

FAQ on the Pension Reform Act

Q. What is this new Pension Scheme?

A. This new Pension scheme is contributory, fully funded, privately managed, third party custody of the funds and assets and based on individual accounts. It ensures that everyone who has worked receives his/her retirement benefits as and when due.

Q. Who is covered by the new Pension scheme?

A. The new Pension scheme covers all employees in the public service of the federation, the Federal Capital Territory and the private sector of the economy.

Q. Who is exempted from the new Pension Scheme?

A. The existing pensioners, employees who have 3 years or less to retire and the categories covered by the provisions of section 291 of the Constitution of Federal Republic of Nigeria 1999 are exempted from the new Pension Scheme.

Q. Does an Employee who has 3 years and 1 month to retire come under the old scheme or the new scheme?

A. Any employee with more than 3 years to retire comes under the new pension scheme.

Q. Is the new Pension scheme compulsory for all categories of employers and employees covered under the act?

A. The new Pension scheme is mandatory for all categories of employers and employees covered under the Pension Reform Act.

Q. Is the Private sector pension being merged with the public sector?

A. There is no merger of private sector since the sources of funding are not the same. However, both are now being regulated under the same rules and regulations.

Q. What is the main objective of the new Pension scheme?

A. The main objective of the Pension reform is to ensure that every person that worked in either the public or private sector in Nigeria receives his/her retirement benefits as and when due.

Q. How is the new Pension scheme different from the old Pension scheme?

A. Most of the old Pension schemes were not fully funded. Therefore, upon retirement, there were no ready funds to pay the pensioners. The new pension scheme is fully funded. Money is contributed into individual employee's Retirement Scheme Account (RSA) and when he/she retires; there will be money in his/her RSA to pay his pension.

Q. Will private sector pension schemes be allowed to continue?

A. Private sector schemes will be allowed to continue provided there is evidence to show that the pension scheme is fully funded at all times, any shortfall made up within 90 days; pension funds assets are segregated from the assets are held by a licensed Custodian and the scheme is specifically approved by the National Pension Commission.

Q. How much will an employee contribute into the new scheme?

A. An employee shall make monthly contributions of a minimum of 7.5% of the total of his/her monthly emoluments (i.e. monthly basic salary, transport allowance and housing allowance) into his RSA.

Q. Will my employer also contribute?

A. The employer shall contribute a minimum of 7.5% of the employee without making any deduction from the employee's salary except that such contribution by the employer shall not be less than 15% of the monthly emoluments of the employee.

Q. Will the contributions lead to a decrease in my monthly emoluments?

A. Your contributions are just savings out of your emoluments towards your old age and the employer's contribution will only increase such savings.

Q. Are Pension contributions paid to the PFA?

A. Pension contributions are paid directly to the PFC to be held on the order of the PFA.

Q. What does "Fully Funded" Pension scheme mean?

A. A fully funded Pension scheme exists where Pension funds and assets match Pension liabilities at any given time.

- Q. What is a Retirement Savings Account (RSA)?
- A. Every employee or contributor under the new Pension scheme is expected to open RSA in his/her name with a PFA of his/her choice into which all his/her contributions and returns on investment are paid.
- Q. Is the RSA operated like a Bank account?
- A. The RSA is similar to a Bank account except that no contributor can withdraw from the RSA before his/her retirement. The PFA is required to invest the money and issue statements of account at least once every quarter to the contributor.
- Q. How does movement from one employment to another affect Pension?
- A. Movement from one employment to another does not affect pension under the new scheme. The reform has removed the bottleneck associated with the transfer of service from one organization or sector to another, especially with regards to qualification for Pension and the sharing formula for payments of Pension as between employers.
- Q. What is the Pension Reform Act 2004 about?
- A. It is a contributory, fully funded, and privately managed pension scheme that is based on individual accounts. It has been designed to ensure that benefits are paid to all retired workers. Its unique features include a mandatory contribution by employers and employees and the separation of pension administration/management from custody. This separation minimizes the possibility of mismanagement and fraud by operators, as Pension Fund Administrators (PFA) and Pension Fund Custodians (PFC) cannot be related. Furthermore, a new government body (PenCom) has been set up to effectively regulate and supervise all operators in the pension industry.
- Q. What is the tax implication on contributions under the Act?
- A. Contributions under the Act are tax deductible under income tax law for both employers and employees. Also retirement benefit is not taxable.
- Q. Does the New Scheme affect every worker in Nigeria?
- A. No. The Scheme will not affect those with 3 years or less to retirement, judicial officers under section 291 of the Nigerian Constitution and State Government employees. However, the New Scheme affects all other employees in the Federal Public Service, the FCT and the private sector with 5 or more employees. It is however voluntary for other categories of employees.

- Q. What is the difference between a Pension Fund Administrator ("PFA") and a Pension Fund Custodian ("PFC")?
- A. A PFA is a licensed entity responsible for managing and investing pension contributions while the PFC is responsible for holding pension contributions and assets in safe custody in trust for employees and to the order of the PFA. Authorised paid-up capital for a PFA is N150 million whilst a PFC should have a minimum net-worth of N2 billion.
- Q. Can my employer force me to use a PFA of its choice?
- No. You have a right to choose a PFA although responsible employers might offer advice and guidance to their staff.
- Q. When can I access my benefits under the New Scheme?
- A. At age 50 or upon retirement, whichever is later.
- Q. Can I take all my money at once when I retire?
- A. No. A lump sum withdrawal is permitted provided that what is left is sufficient to procure an annuity from a Life Insurance Company or fund a programmed withdrawal that will generate at least 50% of your last salary at retirement on a monthly or quarterly basis for your expected life span. However, for early retirement, a lump sum of 25% of the balance in the RSA is permitted.
- Q. How do I monitor my contributions?
- A. Every employee opens a Retirement Savings Account ("RSA") with a PFA of his/her choice. The PFA is responsible for issuing periodic statements of account showing how much is contributed as well as returns on investment generated from the contributions.
- Q. What happens to my RSA and contributions when I change employers?
- A. Your RSA remains with you for life and a change of employers does not affect your account. However, you will have to notify a new employer of the PFA that manages your RSA with your details and the PFC account number. The new employer will then remit your contributions to your RSA.

- Q. What happens to my contribution when I die?
- A. Your entitlements will be paid to the beneficiary under a will OR to your spouse and children OR in the absence of a wife and child, to your recorded next-of-kin OR any person designated by you during your life time OR in the absence of such designation, to any person appointed by the Probate Registry as the administrator of your estate.
- Q. Can I change PFAs?
- A. Yes. Employees can change PFA once a year.
- Q. Who will pay me when I retire?
- A. The PFA will instruct its PFC to make payments to you upon retirement from your RSA as specified in the Act and on a basis agreed with you under a programmed withdrawal. Under an annuity arrangement, payments will come from the insurance company.
- Q. How much do I get charged by a PFA?
- A. PenCom will regulate fees & tariffs that PFAs can charge for their services and it will be displayed in PFAs offices.
- Q. What is the Government's role?
- A. The Government's role is confined to that of ensuring a successful pension industry by setting up the regulator - National Pension Commission ("PenCom") www.pencom.gov.ng
- Q. What are some of PenCom's functions?
- A. Pencom (The National Pension Commission) has the following functions:
- ❖ Regulate and supervise pension schemes
 - ❖ Formulate, direct and oversee pension affairs in Nigeria
 - ❖ Approve, license and supervise PFAs and PFCs
 - ❖ Maintain National Databank on Pension matters
 - ❖ Receive and investigate complaints against PFAs, PFCs and employers.
- Q. Can I use my RSA as a collateral for a loan?
- A. No. You cannot use your RSA as collateral to obtain a loan.

- Q. How do I protect my contribution from inflation?
- A. The responsibility of choosing a PFA should be taken seriously. The selected PFA should possess requisite investment expertise to achieve reasonable long-term returns on investment without excessive risk.
- Q. What happens to my contributions if my PFA winds up business?
- A. Nothing. The assets are transferred to another PFA.
- Q. What about Nigeria Social Insurance Trust Fund ("NSITF")?
- A. You are no longer compulsory to contribute to NSITF. Previous contributions will be held by NSITF from commencement of the Act. The funds credited to the temporary RSA will remain with the PFA of NSITF for 5 years from the commencement of the Act. Thereafter, each beneficiary is free to transfer these funds to his/her actual RSA with the chosen PFA.
- Q. What ensures the safety of my contributions?
- A. The separation of investment administration and management from custody is global best practice. This minimizes the possibility of mismanagement and fraud by operators, as PFA & PFC cannot be related. Custodians are required to separate pension assets from their own assets to eliminate commingling of funds. Furthermore, PenCom will also effectively regulate and supervise all operators in the pension industry.
- Q. Can organisations with less than 5 people participate?
- A. Yes. But participation is optional for these categories of people.
- Q. What happens when there is a change of government?
- A. The Pension Reform Act 2004 is a legislation passed by the National Assembly and endorsed by the President of the Federal Republic of Nigeria. A change of government should not affect the law unless it is specifically repealed and/or amended by a majority of the members of the National Assembly.
- Q. Can I give my PFA instructions on how to invest my funds?

A. No. The investment decisions are solely made by the PFA under broad guidelines from PenCom. This therefore underscores your need to choose a PFA with an impeccable track record.

Q. What about my gratuity?

A. The Act provides for accrued pension rights of employees determined for or contributed before the commencement of the Act to be accessed based on the terms of the contract of employment before the commencement of the Act. Contributions made after the commencement of the Act will be accessed in accordance with the Act.