

PensionTalk™

Frequently Asked Questions
(FAQs)

About
The Contributory Pension Scheme
(CPS)

Q1: *What do I need to have to open a Retirement Savings Account (RSA)?*

A: Basically, the CPS is open to everyone engaged in either paid employment (public and formal private sector) or self-employment (informal private sector).

To open an RSA account, you will approach a licensed Pension Fund Administrator (PFA) who will give you an RSA form to fill. This will contain your general bio-data and information about your employer/employment. That is all you need to do. Subsequently, the PFA will get back to you through the information you have provided to give you your unique RSA PIN number which is issued only once to a person by the National Pension Commission (PenCom).

Q2: *How long am I supposed to have worked in order to have my RSA opened?*

A: If you are in paid employment, you are supposed to open your RSA within six (6) months of joining the paid employment. For a self-employed individual or those in the informal sector covered under the Micro Pension Plan, there is no time limit but it is advisable to join early so that one can save enough to enjoy a robust pension at retirement.

Q3: *Can my employer force a PFA on me?*

A: No. If you just joined a paid employment, you are supposed to approach a PFA of your choice to open your RSA within six months of joining. However, after six months of being in an employment and the employee failed to open an RSA with any PFA, the employer is then empowered by Section 11(5) of the PRA 2014 to open an RSA for the employee at any PFA.

Q4: *What is the percentage of pension contribution that can be deducted from my emoluments every month?*

A: The employer is to contribute 10% minimum while the employee is to contribute 8% maximum of monthly emoluments which is usually termed as the Basic salary, housing allowance and transport allowance. However, if the employer opts to bear the full responsibility of the pension contribution on behalf of the employee, then the employer MUST contribute at least 20% of total monthly emoluments.

Q5: *Who is supposed to participate in the new Contributory Pension Scheme?*

A: The new CPS applies to all employees of the Public service of the Federation, the Federal Capital Territory, States, Local Governments and the Private sector(S2(1)).

However, the scheme is not applicable to the following set of people – Members of the armed forces, the intelligence and secret service of the Federation and any employee who is entitled to retirement benefits under any pension scheme before the 25th day of June 2004 when the new scheme started and has 3 or less years to retire (S5(1)). Nonetheless, the administration of the exempted employees shall be subject to the supervision and regulation of PenCom S6(1).

Q6: *I am in the private sector. What is the minimum number of employees that I must employ in order to be part of the CPS?*

A: In the private sector, once the company/business has up to 15 employees, participation in the CPS becomes compulsory under the PRA 2014. However, for businesses employing lesser number of employees (i.e. less than 15) their participation is guided by guidelines to be issued by PenCom from time to time and this is now known as the Micro Pension Plan (MPP).

Q7: *Can I have access to my pension contribution before retirement?*

A: Yes. But this is subject to a maximum of 25% when the following conditions are met:

- That you have lost your job or voluntarily disengaged and you are unable to secure another employment within **4 months** or:
- That you have voluntarily retired, disengaged/resigned or disengaged from employment on the advice of a suitably qualified medical board certifying that you are no longer suitable either mentally or physically to continue doing the job or due to permanent/total disability either to mind or body or before the age of 50 years in accordance with the terms and conditions of your employment.

Q8: *When am I legally entitled to my pension under the new pension scheme?*

A: This is upon retirement or attaining the age of 50 years, whichever is later S7(1).

Q9: *What are the various pension payment options available to me when I retire?*

A: The various pension payment options available upon retirement include the following S7(1):

- Lump sum payments – represents the payment of a lump amount to the retiree from his/her RSA balance provided the balance shall be sufficient to procure a programmed withdrawal or annuity for life from an Insurance company
- Programmed withdrawal – this the monthly or quarterly pension payments to retired employee from his/her RSA account maintained with the PFA calculated on the basis of an expected life span.
- Annuity for life – this is a product offered by registered Insurance companies making monthly or quarterly fixed payments to retirees in line with the guidelines jointly issued by National Insurance Commission(NAICOM) and PenCom.
- Others – these include **Professors** covered by the Universities (Miscellaneous Provisions (Amendment) Act 2012) shall be according the University Act: **other categories of employees** are as entitled by virtue of their terms and conditions of employment to receive their pension payments/benefits accordingly.

Q10: *Do I pay tax on my pension benefits?*

A: No. All amount payable as retirement benefits under the new CPS are not taxable.

Q11: *What of those of us in the private sector who already have in place a pension scheme before the commencement of the new CPS. What will happen to our scheme now that we have the CPS?*

A: The existing pension scheme remains. This is however subject to some conditions which include according to S50 –

- The employer shall undertake to the Commission of his continued funding of the scheme at all times while making up for any shortfall in funding within 90 days if there is any and yearly actuarial valuation of the scheme.
- All investments in assets shall be subject to the regulation of the Commission
- If the scheme is a defined contribution scheme, then the employee portion of contribution shall be transferred to an RSA opened with a PFA.
- The pension funds shall be separated from the assets of the company
- The pension funds and assets shall be held by a pension fund custodian
- Every employee in the scheme who wishes to join the CPS will be free to join while his attributable contributions and transfer to the employee PFA.
- No new employee would be allowed to join the existing scheme. Rather they will have to open an RSA with a PFA of their choice.

Q12: *Who are those responsible for the management of my pension fund under the CPS?*

A: The new CPS are administered by the Pension Fund Administrators (PFAs) or Closed Pension Fund Administrators (CPFAs) who invest and manage all pension funds assets in accordance with the provision of the Act while the Pension Fund Custodians (PFCs) hold in custody these pension funds assets on behalf of the PFAs/CPFAs. The overall regulator is the National Pension Commission (PenCom) who oversees, issues guidelines and supervises the operations of the PFA/CPFAs and PFCs.

Q13: *What types of investments are the pension funds invested into?*

A: The PFAs who administer the pension funds assets are licensed to invest in various types of investments that will add value to the pension funds only. The Act prescribed the following types of investment of pension fund by the PFAs either local or foreign (S86 and S87)

- Government Bonds (Federal, State and Local government)
- Treasury Bills
- Debt instruments issued by corporate entities and listed on a Stock exchange registered under the Investment and Securities Act (ISA)

- Ordinary shares of PLCs listed on the securities exchange registered under the ISA
- Bank deposits and bank securities e.g. Fixed deposits, Bankers Acceptances
- Open end and close end Funds and Hybrid Funds listed on a securities exchange registered under the ISA
- Real estate
- Specialist investment funds
- Such other financial instruments as the Commission may approve from time to time

Q14: *Can I use my RSA balance as collateral for loan?*

A: Subject to guideline issued by PenCom, the holder of an RSA can use part of his/her pension assets as equity contribution towards payment of residential mortgage (S89(2)).

Q15: *My employer has failed to remit my pension contributions after deducting from my salary. What is the consequence?*

A: All pension contributions are supposed to be remitted 7 working days after deduction from the employee to the employees' PFA. If the employer fails to remit such deduction then the employer would be liable to pay a penalty on such contribution for the period such remain unremitting. The penalty along with the outstanding pension belongs to the employee and such would be paid to the employees RSA account.

Q16: *Can I make additional contribution into my RSA?*

A: Yes you can. This is what is called Voluntary Contributions or Additional Voluntary Contribution. The maximum you can however contribute is one third of your monthly pay.

Q17: *I am about to retire from my employment, what should I do to receive my monthly pension at retirement?*

A: Once it is a few months before your retirement, you should notify your PFA. Your PFA will in turn tell you what is required for you to begin the seamless processing of your retirement pension benefits.

Q18: *What is the Multi Fund structure all about?*

A: The Multi-Fund Structure is an initiative introduced by PenCom to split categories of pension contributors into different levels taking into consideration their averseness to risk and investment choices. It is divided into Funds I, II, III, IV, V and more recently Fund VI, with Fund I being more risky because of the high level of investment in Equity instrument. The riskier Fund also has potential of earning higher returns on occasions when the market is favourable. Fund IV is the known as the Retiree Fund while Fund V is the Micro Pension Fund and Fund VI is the non-interest fund or ethical fund.

Q19: *How Does the Federal Government Remits the Pension Contributions of its Employees into their RSAs?*

A: The Pension contributions of the Federal Government employees or employees of Treasury Funded Ministries, Departments and Agencies (MDAs) are deducted at source and lodged into a Contributory Pension Account with the CBN. PenCom then computes the pension contributions and advises the CBN to credit the contributions directly to the respective PFCs. But Federal Government employees who are already on the Integrated Payroll and Personnel Information System (IPPIS), the Office of the Accountant General of the Federation (OAGF) remits their contribution to their respective PFCs.

Q20: *How Does Movement from One Employment to Another Affect Pension Contribution?*

A: Movement from one employment to another does not affect pension under the CPS. Upon change in employment, the employee is only required to give the new employer his/her existing RSA account details (RSA PIN) into which payment of subsequent monthly pension contributions would be made.

Q21: *What Happens to My Pension if I Retired Prior to the Introduction of the Contributory Pension Scheme in June 2004?*

A: FGN employees who retired before 30 June 2004 and those who had 3 years or less to retire as at 30 June, 2004 were covered by the Old Defined Benefit Scheme (DBS). The Pension Transitional Arrangements Directorate (PTAD) was established to handle all payments of pensions to these set of beneficiaries. In the case of the Private Sector, the terms and conditions upon which the employees retired would apply for the payment of their retirement benefits.

Q22: *What Happens to the Pension benefits of a missing employee?*

A: If a missing employee is not found within a period of one year and the Board of enquiry set up by PenCom concludes that it is reasonable to presume that the employee is dead, the benefits of such employee would be paid in bulk to the Executor or the Administrator of the estate of such employee (S9).

Q23: *Where a Company has a Closed Pension Fund Administrator (CPFA), is it Mandatory for all Employees to Join the Existing Scheme?*

A: Existing employees of a company that operates a CPFA may remain covered by the CPFA or join the new CPS by choosing any PFA of their choice. However, all new employees of such company must join the CPS by opening RSAs with PFAs of their choice.

Q24: *Can an Employee Have Two Accounts in Two or More Different PFAs?*

A: No. It is not allowed for employees to open more than one RSA account.

Q25: *Who do I complain to if I have issues with my PFA?*

A: The complainant can direct his/her complaint to the customer care channel provided by the PFA. In the event that this is not resolved, he or she can direct the complaints directly to the National Pension Commission.

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