AN EMPIRICAL APPRAISAL OF EMPLOYEE PERCEPTION OF THE CONTRIBUTORY PENSION SCHEME IN UNIVERSITIES, COLLEGES OF EDUCATION AND POLYTECHNICS IN ADAMAWA STATE

BY

Adamu Saidu

ABSTRACT

A pension plan means a formal or informal contract between employers and employees specifying what benefits accrue to employees upon their attainment of a specified retirement age. Pension reform act (2004) was an Act of National Assembly which put in place the contributory pension scheme to replace the non-contributory pension scheme applicable in Nigeria before year 2004. The main objective of this study was to examine employee perception of the contributory pension scheme and determine their level of acceptance of the scheme. Data was generated from primary sources through the administration of questionnaire. The methodology used in this work is chi-square test. The study concluded employees doubted the contributory pension scheme due to the transfer of investment risk from the Government to employees, which they perceived the scheme to be a system where employees are expected to pay pension to themselves by themselves, which is a marked departure from the pay-as-you-go system. This research recommends that the government should put in place an insurance agency to cater for loss or damages arising from investment and management of pension fund and that employer organizations (both public or private) should establish a standing committee to be called Management and investment Committee.

Background of the Study

Pension refers to a series of payment made by a former employer to an employee after a long service (Pension act, 1979). This implies that it is any form of payment given to employees at an expiration of the stipulated terms of contract regarding retirement age, handicap or death. Ogunde (2006), also defined pension as workers deferred wages and savings achieved during the active working period. According to Apoti (2006), a pension plan means a formal or informal contract between employers and employees specifying what benefits accrue to employees upon their attainment of a specified retirement age. Other obligations and responsibilities of the parties under the contract are usually specified (NASB, 2003). It can be understood that pension plans or retirement benefit plans are contractual agreement between employers and employees with a view to retain more capable work force with higher morale. For this purpose, the cost of maintaining the contract should be considered as operating expenses during the workers period of employment (Apoti, 2006).

Itodo, John & Bananda (2007) revealed that the employees (beneficiaries) were skeptical and doubted the viability and sustainability of the new pension scheme. Their study failed to disclose the reason(s) why employees were skeptical and doubtful of the new pension plan. Similarly, Mirchaulum (2007) established that employees doubted the readiness and commitment of government in contributing promptly to the

1 Department of Accountancy, Federal University of Technology, Yola
A Survey of Market Women's Environmental Knowledge, Attitudes and Practices in Ibadan: Implications for Environmental Sustainability

pension scheme and that most employees were yet to appreciate the take-off of this scheme. It is against the findings and conclusions of Itodo, John & Bananda (2007) and Mirchanlum (2007), that this research seek to buttress further why employees were skeptical and doubtful of the take-off of the scheme by determining the level of acceptability among employees of tertiary educational institutions in Adamawa state, and also establish why they doubted the contributory pension scheme as an alternative to the pay-as-you-go pension system.

The major objective of this paper is to examine employee perception of the contributory pension scheme and determine their level of acceptance of the scheme. The scope of this study is the four tertiary institutions (three Federal and one private) located in Adamawa State which operates the contributory pension scheme embedded in the Pension Reform Act (2004). They are: the Federal University of Technology, Yola, Federal Polytechnic, Mubi, Federal College of Education, Yola and the American University of Nigeria (AUN), Yola. These institutions covered are selected among the many tertiary educational institutions in the state due to the fact that the rest are state-owned institutions, therefore the provisions of the Pension Reform Act (2004) are not mandatory in their pension scheme.

Theoretical Framework

Theor es are developed to show the focus of a research and the basic underpinnings on which a work is premised. Some economic theories pointed out that pension fund is a transfer payment which play a crucial role in stimulating economic activities in periods of recession. The study of Orszag and Orsazag (2000) indicated the role of pension in raising national savings and investment which increase national income. In accounting research like this, the basis of theories on reporting of pension plan is drawn from the concept of equity theories in financial reporting. As cited in Kantudu and Adamu (2006), equity theories seek to define the relationship between an enterprises with its owners. Previous researchers posited that in order to attain consistency, one equity theory must be selected and adhered to, however; the following theories can provide a useful framework on which this work can be premised upon. These are; entity theory, proprietary theory, enterprise theory, fund theory, residual equity theory and the agency theory.

The first theory being the entity theory was developed by Williams A. Paton, it sees the business firm to have a separate existence, in fact; even a separate personality of its own being different from that of its owners. It is drawn heavily from the understanding of accounting equation, viz: Assets equal to equities (liabilities and stockholders' equity). According to Hendrisken (2001) cited in Kantudu and Adamu (2006), the liabilities are specific obligations of the firm and the assets here represents the rights of the firm to receive specific goods and services or other benefits.

This study falls apart with the equity theory on the basis that it applies the accounting equation of assets equal to equities and the equity is made up of liabilities and stockholders equity. In fact, The pension fund is a sole entitlement of the retiree or potential retiree, although the employer was part of its sponsorship but the benefit and risk of investment is transferred wholly to the employee.

The second theory is the Proprietary theory developed to satisfy the interest of the owner/or proprietor. It is stated as assets minus liability equal to proprietorship. The Proprietary theory assumed assets to be owned by proprietor and liabilities are proprietor's obligations (Wolk, Tearney & Dodd, 2001). According to Hendrisken (2001), the net income accrues directly to the owner and it is therefore a wealth concept.

The third theory is the stakeholders’ theory (a.k.a: enterprise theory). This theory is a broader concept than the entity theory and the proprietary theory, it assumed that the firm is a social institution operated for the benefit of all stakeholders. The owners, the management, creditors, Government, General public, employee, etc. all have significant interest in the firm and therefore; the firm's report be directed to service their interest. The theory denotes that the existence of a firm is based on the social theory of accounting and that
firm's report should not only extend to stakeholders and creditors but also to the many stakeholders of the firm. In effect, it cannot be applicable to pension fund since the investment of pension assets is solely made for the benefit of the retirees or employees concerned and therefore report be forwarded to them. Based on the foregoing statement, this study strongly disagrees with the stakeholder theory premised upon social theory of accounting.

The fourth theory is the fund theory which was developed by William J. Vater and mostly applicable in government accounting. The fund theory sees the firm as a segregated form of business which exists to yield return for its owners. The fund theory provides that once an investment is made, it exist to earn return which can be re-invested to earn more return. The risk of investment is born by its owners. The fund theory empowers the firm to make investment, incur expenses/cost and make profit thereon.

The fifth theory is the residual equity theory was developed by George Staubus, whose basis is also drawn from the work of William A. Paton, it is a midway process between the entity theory and the proprietary theory. It sees the residual equity holders as those stakeholders whose rights are superseded by all other claimants. This means that common stockholders are the owners of residue and therefore ultimate risk takers within an enterprise. Their interest is superseded by that of bond or debenture holders and preference shareholders.

The sixth theory is the agency theory, this theory sees the firm operating to service the interest of its owners (who are the principal and it is entrusted in the hands of managers (who serve as agents). Under this theory, the firm is seen to be under a contractual relationship of "Agency" being a relationship between the principal and Agents.

The agency theory provides that financial reporting should be directed from management to owners. This study agrees with the conceptual framework of pension which is in line with the agency theory of financial reporting. The pension fund existed for the beneficial interest of employee who are its owners, herein referred to as the Principal. This fund is entrusted in the hands of PF As and PACs who are the managers herein referred to as the agents. Although employers contributed toward the funding of pension under the Act, they do not have any beneficial interest in it. Since investment risk is transferred from the government to employees under the scheme, the whole equity belongs to employee without any obligation of outsiders. Therefore, the PF As and the PACs should be seen as agents of employees, being the principal.

**Review of Contributory Pension Scheme**

As cited in Johnson, Forbes and Hatem (2001), a contributory pension scheme is one in which employees (participants) contributes a certain amount of their emolument and employers also contribute a certain amount. A major advantage of contributory pension scheme lies with the mandatory investments in private assets and its potential contribution to the development of the capital market in the Chilean Reform (Diamond, 1995). A contributory pension scheme is also recommended for its potential in raising national savings, which increase investments and national income (Orszag and Orszag, 2000). The point of concern of this study is that with the advantages leading to the recommendations made in Diamond (1995) and Orszag and Orszag (2000) above, would the Nigerian experience be different? Would the contributory pension scheme make an impact in the Nigerian economy? Answers to these questions can only be obtained if we examine how well Universities, Polytechnics and Colleges of Education in Adamawa State comply with the provisions of the pension Act 2004.

According to Olusegun (2006), the Year 2006 was actually a Year to be reckoned with in the history of pension in Nigeria, because it was the Year when both the Pension Fund Administrators (PF As) and Pension Asset Custodians (PACs) that were licensed in 2005 by the Federal Government through the National Pension Commission started operation as far as pension reform history is concern in Nigeria. A
leap of pension reform can as well be made from the United Kingdom (U.K) even before year 2004, since there was a single plan covering all universities in the country at the time. This was the Nigerian Universities Joint Superannuation Scheme which was virtually identical to private sector insured provident fund plans (Okafor, 2004: 13). It had a contribution rate of 15 % by universities, which was higher than the total contribution rate generally found in private sector provident fund plans, but lower than that applicable to many plans of statutory corporations and state-owned companies. Apart from the universities contribution, employees were allowed to contribute another five percent of their earnings. A part from the pension Act 1979 and the Pension Reform Act 2004 operational at the Federal level, Statutory retirement benefits at State level, especially in Northern Nigeria is governed by the Pension Act of Northern Nigeria (1978) Cap 90 of Northern Nigeria ordinance (1960), volume V, page 1720 (Elnah, 1996). In fact, Suleiman (2004), also agreed that the new scheme shall save a number of problems, ranging from arbitrary increase in pension rate without corresponding increase in funding, poor record management, lack of input from beneficiaries etc. This study is in consonance with this findings of Suleiman (2004) that Government will reduce the burden of payment of huge amount of money on pensions and gratuities.

**Application of Provisions of the PRA 2004 in Tertiary Institutions**

The accounting practice with regards to pension cost disclosure and funding policies of the various institutions were reviewed according to the specifications of the provisions of the act. In the opinion of Wells(2001), other related party transactions with respect to pension matters in organizations need to be reviewed at regular intervals. Adequate record keeping through a centralized management information system should be maintained and formal report issued to beneficiaries from time to time. Fajingbesi (2004) also agreed with this idea in a similar work carried out on the role of information technology in the administration of pension scheme in Nigeria. This work examined the acceptability and reliability of beneficiaries on the pension plan put in place in the four educational institutions.

**Implications of the Pension Reform Act Oil Employees of Federal and Private Institutions**

The Reform Act has been identified and embedded with some positive and negative implications. In this regard, the following are some implications inherent in the provisions of the act. The potential retirees in the private sector that have lost the sight of pension or retirement benefit have the great pleasure of enjoying some benefits on retirement. This is evidenced by sec. I of the Act; where private sectors with five or more employees are enjoined to embark on this revolutionary innovation. This policy implication is in agreement with the findings of Adegboro & Marie (2005) and also the work of Idowu (2006) whose findings revealed that the new pension scheme was embedded with some positive and negative implications.

The methodology used by the researcher in data collection was survey research as data was collected mainly from primary sources; hypothesis was formulated and tested with an inferential statistic tool called the chi-square test (as applicable in Monga, 2000). The hypothesis to be tested is called the Null Hypothesis and is denoted as Ho. This was tested against other possible options called the alternative hypothesis. The alternative hypothesis is denoted by Hi. The hypothesis was formulated as follows: Ho: Employees did not doubt the contributory pension scheme and therefore accepted it fully.

**Employee Perception of PRA (2004) and their Level of Acceptability**

In identifying the variables of interest to employees which determine their level of acceptance or doubt of the scheme, risk management and investment risk as embedded in PRA (2004) was identified to be the point of concern to employees. Test of this hypothesis was made using primary data collected through the administration of questionnaire, the analysis and results of the square test computations is shown as follows:
Table 1 above shows the responses of the respondents. From these responses, 119 respondents (out of 125) agreed that risk management with intermediaries like PFAs and PAC’s is doubtful to employees. 2 respondents & 4 respondents were disagreed and undecided respectively. This is closely followed by transfer of investment risk to employees made the scheme doubtful and 112 agreed, 10 and 3 respondents were disagreed and undecided respectively. Though the high risk associated with investment as provided under S.73 and S.74 is least in ranking, it is also significant with 11 respondents agreed and 2 & 13 disagreed and undecided respectively. In testing the result further Table 2 presents the chi-square test result.

Table 2: CHI-SQUARE TEST COMPUTATIONS

<table>
<thead>
<tr>
<th>Fo</th>
<th>Fe</th>
<th>(Fo – Fe)</th>
<th>(Fo – Fe)^2</th>
<th>(Fo – Fe)^2/Fe</th>
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<td>6</td>
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<td>-3</td>
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<td>4</td>
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</table>

Total 17.72

Source: Field Survey (2009)

Level of significant is 5%
df = 4
\(X^2 = 17.72\)
Table 2 presents the computed $X^2$ as 17.7 which is more than the critical value 9.488 at 5% level of significant, while the degree of freedom $(k-1)$ is 4. Based on the decision rule, the null hypothesis which states that employees did not doubt the contributory pension scheme and therefore accept the scheme fully is rejected while the alternative hypothesis which states that employees doubted the contributory pension scheme and therefore did not accept it fully is accepted.

On the basis of the above, this study agrees with the findings and conclusion of Itodo, John & Bananda (2007) and Mirchanlurn (2007) which revealed that employees were skeptical and doubtful of the contributory pension scheme. This study further discovered that employees were skeptical and doubtful of the scheme due to the inherent risk associated with the contributory pension scheme, especially the transfer of investment risk from employer to employee, the risk management capability of the PFAs and PACs and so on.

**Conclusion**

In conclusion of this study, the research posits that employees doubted the contributory pension scheme due to the transfer of investment risk from the Government to employees, which is a marked departure from the pay-as-you-go system. Perhaps, the skepticism and doubtfulness may be associated with the absence of any form of insurance cover to safeguard their fund under the contributory pension scheme.

It was also discovered that although employee contribution is made fully, it is due to the mandatory procedure of deducting the contributions at source and not a voluntary exercise. In fact, if it were to be made voluntarily by employees themselves, few or none of them would have been prompt in the payment of their contribution.

**Recommendation**

Based on the conclusion of the study, the researcher wishes to make the following recommendations:

i. The government should put in place an insurance agency to cater for loss or damages arising from investment and management of pension fund. Although the Pencom regulates the activities of PFAs and PACs but it lacks an insurance capacity to cover loss and reimburse employee in case of failures of the PFAs and PACs.

ii. To enhance employee confidence and achieve sincerity of purpose by employees, employer organizations (both public and private) should establish a standing committee to be called Management and Investment Committee. This committee shall hold conference and meetings regularly with their co-workers who shall be exposed to all the critical aspects of the contributory pension plan. This gives them the confidence to support the scheme fully and even contribute voluntarily to the pension scheme.
REFERENCES


