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# *Major changes to the existing pension scheme underway*

## The new law will cover more employers and will require all affected employees and employers to pay more.

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The Pension Reform Bill 2013, which seeks to repeal the Pension Reform Act 2004 (as amended) and enact the Pension Reform Act 2013, is currently undergoing legislative process at the National Assembly.

If the Bill is enacted into law in its current form, it will bring about fundamental changes in many ways. The scheme will be applicable to employers with 3 or more employees (currently 5 or more is required); the total rate of contribution will increase from the current 15% of monthly emolument (being 7.5% each by the employer and the employee) to 20% with a minimum of 12% by the employer and a minimum of 8% by the employee.

Perhaps of greatest impact is the base upon which the monthly contribution is calculated. This is known as total emoluments in the proposed law as may be defined in the employee's contract of employment but shall not be less than a total sum of basic salary, housing allowance and transport allowance. Currently, monthly emolument simply means a total sum of basic salary, housing allowance and transport allowance. The implication of the new definition is that all employers and employees will have to pay more. For instance, a company with a salary structure in which basic, housing and transport allowances account for about 50% of the total compensation, the employees may have to make additional contributions of over 100% of their current contributions while for the employer it could be over 200% increase notwithstanding that the headline rates have only been increased by 0.5% and 4.5% respectively for the employee and the employer.

Nigeria with a Gini coefficient of 0.49, according to the World Bank, is one of the most unequal countries in the world. The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income—and everyone else has no income). Although in the real world, a perfect zero or one is impossible, Nigeria's score shows a very high level of inequality (ranked among the top thirty) given that the world's most unequal country as of the reference period (2010) has a Gini coefficient of 0.66. It is instructive to note that this statistics excludes the black market economy which means if incomes from illicit trade and corruption were to be considered then Nigeria will most probably be in the top ten.

Anything that increases the cost of employment has the risk of further increasing the inequality as employers will have to take very hard and painful but necessary decision to lay-off some of their staff in order for their total staff cost to remain affordable. Hence, those who are unfortunate to be laid off will become poorer while those who are fortunate to keep their jobs will become richer.

My elementary economics tells me that when people save more (which is good on one hand), they have less disposable income (which may not be so good) for economic growth especially if the savings have not been productively invested to more than offset the impact of the lower disposable income. If labour is cheap, or at least affordable, and we address the other factors of production, then Nigeria will be better able to attract manufacturing jobs which can help leapfrog the economy, reduce unemployment and create more middle class. This has been a major factor for the Chinese economy so one wonders why Nigeria is not the China of Africa.
In the past two years alone, there have been a number of new laws adding to the cost of employment. Notable of these are the introduction of employee compensation scheme and the changes to the Industrial Training Fund to cover more employers and ironically reducing the percentage of refunds that employers can obtain.

There is the tendency to always focus on a few listed companies and multinationals when making laws that affect employment and thereby erroneously concluding that employers have the ability to pay more. Unfortunately there are only a handful of such employers with less than 300 listed companies and about the same number of unlisted multinationals out of over one million companies registered with the Corporate Affairs Commission. Even if we assume, albeit wrongly, that the 600 or so big companies can afford the additional employment cost, they in fact constitute less than 1% of the total number of companies. This is aside from enterprises and other organisations that are unincorporated but still have to comply as employers. It is an established fact that small and medium scale enterprises are the largest employer of labour anywhere in the world. Therefore a logical approach would be to see any labour related reforms from the eyes of this larger group.

Similarly in the public sector, many states and local governments are already groaning on the basis that they are currently spending an unsustainable portion of their revenue on recurrent expenditure which is predominantly salaries. They give this as one of the key reasons why they are unable to provide infrastructure and other social amenities. Increasing the cost of their existing workforce appears counter intuitive.

In other climes, even in places where social security covers free education and free healthcare such as Norway, which incidentally is one of the most equal countries in the world, the combined contribution is about 20%. If the proposal is passed into law, the compulsory rate of pension contribution in Nigeria will be one of the highest in Africa ahead of Ghana, South Africa, Kenya, Mauritius, Angola and other jurisdictions competing for investment especially labour intensive manufacturing on the continent. This will make Nigeria more uncompetitive. Do not get me wrong, it is good to save for retirement but it has to be gradual, measured and deliberate to fit into a bigger economic strategy for long term growth

Up to the year 2000 the combined pension contribution rate was 7.5% subject to a maximum limit of N3,600 per annum. This was increased to 10% in 2001 and a maximum contribution of N52,800 per annum until 2004 with the introduction of the Pension Reform Act which requires a combined rate of 15% without any limit as to amount. These together with other reforms such as private sector custodians and administrators have made the scheme to be successful. We have moved successfully from the days when the meager contributions were managed by government and when majority of people retired without getting any benefits from the scheme. For all intents and purposes, the contribution was a tax. On the contrary, under the new scheme since 2004, the total value of pension assets is reported to be in excess of N3.2 trillion.

In my view, the new law should focus on how to address the thorny issues that have plagued the existing scheme including how to prevent pension scam, getting more employers to comply, providing clarity regarding coverage of expatriate staff, and how best to channel the pool of fund for productive investments in key areas.

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