, rising cost of living, sluggish recovery of the economy and the low awareness of pension products.[81] The elephant in the room when it comes to Nigeria pension industry is returns on investment. Returns have barely covered a high inflation rate over the years, meaning that peoples' savings are effectively losing their values.[82]

There is therefore a compelling requirement for a diversification of the portfolio and modes of investment of pension funds by the PFAs to include greater emphasis on the real estate and infrastructures as critical drivers of the economy. This would ultimately ignite high values and ameliorate the crushing effects of inflation thereby providing the necessary dividends for the final beneficiaries, the worker-investor. It is in the light of this narrative that it is maintained that pension funds must be managed with the intent of ensuring that eligible retirees receive the benefits they were promised.[83]

Until recently, pension funds invested primarily in stocks and bonds often using a liability matching strategy. However, today, they increasingly invest in a variety of asset classes including private equity, real estate infrastructures and securities like gold that can hedge inflation.

(ii). Limited Scope of Coverage

It is instructive to observe that the objectives of PRA 2014 reflect a wider scope of potential coverage which includes all the strata in the formal and informal sectors of the national economy. Among the objectives of PRA 2014 is to: (a) establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the public service of the

[77] PENCOM, (2019)
[78] PENCOM (2024)
[79] Nigeria's Pension Fund Assets Under Management increased by 6% MoM to N19.5trn in January, 2024, FBNQuest Research, March 19,2024 accessed 17/06/24
[80] Ibid
[81] Ibid
[82] ibid.
[83] Investopedia.com (2020)

federation, the public service of the Federal Capital Territory the public service of the State Governments, the public service of the Local Government Councils and the private sector.[84] This critical mandate is yet to be realized because the implementation or operation of the PRA 2014 is still mainly restricted to the federal public service made up of Ministries, Departments, and Agencies (MDAs) and its other parastatals.

Many State Governments' Public Service, Councils of local governments and a wide spectrum of the private sector are yet to fully key into this laudable contributory pension scheme as encapsulated by the Pension Reform Act 2014. The implication of this is that most state governments are still under the burden of unfunded pension debt regime whereas the PRA 2014 was intended to encompass and manage the pension industry in Nigeria. Cases of heavy backlog of pension arrears of many years still dot the budget profile of many state governments in Nigeria.[85]

It is noted that as of march 2014, the figure of registered contributors stood at 6,025,117 employees covering both the public and private sectors, which is only about 11% of the total labour force in Nigeria. More than 70% of the population is yet to enlist into the scheme.[86] There has always been misperception and suspicion by a wide cross section of workers on the credibility and sustenance of the new pension scheme. While the initial reluctance and skepticism of workers to register with pension fund administrators has reduced, there is a large population especially in the informal market of the private sector outside of the scheme. Several years after the take-off, the scheme is still bedeviled by general misconception and knowledge gap.[87] The low scope of coverage recorded by the PRA 2014 since the commencement of its predecessor in 2004 may be a reflection of poor institutional framework represented by the supervisory and regulating body-the National Pension Commission (penCom).[88]

(Retirement Benefits and Deduction at Source

In part 2, sections 3(1) to 4(1), the Act provides for the establishment of a Contributory Pension Scheme for payment of retirements benefits of employees for whom the Act applies. With regard to the scope of employees involved, the new pension scheme shall apply to all employees in the Public Service of the Federation, States, Local Governments and the Private Sector. The rate of contribution to the scheme for any employee to which this Act applies shall be made in the following rates relating to monthly emoluments: (a) a minimum of ten percent by the employer and (b) A minimum of eight percent by the employee.[89]

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[84] Ibid (n.19)

[85] Etim, Raphael S., Mary Asuquo, and NkereuwemAsuquo UDO. "CONTRIBUTORY PENSION SCHEME AND HUMAN DEVELOPMENT INDEX IN NIGERIA." (2023) 4 (1) *Global Journal of Accounting and Economy Research*, 67-85.

[86] ibid

[87] ibid

[88] SARKA, SOLOMON WOGAN. "THE BANE OF PENSION CONTRIBUTIONS'REMITTANCES AND ITS IMPLICATION ON STAFF RETIREMENT IN THE FCT AREA COUNCILS, ABUJA." *International Journal of Management Science and Business Analysis Research* (2023).

[89] ibid

However, in section 7(1) the Act states that a holder of Retirement Savings Account (RSA) shall upon retirement or attaining the age of 50 years.[90] whichever is later, utilizes the amount credited to his retirement savings account for the following benefits:

i. Withdrawal of a lump sum from the total amount credited to his retirement savings account provided that the amount left after the lump sum withdrawal shall be sufficient to procure a programmed fund withdrawal or annuity for life.

ii. Programmed monthly or quarterly withdrawals calculated on the basis of an expected life span.

The twin concepts of ‘lump sum’ and calculation of ‘expected life span’ are indeterminate. What constitutes the lump sum in numerical terms? What is the basis of calculating an expected life span? There is a compelling need for proper clarification of these concepts. While analyzing the same issue, Mohammed (2024) argued that the provisions depict the worker as incapable of informed decision regarding his legitimate retirement benefits.[91] Another contentious issue has been the exact source at which the employer’s and employee’s contributions are deducted. The Act states in section 3 that the employer shall:

a. Deduct at source the monthly contribution of the employee and;
b. Not later than 7 working days from the day the employee is paid his salary, remit an amount comprising the employee’s contribution and the employer’s contribution to the pension fund custodian specified by the pension fund administrator of the employee.[92]

This section generated a deluge of controversy in the MDAs as it relates to the ‘source’ at which deduction is made, since the Act failed to define and identify the ‘source.’ Although the Act in section 12, subsection 3 states that the Accountant General of the Federation shall make the deductions, there was no further clue on the exact source. Diverse opinions were rife as to whether the source could be the Federal Ministry of Finance, the Budget office or office of the Accountant-General of the Federation. The bone of contention is the suspicion by workers across the different MDAs that they were being short changed by way of double deductions. In his assertion, Mohammed (2024) noted that further deductions from employee’s salary at his place of work by the bursary department violates provisions of the Act and contrary to all directives of the Federal Government on the matter.

In a similar vein, Odeh (2024) averred that in order to ensure timely remittance of the deductions, the budget office deducts the contributions at source from the allocations to the Ministries,

[90] PRA 2014, section 7(1)
[91] Mohammed, SaniDamamisau, and others. "Pay As You Earn (PAYE) Tax as Panacea to Backlog of Gratuities and Pensions of Civil Servants in Nigeria." (2024).
[92] ibid

Departments and Agencies (MDAs) through the Retirements General Warrants.[93] The implication of the deduction at source is that the total amount required by the MDAs from the budget office is net of the employee's pension contribution. Therefore, the MDAs are not expected to make any additional deductions for pension contribution. However, the sum deducted by the budget office should be reflected in the pay slips of staff for the purpose of transparency.

Exemption from the Scheme

The PRA 2014 in section 5 contains what has been described as a discriminatory policy, because the Act exempts some categories of professionals from the contributory pension scheme. These include the categories of persons mentioned in section 291 of the Constitution of the Federal Republic of Nigeria (1999) (as amended), Members of the Armed Forces, Intelligence and secret service. This provision clearly violates the letter and spirit of cardinal objectives of the Act which is to 'establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits.[94] The exemption clause indirectly created the window of agitation to opt out of the contributory pension scheme as enunciated in the PRA 2014. Among the first group to seek alternative pension platform is the Academic staff union of Universities (ASUU).

Recently, Pencom at the behest of the Federal Government issued a License of approval to the ASUU pension scheme known as the Nigerian University Pension Management Company (NUPEMCO) as an independent pension scheme for university lecturers.

Corrupt Practices

Under the regime of the new Pension Scheme, incidents of sharp practices which characterized the previous Pension plans began to manifest. In a documented report, it was noted that the Pension office of the Head of Service of the Federation has been collecting Five billion naira for the payment of pension every month.[95] The breakdown of this amount was 3.3 billion naira for the payment of pension of over 141,000 retirees, 800 million naira as arrears, and 900 million naira as death benefits and gratuities.[96] However, investigation by the Pension Reform Task Team after a biometric exercise revealed that only 825 million naira was required for the payment of just 71,000 genuine pensioners. In other words, officials of the pension unit has been collecting 5 billion naira monthly and paying only 825 million naira to pensioners and pocketing nearly 4.2 billion naira.

This revelation shocked the Nation and rekindled skepticism and doubt about the capacity of the PRA 2014 to turn around the pension industry for the better. The report further revealed that civil servants and officials of the pension offices organized a sophisticated syndicate which specialized in stealing pension funds in the most mind-boggling manner. One of the ways used in stealing the

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[93]Odeh, Lawrence O. "CONTENDING ISSUES IN TRADE UNIONISM AND CONTRIBUTORY PENSION REFORM IN NIGERIA: THE EXPERIENCE OF DELTA STATE PUBLIC SERVICE." *Impact of Government expenditure on poverty and inequality in Nigeria: A* (2024): 86.
[94] CFRN 1999, S. 291
[95]Ezeoha, Abel E., Nelson N. Nkwor, Clementina I. Kanu, Makuachukwu G. Ojide, and Isaac M. Ikpor. "Advancing Legal and Ethical Arguments against Ex-Governors' Pension Practice in Nigeria." *Public Integrity* (2023): 1-15.
[96]Odeh, (n.214)

funds was through the payment of ghost pensioners. This was done with the connivance of bank officials. Staff of the office of Head of Service would shuffle files of living and dead people to cook up names and add to the payroll.[97] Although corruption is endemic in Nigeria, this scale of fraud in a supposedly well supervised and regulated system is worrisome and bizzare.

It is expected that the relevant institutions should plug the loopholes in order to allow the PRA 2014 to thrive and engender a credible, reliable and transparent Pension administration in Nigeria. This has become inevitably urgent because a recent National Assembly Public Hearing on pension recalled that six civil servants stole 24 billion naira from the police pension fund. The same persons were alleged accomplices in the illegal diversion of another 32.8 billion naira from the same police Pension fund. Similarly, 151 billion naira and six 6 million pounds were recovered after the conduct of biometric data capture exercise.[98] This massive scale of organized and syndicated fraud is enough for the declaration of state of emergency in the pension sector in Nigeria. This sad turn of events if not immediately checkmated would ruin the gains of the new pension scheme, worsen the fate of pensioners and seriously sabotage the Nation's economy.

Penalty on Remittance Default

The PRA 2014, in section 11 sub-section (6) provides that an employer who fails to deduct or remit the contributions within the time stipulated in section (3) (b) of this section shall in addition to making the remittance already due, be liable to a penalty to be stipulated by the commission. The Act went further in subsection (7) to reveal that the penalty referred to in sub-section (6) of this section shall not be less than 2% of the total contribution that remains unpaid for each month or part of each month the default continues and the amount of the penalty shall be recoverable as a debt owed the employee's retirement savings account.[99] The 2% penalty appears cheap and rather than serve as deterrence against defaulters has on the contrary encouraged fraudulent practices and impunity in the industry. While reacting to this provision, Ekezue (2024) lamented that the Act encourages corruption by providing such a weak penalty for failure by the employer to remit contributions (by employer and employee) to the pension fund custodian within 7 working days from the day the employee is paid his salary.[100] With such a small penalty (2%), and the high cost of borrowing from the banks, employers are likely to prefer not to remit pension contributions and pay the cost of non-remittance.

PENCOM and Undue Bureaucracy

In part 5, section 17, of the PRA 2014, the National Pension Commission (pencom) is charged with the following strict mandate:

a. Enforce and administer the provisions of this Act;

[97] ibid
[98] ibid
[99] PRA 2014, s.3 and 11
[100]Ekezue, Henry Maduabuchuku and others. "The Contributory Pension Scheme in Delta State: Understanding The Failures of Government and The Challenges of the Pension Administrators." (2024) 12 (2) *Global Journal of Political Science and Administration,* 27-42.

b. coordinate and enforce all other laws on pension and retirement benefits, and
c. Regulate, supervise and ensure the effective administration of pension matters and retirements benefits in Nigeria.

The above mentioned functions are direct, specific and unambiguous in character. As a serious national issue, pension matters are strictly constitutional and belong to the Exclusive legislative list as captured in the second schedule (section 4) of the 1999 constitution of the Federal Republic of Nigeria. In this regard pencom ought to be well situated to discharge its functions with maximum efficiency. Unfortunately this has not been the case with the array of missteps and derelictions on the part of the commission since its inception. It is in this context that Ekezue (2024) lamented that there is a significant lack of adequate capacity building in the new pension industry with the personnel in the emerging pension fund industry showing a high degree of overlap with other business interest. More specifically, Ekezue (2024) observed that pencom has been weak, in enforcing regulatory compliance. For example, pencom failed to enforce regulations stating that Pension Fund Administrators must report in a timely manner about the value of their retirement savings account.[101]

The operations of the PRA 2014 is evidently hampered by the interplay and interactions of different intervening bureaucratic elements in the ministries, departments and agencies of governments at different levels. The next bureaucratic interface presents the pension fund administrators, pension fund custodians and the other variables within the framework of the National Pension Commission. The entire gamut of activities and evolving administrative mix generates a dynamic of its own with a tendency to derail set objectives. As a result the management process becomes rigid, slow and prone to manipulation by unscrupulous staff.[102]

Another area of interest is the leadership duration of PENCOM officials. The tenure of the Chairman and the Director-General of the National Pension Commission (pencom) is for a period of five years in the first instance and may be extended by another term of five years by reappointment. (PRA 2014). While this provision appears normal and apparently innocuous, the impact of a non performing leadership for ten years would result in a legacy of monumental disaster. Given the strategic nature of Pencom as an institution in the socio-economic and political dynamics of Nigeria, the Pencom leadership at all levels should be restricted to a single tenure of five years and no more. This would forestall privatization of office and tendency to nurture cronyism and corruption.[103]

Future Prospects and Legal Reforms

The Pension Reform Act 2014 has brought about significant changes in Nigeria's pension landscape, but there are still several areas where future prospects and legal reforms could further

[101] ibid
[102]Ahaoma, Chinenye Ruth, Georgina ObinneUgwuanyi, and Kelechukwu Colman Ozor. "Pension Fund Assets and the Nigerian Economy." (2023) 1 (1) *Nigerian Journal of Sustainability Research,* 33-47.
[103] ibid

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enhance the effectiveness, sustainability, and inclusivity of the pension system. Understanding these future prospects requires an analysis of the current gaps in the system and the potential reforms that could address them.[104]

Expanding Coverage to the Informal Sector

One of the most critical areas for future improvement is the expansion of pension coverage to include workers in the informal sector and self-employed individuals. Currently, the pension system primarily benefits those in formal employment, leaving a substantial portion of the Nigerian workforce without retirement savings or social security.[105] Given that a significant percentage of Nigeria's labor force is engaged in informal work, extending pension coverage to this group is essential for achieving a more inclusive pension system. Future reforms could focus on developing innovative strategies to incorporate informal sector workers, such as flexible contribution schemes, simplified registration processes, and targeted education and outreach programs. Additionally, leveraging digital platforms and mobile technology could facilitate easier access to pension services for those in remote or underserved areas, making it more feasible for informal workers to participate in the pension scheme.[106]

Strengthening Regulatory Oversight and Governance

Another critical area for future development is strengthening regulatory oversight and governance of the pension system. Although the National Pension Commission (PenCom) has made significant strides in regulating the pension industry, continuous improvements are necessary to keep pace with evolving financial markets and emerging risks. Enhancing PenCom's capacity for risk-based supervision, data analytics, and enforcement will be crucial for ensuring that Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs) comply with regulatory standards and manage pension assets prudently.[107] Future reforms could include introducing more stringent penalties for non-compliance, increasing the frequency and depth of audits, and adopting best practices from other jurisdictions to enhance transparency and accountability within the pension system. Additionally, implementing more robust governance frameworks within PFAs and PFCs, such as stricter requirements for board composition and conflict-of-interest policies, could further strengthen the integrity and trustworthiness of the pension industry.[108]

Enhancing Pension Fund Investment Strategies

As pension assets continue to grow, there is an increasing need to diversify investment strategies to optimize returns while managing risks. Currently, investment guidelines for pension funds in Nigeria are relatively conservative, focusing on government securities, corporate bonds, and

[104] ibid
[105] ibid
[106] Nwuzor, ChidiIroko, and Chimee Mercy Njoku. "Challenges of Pension Administration in Ebonyi State Civil Service: Implications on Workers' Productivity." (2023).
[107] ibid
[108] ibid

limited equity exposure.[109] While these guidelines have provided a level of security, there is a growing recognition of the need to diversify into other asset classes, such as infrastructure, real estate, and private equity, to achieve higher returns and contribute to broader economic development. Future legal reforms could explore revising investment guidelines to allow for more flexibility and innovation in investment strategies, while still maintaining a strong emphasis on risk management and capital preservation.[110] Additionally, developing frameworks to encourage sustainable and socially responsible investments could align pension fund growth with national development goals, such as infrastructure development, housing, and green energy projects.

Improving Efficiency in Benefit Payments and Dispute Resolution

Another area for future improvement is the efficiency of benefit payments and dispute resolution mechanisms. Despite the reforms introduced by the Pension Reform Act 2014, issues such as delays in benefit payments and difficulties in accessing pension funds persist. These challenges can erode trust in the pension system and deter participation.[111] Future reforms could focus on streamlining the benefit payment process, reducing bureaucratic hurdles, and ensuring that contributors can access their funds promptly upon retirement or in cases of disability. Additionally, enhancing dispute resolution mechanisms to provide faster, fairer, and more transparent outcomes for contributors could improve overall satisfaction and trust in the pension system. Establishing independent adjudicatory bodies or ombudsman services specifically for pension-related disputes could offer an impartial and effective means of addressing grievances.[112]

Adapting to Demographic and Economic Changes

Nigeria's demographic landscape is changing, with a growing population of young workers and an increasing number of retirees. The pension system must adapt to these demographic shifts to remain sustainable and effective. Future legal reforms could focus on developing policies that encourage higher savings rates among younger workers, providing incentives for early and consistent contributions to retirement savings accounts.[113] Additionally, addressing the economic challenges that affect the pension system, such as inflation and currency devaluation, will be crucial for maintaining the purchasing power of pension benefits. This could involve revising the indexation policies for pension benefits to ensure that they keep pace with inflation and reflect changes in the cost of living.[114] Furthermore, as Nigeria's economy continues to evolve, there may be opportunities to align pension reform with broader economic policies, such as financial inclusion initiatives and capital market development, to create a more integrated and resilient pension system.

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[109] ibid
[110] Olutimi, AkinwumiAyorinde and others. "CONTRIBUTORY PENSION SCHEME AND ECONOMIC GROWTH IN NIGERIA." *Journal of Business Development and Management Research* (2024).
[111] ibid
[112] ibid
[113] OKEAHIALAM, CHUKWUNYERE OBINNA, and KALU NWOJO AWA. "PERFORMANCE OF REAL ESTATE INSTRUMENTS IN THE INVESTING OF PENSION FUND IN NIGERIA." *International Journal of Environmental Research and Earth Science* (2024).
[114] ibid

In conclusion, the future prospects of Nigeria's pension system under the Pension Reform Act 2014 will depend on its ability to adapt to changing economic, demographic, and social conditions. By expanding coverage to the informal sector, strengthening regulatory oversight, diversifying investment strategies, improving benefit payments, and addressing broader economic challenges, Nigeria can build a more inclusive, sustainable, and robust pension system that provides security for all workers in their retirement years. Continuous evaluation and proactive legal reforms will be essential for achieving these goals and ensuring the long-term success of the pension system.

CONCLUSION

Summary

The Pension Reform Act 2014 represents a significant milestone in Nigeria's efforts to overhaul its pension system, moving from a defined benefit to a contributory scheme. This shift aimed to address the longstanding challenges of pension fund mismanagement, inadequate funding, and delayed payments that plagued previous pension regimes. The Act introduced mandatory contributions from both employers and employees, fostering a more sustainable and transparent system that directly links pension benefits to contributions and investment returns.[115]

The Act's implementation has impacted various stakeholders, including employees, employers, Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs), regulatory bodies like the National Pension Commission (PenCom), and the government. For employees, the Act has enhanced retirement security by ensuring regular contributions and offering more control over retirement savings. Employers face new financial responsibilities but benefit from a more motivated workforce. PFAs and PFCs have seen increased business opportunities, albeit with heightened regulatory expectations. Meanwhile, PenCom's role has expanded significantly, requiring ongoing capacity building to maintain effective oversight.[116]

Despite its successes, the Pension Reform Act 2014 faces challenges, such as extending coverage to informal sector workers, improving regulatory oversight, diversifying investment strategies, and ensuring timely benefit payments. Addressing these challenges through continuous legal reforms and strategic innovations will be essential for enhancing the Act's effectiveness and achieving comprehensive pension coverage for all Nigerian workers.[117] The future of Nigeria's pension system depends on its ability to adapt to demographic shifts, economic changes, and the evolving needs of its population, ensuring a robust, inclusive, and sustainable retirement savings framework.

Findings and Observations

[115] ibid
[116] Mbam, Kingsley Chima, Cal J. Halvorsen, and UzomaOderaOkoye. "Aging in Nigeria: A growing population of older adults requires the implementation of national aging policies." *The Gerontologist* 62, no. 9 (2022): 1243-1250.
[117] ibid

The analysis of the Pension Reform Act 2014 reveals several key findings and observations that highlight both the achievements and challenges of Nigeria's pension system under the new legal framework.[118]

1. Improvement in Pension System Transparency and Accountability

One of the primary findings is that the Pension Reform Act 2014 has significantly improved transparency and accountability within Nigeria's pension system. By transitioning to a contributory scheme, the Act has established a clear link between contributions and benefits, which has reduced the opaque practices and mismanagement that characterized the previous defined benefit schemes. The requirement for employers and employees to contribute a fixed percentage of earnings to Retirement Savings Accounts (RSAs) ensures that funds are regularly collected and appropriately invested.[119] Additionally, regular statements from Pension Fund Administrators (PFAs) provide contributors with insight into their account balances and investment performance, fostering greater trust in the system.

2. Enhanced Regulatory Framework and Oversight

The Act has strengthened the regulatory framework governing Nigeria's pension industry, particularly through the role of the National Pension Commission (PenCom). PenCom has been empowered to license PFAs and Pension Fund Custodians (PFCs), enforce compliance, and protect contributors' interests. The enhanced regulatory oversight has led to a more structured and secure environment for pension funds, reducing risks associated with mismanagement and fraud.[120] However, the observations indicate that while PenCom has made significant strides, there remains a need for continuous improvement in regulatory capacity, especially in adapting to the evolving financial landscape and ensuring stringent adherence to guidelines by all stakeholders.

3. Limited Reach to Informal Sector Workers

A critical observation is that despite the improvements in the formal sector, the Pension Reform Act 2014 has had limited impact on Nigeria's vast informal workforce. The Act primarily benefits those in formal employment, leaving a large segment of the population without access to pension coverage.[121] This gap poses a significant challenge to achieving universal pension coverage in Nigeria. Many informal workers remain outside the purview of the Act due to difficulties in enforcing mandatory contributions and the lack of tailored pension products that meet their unique needs. There is a pressing need for innovative approaches and legal reforms to extend pension coverage to this demographic, ensuring broader inclusivity and financial security.[122]

4. Challenges with Investment Returns and Pension Fund Growth

Another finding is the challenge associated with achieving optimal investment returns on pension funds. While the Act sets out clear guidelines for investment, many PFAs have adopted

[118]Okeahialam, ChukwunyereObinna, and KaluNwojo Awa. "Performance of Real Estate Instruments in the Investing of Pension Fund in Nigeria." *International Journal of Environmental Research and Earth Science* (2024).
[119] ibid
[120] ibid
[121] ibid
[122]Ejumudo, Tobi, Kelly Bryan OvieEjumudo, and Elvis Adogbeji. "Pension Administration and the Predicament of Pensioners in the Delta State Civil Service."

conservative strategies focused mainly on government securities and low-risk investments. While this approach minimizes risk, it also limits potential returns, which could impact the overall growth of pension funds and the adequacy of retirement benefits. Observations suggest that there is room for diversification into higher-yield investment opportunities, provided these are managed within a robust risk management framework. Adjusting the investment guidelines to allow for more varied asset classes could enhance returns, contributing to better outcomes for contributors.[123]

5. Delays and Inefficiencies in Benefit Payments

Despite the regulatory framework's strengths, there are persistent issues related to delays and inefficiencies in benefit payments. Many retirees continue to experience challenges in accessing their funds promptly due to administrative bottlenecks and procedural complexities. These delays undermine the system's credibility and can cause financial hardship for retirees dependent on timely pension payouts. Findings indicate that streamlining the benefit payment process, reducing bureaucratic hurdles, and implementing technology-driven solutions could significantly enhance the efficiency of the system.[124]

6. Need for Continuous Legal Reforms and Policy Adaptation

The findings underscore the necessity for ongoing legal reforms and policy adaptations to keep pace with the dynamic economic and demographic environment in Nigeria. As the population grows and the economy evolves, the pension system must adapt to new realities, such as increasing life expectancy, inflationary pressures, and the diversification of income sources.[125] Future reforms could focus on enhancing the adaptability and resilience of the pension framework, ensuring that it remains effective and sustainable in the long term.

Recommendations

Based on the findings and observations of the analysis of the Pension Reform Act 2014, the following recommendations are proposed to enhance the effectiveness, inclusivity, and sustainability of Nigeria's pension system:

Expand Pension Coverage to the Informal Sector

To achieve comprehensive pension coverage, it is crucial to develop strategies that extend pension beefits to informal sector workers and self-employed individuals, who constitute a significant portion of Nigeria’s labor force.[126] The government and regulatory bodies should consider creating flexible, low-cost pension schemes tailored to the needs of informal workers. This could include voluntary contribution schemes, micro-pension plans, and leveraging mobile technology to facilitate easier registration and contribution processes. Additionally, public awareness campaigns should be intensified to educate informal sector workers about the benefits of participating in the

[123] ibid
[124] ibid
[125] ibid
[126] Adamu, Ishaku Ahmed, and PaluriSheela. "Exploring employees' perspectives on the Nigeria PRA 2014 and the impact of behavioural factors on the choice of PFAs." (2024) 18 (1) *International Journal of Applied Economics, Finance and Accounting*, 1-14.

pension system, emphasizing the importance of saving for retirement and the security it provides.[127]

2. Strengthen Regulatory Oversight and Enforcement

While the National Pension Commission (PenCom) has made notable progress in overseeing the pension industry, there is still room for improvement in regulatory oversight and enforcement. PenCom should enhance its capacity to conduct risk-based supervision and regularly review the operations of Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs).[128] Introducing stricter penalties for non-compliance and establishing more robust audit mechanisms can deter malpractices and ensure that pension funds are managed prudently. Furthermore, PenCom should consider adopting advanced technology solutions, such as data analytics and artificial intelligence, to monitor compliance and detect potential risks more effectively.

3. Diversify Pension Fund Investment Strategies

To optimize returns and ensure the growth of pension assets, it is recommended that the investment guidelines for pension funds be reviewed to allow for more diversified investment strategies.[129] While maintaining a focus on safety and security, PFAs should be encouraged to explore higher-yield investment options, such as infrastructure projects, real estate, private equity, and green investments. Diversification can enhance returns while contributing to national development goals. However, it is essential to establish a robust risk management framework to balance the pursuit of higher returns with the need to protect contributors' funds.

4. Improve Efficiency in Benefit Payments and Administrative Processes

The efficiency of benefit payments remains a concern for many retirees, who often face delays in accessing their funds. To address this issue, it is recommended that PenCom and PFAs streamline administrative processes and reduce bureaucratic hurdles.[130] Introducing automated systems for processing benefit claims and payments could significantly reduce delays and improve the overall experience for retirees. Additionally, establishing clear and transparent guidelines for the withdrawal of pension funds upon retirement or in cases of disability can ensure that contributors receive their benefits in a timely and efficient manner.

5. Enhance Public Awareness and Financial Literacy

Public awareness and financial literacy are critical components of a successful pension system. It is recommended that PenCom, in collaboration with PFAs and other stakeholders, implement nationwide financial literacy programs to educate the public on the importance of retirement planning and the benefits of the contributory pension scheme.[131] These programs should target all segments of the population, including young workers, informal sector employees, and rural

[127] ibid
[128] ibid
[129] ZOM, Hannatu Ibrahim. "KNOWLEDGE, ATTITUDE AND PRACTICE OF RETIREMENT PLANNING AMONG CIVIL SERVANTS IN THE KADUNA METROPOLIS, NIGERIA." PhD diss., 2023.
[130] ibid
[131] ibid

communities, to foster a culture of savings and long-term financial planning. Using diverse communication channels, including social media, community outreach, and partnerships with educational institutions, can help reach a broader audience and enhance engagement.[132]

6. Foster Collaboration and Continuous Improvement

Finally, fostering collaboration between all stakeholders, including the government, regulatory bodies, PFAs, employers, and contributors, is essential for the continuous improvement of the pension system. Regular stakeholder consultations and forums can provide a platform for discussing emerging challenges, sharing best practices, and developing innovative solutions. Additionally, conducting periodic reviews of the Pension Reform Act 2014 and its implementation can help identify areas for legal reforms and policy adjustments to ensure that the pension system remains responsive to changing economic, demographic, and social conditions.[133]

CONTRIBUTIONS TO KNOWLEDGE

This study has contributed to knowledge the following:

i. The study has shown that the Nigerian Pension Reform Act has offered a broader insight into the challenges in the pension reform scheme within the context of Nigeria's unique socio-economic environment.
ii. The study has reviewed the strengths and weaknesses faced by Pencom and stakeholders in enforcing the provisions of Pension Reform Act 2014.
iii. Lastly, this study contributes to the literature on socio-economic development by linking pension reform to broader development goals such as financial inclusion, social security and economic stability. It demonstrates how an effective pension system can contribute to poverty reduction, economic growth and social cohesion by providing a safety net for retirees and promoting savings and investments. This perspective enriches the understanding of the multifaceted role that pension systems play in achieving sustainable development and social equity.

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[132] ibid
[133]Awobode, OyelakinLanre. "STAKEHOLDERS'PERCEPTION OF THE ADEQUACY OF PENSION EARNINGS AND TEACHERS'JOB COMMITMENT IN PUBLIC PRIMARY SCHOOL IN OYO STATE."

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