NATIONAL PENSION COMMISSION

Plot 174, Adetokunbo Ademola Crescent, Wuse II
PMB 5170 www.pencom.gov.ng

UNDERSTANDING THE ADMINISTRATION OF RETIREMENT BENEFITS UNDER THE CONTRIBUTORY PENSION SCHEME: PART 1

Pension is an arrangement to provide income to employees when they are no longer earning a regular income from a gainful employment. It is different from severance pay or gratuity, which are paid in one lump sum.

Under the Contributory Pension Scheme (CPS), pension is paid either through Programmed Withdrawal (PW) or Life Annuity (LA) by virtue of section 7 (1) (a) of the Pension Reform Act (PRA) 2014. While, PW is provided by the Pension Fund Administrators (PFAs), the LA is provided by Insurance Companies. In both cases, a retiree is entitled to a lump sum and a regular monthly/quarterly pension.

Section 7 (1) (b) of the PRA 2014 provides that Programmed Monthly or Quarterly Withdrawals are calculated on the basis of an expected life span, which is determined using Mortality Tables. It is important to note that the expected life span is purely determined by the age and gender of the retiree and thus not the same for every individual. Hence, the lump sum and the periodic pension could be different for any two retirees.

The amount that can be withdrawn as lump sum is usually determined by balance in the Retirement Savings Account (RSA) such that after the withdrawal, the amount left shall be sufficient to procure a PW or LA in accordance with the extant guidelines issued by the National Pension Commission. Currently, the monthly pension is at least 50% of the last monthly emolument of the retiree.

It is against this backdrop that payment of lump sum, which would result in distorting the provision for 50% of the last emolument of the retiree is not allowed. It should be noted that one of the objectives of the CPS is to assist improvident individuals by ensuring that they have enough savings in order to cater for their livelihood during old age.

SIGNED:
MANAGEMENT