sparc

Political Will and Technical Guidance Fetch High Profits for Jigawa Pensions Agency

Result

The political will for safe guarding the funds, diligent management and technical support provided by DFID/SPARC has led to the realization of a total net asset value of ₦19billion/£76million as of 30th September, 2014.

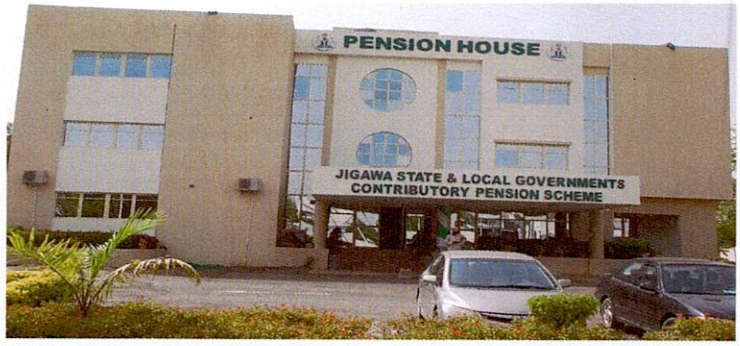
A total net asset value of **₦19billion/£76million** has accrued to the Jigawa State Contributory Pension Scheme as of 30th September, 2014. The announcement was made by the Chair of the Board (Jigawa State Head of Civil Service) at the commissioning of the Pensions House. Alhaji Mustapha Aminu mni went on to site 'political will' for safe guarding the fund, diligent management and technical support from DFID/ State and Local Government Programme (SLGP) and the State Partnership for Accountability, Responsiveness and Capability (SPARC) as the factors which saw to the attainment of the revenues.

Main Scheme Benefits

Benefit	Details
Retirement Age	60 (or 35 years' service)
Pension	30% of pensionable salary for 10 years' then 2% per year
Lump sum (gratuity)	100% of pensionable salary for 5 years' then and 8% per year (maximum of 300%)
Pensionable salary	Basic salary, plus certain allowances, such as housing and transport allowance
Contributions	Employer: 17% of basic salary Employee: 8% of basic salary
Death in service	Gratuity plus 5 years pension
Pension increases	In line with increase in civil service salaries or after every five years whichever is earlier
Early leavers benefits	< 5 years return of contributions plus interest. > 5 years gratuity. > 10 years' service, full pension, payable immediately if older than 45

The Pensions Story (2001- 2014)

The Jigawa State Government initiated a new pension reform initiative in 2001, a distinct Contributory Pensions Scheme. Under the Jigawa Law No. 1 of 2004 and later the reviewed Law No. 1 of 2005, under the contributory arrangement, civil servants are required to contribute 8% of their monthly basic salary, while the State Government contributes 17%.



Jigawa State Pension House

The journey was not smooth at the beginning. Workers were suspicious of the entire scheme - many felt that they were being deceived by their State Government. This suspicion was stamped out in 2003, when the Fund Managers started to forward certificates of contributions for each employee contributor. Suspicions were rekindled after a series of delays in government contributions.

When the scheme matured in 2006 and benefits payments began, renewed trust in the Contributory Pensions Scheme ensued. The coming into force of Pension Act 2004 forced the scheme to replace the Fund Managers with Pension Fund Administrators licensed by National Pension Commission through a rigorous selection process. After appointing the new pension managers, it took a while before the scheme could persuade the former managers to part with the pension assets and transfer them to the new managers.

Being a pioneer government in this type of scheme, the members of the Board of Trustees realised the need for capacity buidling to enable them to perform their job more efficiently. DFID immediately supported the scheme through its State and Local Government Program(SLGP), SPARC's predecesor, by conducting training to build the capacity of the staff. Being a defined benefit scheme, the funding position has to periodically be assessed to determine its (funding) adequacy. SPARC supported the scheme in one such assessment in the years 2009/2010. This guided the Jigawa Pensions Agency towards setting the process in motion in ensuring the funding adequacy of the scheme.

What led to the Successes

- Political backing at the highest level.
- Efficient and effective Board of Trustees.
- Dedicated management.
- Stakeholder consultation and full cooperation of trade unions with State Government.
- Cooperation and support given by the State House of Assembly.
- Support from Donor Agencies – particularly DFID.
- Patient and understanding civil servants.

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Pension at State Government Level

The New Era

At PwC, we aim to help State Pension Schemes… succeed

pwc

www.pwc.com/ng

Being distinctive

'Creating a vibrant pension is one of the cornerstones of a thriving Nigerian economy. Pensions provide long-term capital that is essential for the infrastructure we all need. And workers need the security that comes from knowing their pension belongs to them and is earning a good return to fund retirement. Every State needs to participate in the mandatory pension scheme

Dr. Andrew S. Nevin PhD
Chief Economist
PwC Nigeria

Introduction

Nigeria's pension reform was necessitated by the myriad of problems that plagued Defined Benefit Schemes in the public sector and the varying types of pension schemes that existed within the private sector. The key challenge of the public sector Defined Benefit Scheme was its dependence on budgetary provisions from various tiers of governments for funding which eventually became unsustainable.

In 2004, the Federal Government of Nigeria enacted the Pensions Reform Act (PRA 2004) which introduced the Contributory Pension Scheme (CPS) and made it mandatory for employers and employees in both the public and private sectors to contribute towards the retirement benefits of employees. In 2014, the PRA 2004 was repealed and a new act PRA 2014 was signed into law. This new act has now made it mandatory for state and local governments to implement contributory pension schemes for their employees.

In this document, PwC, a leading professional services firm sets out our understanding of the CPS at state level and how we can help state governments achieve full compliance. It is our view that state governments can no longer ignore the need to implement it even amidst rising recurrent expenditure and the current economic climate. This is because the long term cost savings greatly outweigh the initial implementation costs.

We do hope that this discussion document will stimulate states in the right direction and encourage them to partner with the National Pension Commission as well as relevant stakeholders in the implementation of their contributory pension schemes.

We are happy to discuss this further with you.

Excerpts
The Pension Reform Act 2014

Part II – Establishment of a Contributory Pension Scheme

1. *There is established for any employment in the Federal Republic of Nigeria, a Contributory Pension Scheme (in this Act referred to as "the Scheme") for payment of retirement benefits of employees to whom the Scheme applies under this Act.*

2. *The Scheme established under subsection (1) of this section shall apply to all employees in the Public Service of the Federation, the Federal Capital Territory, States, Local Governments and the Private Sector subject to the provisions of section 5 of this Act.*

PenCom has set out guidelines for the implementation of Contributory Pension Schemes by State Governments...

Contributory Pension Scheme (CPS) Implementation process

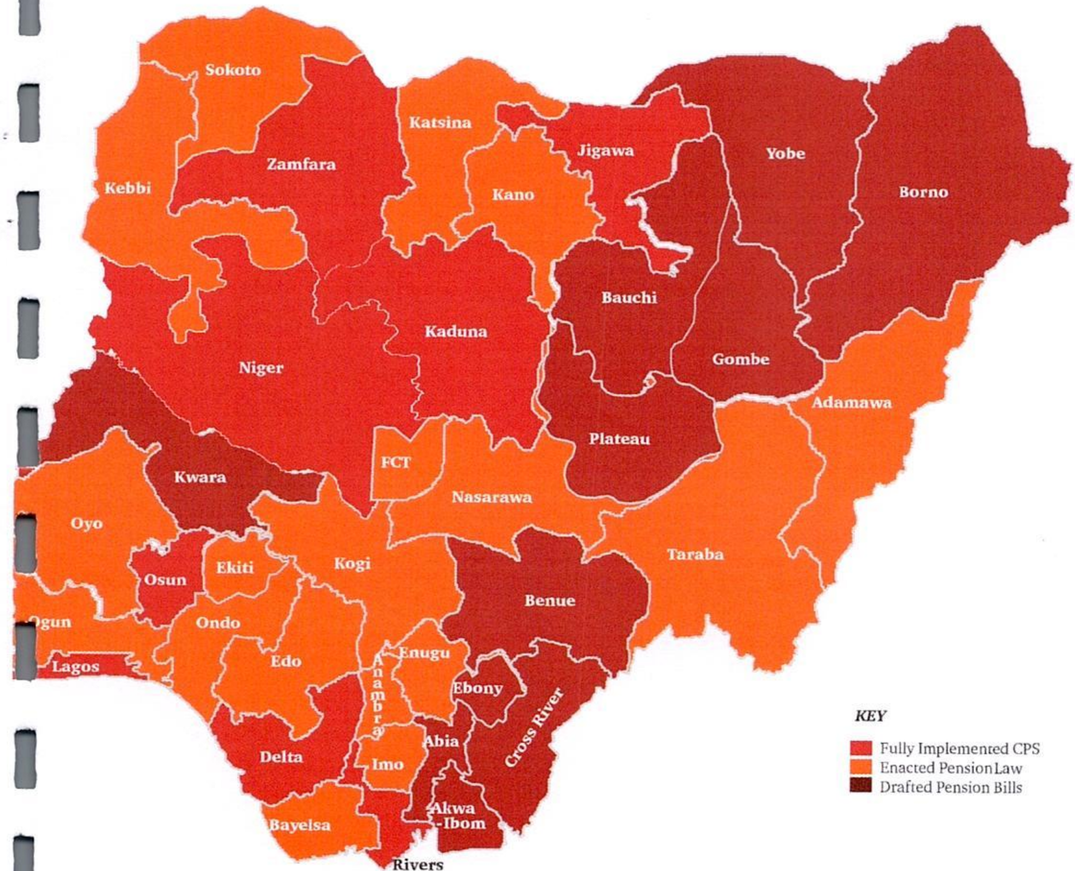
Implementation Stages	Enact Pension Law	Establish Pension Board	Develop Transition Framework	Operate CPS
Responsible Parties	State Legislature; PenCom	State Legislature; State Government	State Pension Board	State Government; State Pension Board
Rationale	The pension law would govern and regulate the administration of the state's pension scheme	The state's pension bureau would drive the implementation of the Contributory Pension Scheme	The transition framework would articulate the State's transitional arrangements with key milestones to be met at different timelines within the CPS journey	State employees would own Retirement Savings Accounts (RSA) with PFAs of choice while State Governments remit monthly employer/employee contributions to these RSAs

tting up a contributory pension scheme would require State Governments to do the following;

1. Enact a Pension Law to conform with the provisions of the Pension Reform Act 2014
2. Establish a Pension Bureau and develop a Transitional Framework
3. Register eligible employees with the National Pensions Commission (PenCom)
4. Obtain employer codes for all its MDAs from PenCom
5. Determine the accrued retirement benefits rights of all its employees and pensioners through actuarial valuations
6. Establish and fund a Retirement Benefit Bond Redemption Fund (RBBRF) with the Central Bank of Nigeria (CBN) or a Pension Fund Administrator (PFA) for the domiciliation and management of accrued rights funds
7. Establish a Group Life Insurance policy for its employees
8. Remit pension contributions and employee accrued retirement benefits rights if any to a PFA of employee choice

ource: PenCom guidelines & circulars

... however, as at 2014, full compliance with the PRA remains low



26 States + FCT — have enacted laws

8 States — have fully implemented the CPS

15 States — are at various stages of roll out

10 States — are yet to enact their pension laws but have drafted their CPS bills.

Two major models of Contributory Pension are currently in operation at the State government level today

1

Contributory Defined Benefits Pension Scheme (CDBS)

Case Study
Jigawa State

Founded: 2001
Contribution Ratio: Employee (8%) : Employer (17%)
Assets under Management: ₦29bn (2015)
Total Contributions : ₦22.8 (2014)
Civil Service Strength: 64,528

Jigawa state has guaranteed its employees a minimum pension on retirement regardless of contributions made over work life

Overview

The Jigawa State pension model is recognised as the pioneer contributory defined benefits pension scheme model in the Nigerian pension landscape. It kicked off in 2001 after the Jigawa state government implemented reforms to its previous defined benefit pension model due to its huge pension deficits, the non-payment of pensioners as well as multiple and fraudulent pensioner records.

The contributory pension scheme in Jigawa has provided an opportunity for the State employees to key into their retirement future. The state government contributes 17% of employees basic salary into the employees retirement savings account while employees contribute 8% of their basic salary. It also has a gestation period of five years before employees can draw benefits from their contributions.

2

Defined Contributory Pension Scheme (CPS)

Case Study
Lagos State

Founded: 2007
Contribution Ratio: Employee (7.5%) : Employer (7.5%)
Assets under Management: ₦Xbn (2015)
Total Contributions : ₦55.6bn (2007-2014)
Civil Service Strength: 45,730 (2013)
Retirees to date: 5773 (2014)

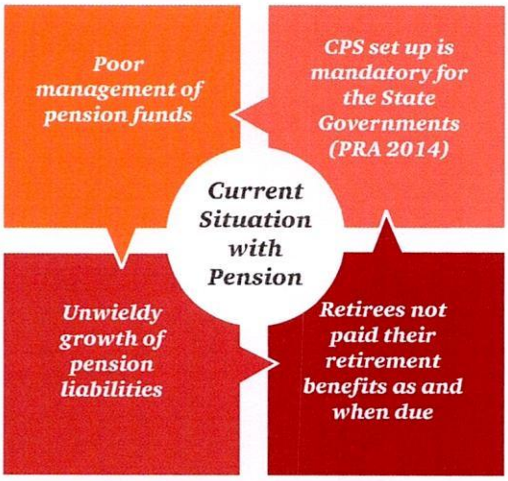
Lagos state's model is tailored after the federal contributory pension scheme

Overview

The Lagos state pension model was enacted in 2004 following the then enactment of the Pension Reform act 2004 (amended 2014) at the Federal level. A pension commission for the state was established and the contributory pension scheme took off fully in 2007. Lagos State government and it's employees have an equal contribution ratio of 7.5% of basic salary, housing and transport allowances. This is however being reviewed by the State House of Assembly in the amendment of it pension reform act.

Employees of the State prior to the enactment of the State pension bill were beneficiaries to pension bonds which upon redemption were transferred into individual RSA's.

Partnering with PenCom and relevant stakeholders is critical in achieving full implementation of the State Pension Schemes



midst the current situation, State Governments can no longer ignore the need to implement a
nsion Scheme for its employees

In addition to complying with the law, State Governments need to take advantage of the various pportunities that abound within the Pension industry to secure the future of its greatest asset – the vil Service – and harness the benefits of implementing a CPS.

ey Benefits to States in implementing the CPS

- **Possible reduction in wage bill:** Workers to be transferred to the new scheme will need to be registered and validated. This would ultimately result in the identification of and elimination of ghost workers and possible reduction of the State's wage bill.
- **Access to funds for capital projects:** States with CPS can float infrastructure bonds to access pension funds that can be used for developmental projects. Plus, a reduced wage bill would free up funds to be utilised in the provision of capital projects.
- **Security of pension funds:** The scheme entrenches the principle of transparency and accountability as reflected in the reporting requirements of the PFAs and PFCs to the contributors and regulatory body
- **Reduced retirement burden to State Governments:** Pension funds would be managed by professionals best qualified to make appropriate investment decisions and as such, funds for pay out to retirees
- **Additional income earned as administration fee:** State & Local Government pension bureaux can earn a maximum of N40 as administration fee per state employee RSA on a monthly basis

At PwC, we have developed a framework through which we assist States achieve full compliance

As the leading advisor and service provider to the Financial Services Industry worldwide, we're ideally placed to assist with the implementation of a CPS, in line with PenCom's requirements, and capitalise on inherent and emerging opportunities within the pension industry.

We promise to deliver:

1. *Clarity of the 'current state'*
2. *Clarity of success requirements*
3. *Clarity of scheme fundamentals*
4. *Clarity of future state*
5. *Clarity of route to success*

PwC State Level CPS Rollout / Transformation Approach

1 Assess & Analyse	2 Design & Construct	3 Implement
State Government Diagnostic	**Review / Draft State Pension Law** **Design Scheme Framework, Model & Road Map**	**Train, Handover & Monitor**
Key Outputs		
State Staff Welfare Scheme Performance Evaluation State Pension Diagnostic Report	• State Pension Reform Act • State Pension Bureau Operational Framework Report • State Pension Transitional Framework • State Pension Liability Funding Plan • High Level Pension Scheme Implementation Plan	• Training Plan & Report • Project Management • Track & Report results

Why PwC is the right partner

Experienced Global Pensions Team
We are able to provide you with highly skilled individuals that are not only experts in understanding the specific local pension constraints, but are also experienced in working together with clients to a single shared project vision and strategy.

Significant Experience in Asset Liability Modelling
We can assist determine pension liabilities within various risk parameters and design investment strategies to mitigate these risks to acceptable levels.

Deep Industry Experience
We have over 40,700 financial services professionals across the globe who are trusted business advisors to Governments, Pension Funds, Banking and Financial Institutions as well as Fortune 500 companies

Consistent, High Quality Delivery
We apply relevant knowledge, lessons learned and insight into how governments have approached similar pension scheme implementation issues and challenges. Our products, services and methodologies are globally consistent, which results in uniform quality and cost-effective advice around the world.

A PwC-led pension transformation project has the potential to:

1. Ensure full compliance with the provisions of the Federal Pension Reform Act as it relates to State Government Contributory Pension Schemes;
2. Provide clear direction and practical recommendations while balancing state government staff welfare goals and objectives;
3. Determine the actual staff strength of State Governments and the actual value of employee accrued retirement benefits rights;
4. Improve state employees and retirees customer service experience via redesigned customer service processes which would establish excellent service delivery and prompt monthly pension payments;
5. Decrease underlying costs and overall expenses by
   - Identifying inefficiencies within current state pension scheme and ascertaining the actual size of state pension liabilities
   - Eliminating redundant pension processing platforms and procedures;
   - Increasing operational efficiencies by (re)designing pension processes and reducing data entry

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