PENSION ADMINISTRATION IN NIGERIA AND GERMANY: A COMPARATIVE ANALYSIS

[1]IMUETINYAN, S. O., PhD, [2]OGIEVA, O. L., PhD, & [3]ENABUNENE, O. I PhD

[1]Department of Public Administration, Edo State Polytechnic, Usen.
[2]Department of Political Science Igbinedion University, Okada.
&
[3]Department of Political Science and Public Administration
Edo University, Iyamho

Author's Correspondence: *sophiaimuetinyan@gmail.com; lawrenceogievaokunbor@gmail.com; Osazeeisrael7@gmail.com ; 08073704529, 08028917697, 08054840332*

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ABSTRACT

This study conducts a comparative analysis of public sector pension administration in Nigeria and Germany, employing a Most Different Systems Design (MDSD) approach. The research aims to identify similarities and differences in the pension systems of these two distinct political economies, focusing on constitutional provisions, institutional frameworks, financing mechanisms, and perceived beneficiary satisfaction. Utilizing secondary data sources, the study adopts the productivity theory of pension, which posits that pension schemes serve as both an insurance mechanism for retirees and an incentive for workforce productivity. The findings reveal that both countries utilize contributory pension systems, with variations in contribution rates and benefit structures. However, both systems face challenges related to long-term financial sustainability, often exacerbated by political influences. The study recommends among others strengthening the regulatory capacity of pension administration to ensure and protect pension funds and greater transparency in pension funds management and investment to build public trust.

INTRODUCTION

Pension systems are critical components of public sector human resource management, designed to provide financial security for retired employees and motivate current workers (Davis 2015). The increasing size of public sector pension funds and the complexities of their administration have drawn global attention to the need for effective and sustainable pension policies (Sogunle, 2011). This paper presents a comparative analysis of public sector pension administration in Nigeria and Germany, two countries with distinct political and economic contexts, yet with shared features in their contributory pension systems. The study aims to examine the constitutional, institutional, and ethical dimensions of pension administration in these countries, as well as to assess beneficiary satisfaction. Since pension is a major policy initiative offered by various countries to ageing population as a result of failing old – age security arrangements, maintaining old age, disability or survivor's pension as well as other arrangements of the same kind make up the most important part of what government owe their working populace. One index of a functioning society is how it cares for the elderly and of the basic structures which modern society puts in place to weather the storm of old age among public servants is the pension scheme of which various types exist and countries key into specific type based on their choice and economic structure

(Oloja,2011). The type of socio- political and economic structure of a country is the major determinant of the type of pension scheme operational in that nation. Most nations adopt the pension scheme that can be easily funded, managed and administered with minimum flaws. Failures of several types of pension schemes in many countries had led to the emergence of several pension policies and reforms. For instance, in Nigeria, Pension Act 102 of 1979 established the Non-Contributory Pension Scheme. The Non-Contributory Pension Scheme witnessed several systemic and administrative flaws. This led to the introduction of the 2004 Pension Reform Act. The 2004 Pension Reform Act is a contributory pension plan that was further reviewed in 2014 (Samuel & Ajibose 2021). In view of the variations in the pension schemes of various countries, The research is motivated by the global challenges facing public sector pension systems, including escalating costs, demographic shifts, economic crises, and corruption. These factors threaten the long-term sustainability of pension schemes, particularly in developing economies. This research seeks to provide insight into the strengths and weaknesses of pension administration in the public sector in Nigeria and Germany. This study affords the opportunity of appraising Nigeria's contributory pension scheme in comparison to those of other nations, especially the German pension system.

LITERATURE REVIEW

Pensions are defined as regular payments to retired employees, intended to ensure their financial well-being and that of their dependents (Nyong & Duze, 2011; Gbitse, 2008). They serve as a form of deferred compensation and a mechanism for income redistribution (Diamond, 1996). According to Gbitse (2008), pension represents regular payment to a former employee following the persons retirement from active working life to ensure the well-being of the retiree and that of his/her dependents. Pension benefit may take the form of a lump sum, also known as gratuity or periodic payment made at stipulated periods. To further explain its importance, Ayegba, et al (2013), view pension as a way of being responsible for the welfare of the retirees. Anyafo (2000) defines it as a periodic payment or allowance to an individual or his family given because of some meritorious work or when certain conditions such as age, length of service, desired degree of contributions, etc, have been met. Diamond (1996: 116), however, insists that pension is a device for dividing business output between workers and pensioners. While it could be true that workers and pensioners share in business outputs, care must be taken to avoid giving an impression that only these two parties partake of business profits. As can be deduced from the above definitions pension has been explained to mean regular payments made in connection with past formal employment and changing circumstances in the socio-economic and political realities of nations often subject pension administration to changes or reforms that suit prevailing circumstance. Global trends indicate a need for pension reform to address issues of financial sustainability and adequacy (Nweke, 2015). Reform efforts aim to improve the efficiency and effectiveness of pension systems, ensuring their long-term viability (Edogbanya, 2013). Beyond providing retirement income, pensions contribute to financial intermediation and economic development (Fashagba & Dunmade, 2019; Akowe et al., 2015). They also serve as a social insurance mechanism, redistributing resources and promoting savings (Modigliani & Muralidhar, 2004).). A pension serves as a medium for saving towards future income when the employee's normal life can no longer be sustained. The secondary roles of a pension are derived from the pension funds created by saving towards a pension payment (Fashagba &Dunmade, 2019). The roles include, among other things, financial inter-mediation and economic development. Several studies on the relationship between economic growth and pension funds have shown that pension funds have a positive impact on economic growth (Akowe et al, 2015; Farayibi, 2016).

First, Social Insurance is particularly valid for public systems. It is equivalent to undertaking a social obligation to ensure that all citizens, especially the old, have the requisite resources to meet their basic needs thus insuring them against disability, longevity, insolvency, inflation and investment risks.

Second, Pension Schemes could serve as a re-distribution mechanism for transferring resources from the "rich" to the "poorer" segments of society that cannot afford to accumulate adequate reserves.

Third, pension schemes enable the accumulation of savings at the macro and micro level. As economic theory postulates, countries need savings for capital formation, and individuals need savings to support themselves in the non-earning phase of their lives (Modigliani & Muralidhar, 2004).Pension funds can influence economic growth by reducing the cost of capital and providing funds for investment (Davis, 2015; Tirimba, 2013).

THEORETICAL FRAMEWORK

This study adopts the productivity theory of pension, which emphasizes the dual role of pensions as an insurance mechanism (demand side) and an incentive for workforce productivity (supply side) .The demand side highlights the preference of employees for pension savings over immediate cash payments, due to tax benefits and retirement security. The supply side suggests that employers use pension schemes to enhance employee motivation and reduce labor costs (Samuel & Ajibose, 2019, Samuel & Ajibose 2021). By applying the productivity theory to pension administration in Nigeria, pension administrators may involve strengthening regulatory oversight, enhancing transparency and expanding coverage while pension administrators in Germany may be able to address the challenges of an aging population and ensuring the long-term sustainability in pension administration in Germany. This theory will also enable pension administrators to assess how efficiently pension funds are managed. It is believe that delay, mismanagement or lack of transparency can create anxiety among workers which can affect their productivity of public servants in Nigeria and Germany. The productivity theory can provide valuable insight into how pension system contributes to workforce productivity in Nigeria and Germany and informed policy decision at optimizing the effectiveness of pension administration in both country under study.

METHODOLOGY

This study employs a qualitative research approach, utilizing secondary data analysis. Data were collected from various sources, including academic journals, reports from international organizations (UNESCO, UNICEF, UNFPA), government publications, and reputable news outlets. This approach allows for a comprehensive examination of the issue, drawing on existing research and statistical data to provide a nuanced understanding of the challenges and potential solutions.

PENSION ADMINISTRATION IN THE PUBLIC SECTOR IN NIGERIA

Before 2004, Nigeria was holistically operating the PAYE system. The Act 102 of 1979 established the PAYE system. In this process, employers of labour bear the complete burden of pension. Prior to the enactment of the Pension Reform Act 2004, Pension schemes in Nigeria had been bedeviled with many problems. The public operated an unfunded Defined Benefit Scheme and the payment of retirement benefits were budgeted annually. The annual budgetary allocation for pension was often one of the most vulnerable items in the budget implementation in the light of resource constraints. In many cases, even where budgetary provisions were made, inadequate and untimely release of funds resulted in delays and accumulation of areas of payment of pension rights. It was obvious therefore, that Defined Benefits could not be sustained.

Between 1979 and 2004, several reports on pension in Nigeria affirm the fact that the PAYE scheme was associated with flaws. These flaws made it lose credibility, hence the introduction of the 2004 Pension Reform Act.

The 2004 Pension Reform Act was the product of the National Assembly of the Federal Republic of Nigeria and provides for the establishment of a contributory pension scheme for any employment in the Federal Republic of Nigeria. It stipulates the payment of retirement benefit to employees to whom the scheme applies, which comprises every public sector employee and private sector employees in a firm with staff strength in excess of five employees (Ime & Mfon, 2014). The Act also establishes the National Pension Commission (PENCOM), whose duties include: to regulate, supervise and ensure the effective administration of pension matters in Nigeria; to approve, license and supervise the administration of pension funds by appropriate pension administrators; and to establish standards, rules and issuance of guidelines for the management and investment of pension funds in Nigeria (PENCOM, 2004).

The Act further provides that pension funds would be administered and managed only by Pension Fund Administrators (PFAs) licensed under the Act. In their course of administration, the PFAs would: open retirement savings account for their client; invest and manage pension funds and assets in accordance with the provisions of the Act; maintain books of account relating to pension funds managed by it alongside providing regular information on investment strategy, returns and other performance indicators to the Commission and employees. However, the Act stipulates that pension funds and assets are to be held solely in custody for the PFA by an independent Pension Fund Custodian (PFC), whose responsibility includes the receipt of total contribution remitted by the employer within 24hours, notify of PFA of same and retain the pension assets in safe custody on trust for the employee and beneficiaries of the retirement savings account (PENCOM, 2004; Sogunle, 2011). The PFC provides some control over the activities of the PFA and provides a hedge against unauthorized access or trading. On the contrary, they are prevented from utilizing any pension fund assets in its custody to meet its own financial challenges or that of a third party. Section 9 of the Act provides the rate of employers and employees contribution to the scheme. In the case of the civil servant, a minimum of seven and half per cent (7½%) contribution of worker's salary should be made monthly by their employers (government) while a minimum of seven and half per cent (7½%) of their monthly salaries is made by the employees (civil servants). By the provisions of this Act, the contributions of the military differ from that of the civil servants. While the military employers (government) contribute 12.5% of employee's monthly salaries, the employees contribute 2.5%. It is also the responsibility of employees to make choice of their Pension Fund Administrator. When this choice is made, each employee is mandated to open a mandatory retirement savings account with the administrator. This is subject to be transferred from one Pension Fund Administrator to another on the decision of the employee.

The Act provides the establishment and composition of a body called the National Pension Commission. The commission is charged with the responsibility of regulating, supervising and ensuring effective administration of pension matters in Nigeria. In the case of any fraud in the management of pension funds, the Act requires the Pension Fund Administrator or Custodian to report it to the commission. This can be done on monthly basis (Pension Reform Act 2004).

Several issues faulted the 2004 Pension Reform Act. This gave rise to the emergence of the Pension Reform Act of 2014. 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 accruing to pension fund assets, which were not addressed by the Pension Reform Act 2004. Consequently, the Pension Reform Act 2014 has created new offenses and provided for stiffer penalties that will serve as deterrent against mismanagement or diversion of pension funds' assets under any guise. Thus, operators who mismanage pension fund 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.

PENSION ADMINISTRATION IN THE PUBLIC SECTOR IN GERMANY

The German pension system is connected with the name Bismarck. Although it has changed a great deal since its establishment more than 100 years ago, some of its elements still resemble the 1889 version. The changes within the German pension system, which was originally organized as an investment-based fully funded system, were mostly results of political developments. The most drastic changes occurred after World War II: Because most of the capital stock in Germany was destroyed in the war, a way to provide income to the elderly was needed, and the only solution was to establish a pay-as-you-go (PAYGO) pension system (Rürup, 2002). Between 1945 and 1957, the German pension system was still organized as an investment-based fully funded system, which could not be sustained because of a lack of physical assets in the German economy. In 1957 the fully funded system was replaced by an Abschnittsdeckungsverfahren, which is a special type of a PAYGO system. In 1969, the entire system in West Germany was replaced by a completely PAYGO-financed system. In the East, the flat-rate pension system installed in 1949 remained in place.

Since 1957, when the calculation of benefits was linked to gross wages, the system basically has worked well. No serious problems occurred until the end of the 1980s. Thus, the pension reform of 1992 was the first major intervention into the pension system since 1957. It was passed by all political parties in the German parliament in 1989 and took effect in 1992. In between its passage and its enactment, however, a drastic political change occurred in Germany in the form of reunification. When the West German pension system was extended to East Germany, many problems occurred. In addition to demographic changes, these problems made further reform necessary. In 1997, the Minister of Social Affairs, Norbert Blu¨m of the Christian Democratic Party (CDU), designed the pension reform for 1999. After the 1998 election, however, the main governing party changed from the CDU to the Social Democratic Party; as a result, the main parts of the 1999 pension reform were abolished (Rürup, 2002).

The statutory first pillar of the German pension system operates on a pay-as-you-go scheme. Up to the year 2008, the revenue side of the public pension insurance benefited greatly from the strong decline in both cyclical and structural unemployment in Germany. Decline of the latter seems to be associated with major reforms of the social welfare system targeting the long-term unemployed, which generated a growing number of jobs subject to Social Security. In addition, revenue grew because of a slight lift of the contribution rate to 19.9 percent of gross wages.

At the same time, pension expenditure growth has been very moderate for several years. Two driving forces are behind this development. First, the low growth in (average) wage earnings, a key source of Germany's new employment success, immediately translated into low pension increases. This effect comes from wage indexation built into the statutory formula used for annual uprating of pensions. Second, moderating factors that were amended to the pension adjustment formula in order to achieve a lower replacement rate (the ratio of pension and wage levels) began to make an effect. Individual pensions in gross nominal terms thus were effectively frozen in some years. Total individual pension growth over the period 2005-2008 translates into a per annum rate of only 0.41 per cent. As a result of improving revenues and moderate expenditure growth, the public pension insurance scheme had managed to rebuild its reserves for cushioning short-term fluctuations when the global financial crisis set in. This fund almost had been exhausted two years before.

The path to sustainable public pension finances in Germany was laid through a radical change in the paradigm of pension provision which, tolerating a certain degree of simplification, might best be characterized as a move to a defined contributions scheme. In a defined contribution scheme, pension levels adjust endogenously to follow revenue, at least up to the point that the income provided through Social Security does not fall below a minimum standard. Before, the public pension pillar in Germany basically had in place a defined benefit scheme with contribution rates following defined expenditure needs. Up to the turn of the last century, pensions were indexed such as to guarantee a replacement rate, of roughly 70 per cent in terms of net wages, or roughly 48 percent in terms of gross wages. But the pension reform of 2001 for the first time introduced contribution rate ceilings (20 per cent up to 2020, and 22 per cent up to 2030). In order to achieve these goals, the reform launched moderate changes in the pension indexation formula that serves to link annual changes in pension levels to annual changes in wage levels. Although the adjustment soon was revealed as too soft for staying within the contribution rate limits, the attempt clearly prepared the gradual transition to a defined contribution scheme.

Pension Administration in the Public Sector of Nigeria and Germany in Comparative Perspective

Comparing Variable	Nigeria	Germany
Statutory coverage of pension schemes	contributory pension scheme is mandatory for all employees in the public service at all levels. As well as the private sector.	contributory pension scheme is mandatory for all employees in the public service at all levels. As well as the private sector.
Pension Financing	Pension administration is jointly financed through the contributions of employers and employees. The employer's contribution is 10% and employees contribute 8% of workers monthly basic salaries. For the military, employees only contribute 2.5% while employers contribute 12.5% of workers' monthly basic salaries. There are no minimum or maximum amounts paid. The overall pension payment for which a person is eligible is calculated by the number of years of	State pension system in Germany is financed through the contributions of current employees, which finance current pensioners. In the event of under-funding, additional contributions are made by the state, financed through general taxes. In general, contributions are borne by the employee and the employer, with each paying 50 per cent. The state pension provides for benefits upon reaching the statutory pension age, a (partial) reduction in

	contributions to the state pension system, age and average income.	earning capacity and death.
Taxation	both contributions and pension benefits are taxed.	pension benefits are tax free.
Insurance	pension schemes are guaranteed through insurance; hence they have solid financial security.	pension schemes are guaranteed through insurance; hence they have solid financial security.
Maturity of full benefits	full benefits is due at retirement age of 60 or at disengagement after 35 years of active service (judges and members of the Armed Forces are exempted)	statutory age threshold for drawing full benefits is 67 years

CONCLUSION AND RECOMMENDATIONS

This comparative analysis demonstrates the complexities of public sector pension administration and the challenges faced by both developed and developing economies. The study highlights the importance of robust institutional frameworks, transparent financing mechanisms, and effective regulatory oversight. Future research should focus on empirical assessments of beneficiary satisfaction and the long-term economic impacts of pension reforms in both countries. This study therefore recommends that:

Increase public awareness campaign about the benefits of contributing pension scheme for public servants in both the developed and developing countries.

A critical focus on extending pension coverage for public servants in Nigeria and Germany.

Strengthening the regulatory capacity of pension administration to ensure and protect pension funds.

Greater transparency in pension funds management and investment to build public trust.

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