

NIGERIAN CONTRIBUTORY PENSION SCHEME: INCENTIVIZING EXPATRIATE PARTICIPATION

The Scheme that governs and regulates the administration of uniform contributory pension scheme for the public and private sectors in Nigeria was established under the Pension Reform Act No.2, 2004 (PRA) which was repealed and replaced with the Pension Reform Act, 2014. A Contributory Pension Scheme is an arrangement where both the employer and the employee contribute towards the payment of the employee's pension upon retirement. Section 4 of the Act provides for a mandatory minimum contribution of ten (10%) and eight (8%) percent of employee's monthly emolument by the employer and employee respectively. The PRA 2014 applies to only employees that are Nigerian citizens engaged in employment with any organization in the Public Service and the Private Sectors employing at least fifteen (15) or more employees. However, individuals employed by organizations with less than three employees as well as self-employed persons shall also be eligible to participate in the scheme.

In recognition of the role of globalization, free trade which encompasses work exchanges, inter country movements, travels, migration and the mobility of labour involving cross-border employment, the National Pension Commission (PENCOM) issued the "Guidelines for Cross-Border Arrangements under the Pension Reform Act" ("Cross-Border Pension Guidelines"). The Cross-Border Pension Guidelines provide conditions on how expatriate employees of companies registered in Nigeria and Nigerians working serving in other countries can participate in the Nigerian Contributory Pension Scheme.

According to the Cross-Border Pension Guidelines, an expatriate employee is able to open a Retirement Savings Account (RSA) with a Pension Fund Administrator (PFA) of his/her choice after duly informing his/her employer of his/her interest to join the scheme. It is worthy to note that the RSA opened will be denominated in Naira.

In the event that such employee intends to permanently relocate from Nigeria or return to his/her home country, the expatriate employee shall give three (3) months' prior notice to the PFA before exiting from the scheme. Attached to the notice shall be the expatriate's employer's letter confirming the employee's permanent relocation from Nigeria, to enable the employee access and recover the amount standing to his credit in the RSA at the point of his/her exit from the scheme.

An expatriate will need to provide the following information and documents to his/her PFA before joining the Scheme:

- Employment letter issued by his/her employer being a company registered in Nigeria.
- Unexpired Residence Permit validating his legitimate employee status in Nigeria.
- Letter of Introduction by the employer.
- Application letter to participate in the scheme to be signed by the employee.
- Clearance from the relevant authorities with respect to money laundering in line with the Money Laundering Rules.
- Letter of undertaking to bear any short fall resulting from exchange rate fluctuations, as well as commissions/charges

Quote

Retirement security is often compared to a three-legged stool supported by Social Security, employer-provided pension funds, and private savings.

- Sander Levin

Quote

Anyone with a Pension or retirement is an investor in the stock market.

- Brad Katsuyama

Contributions made by an expatriate employee to his/her RSA are not subject to tax. However, expatriate employee is permitted to withdraw from their voluntary contribution after the contributions have been retained for a period of two years. The voluntary contribution shall be tax deductible at the point of withdrawal on both the principal contribution and income earned. Withdrawals made after 5 years from the date of first contribution will be fully exempt from tax. Where an application to withdraw a sum of N5,000,000 (five million naira) or more is lodged, the PFA and PFC involved are

It is noteworthy that South Africa has no compulsory or national pension fund scheme as over 60% of its retirement funds are privately administered and funded. The pension system is a non-contributory means-tested public benefit program, occupational funds, and voluntary retirement savings. Some foreigners who live and work in South Africa are entitled to claim a South African pension, however, as it is income-based many expatriates typically don't qualify. Thus, many foreigners of retirement age in South Africa rely on private or occupational-based pensions.

In Ghana on the other hand, it is mandatory for every employer to make pension contributions on behalf of their expatriate employees. Once an expatriate demonstrates that they are emigrating permanently from Ghana, they are guaranteed recovery of their contributions whether the minimum pension contribution of 15 years is met or not. Expatriates who are on short-term contracts (not more than 36 months) and can prove that they are making similar contributions in their home countries are exempted from participation in the pension scheme.

The issuance of the Cross-Border Pension Guidelines by the Nigerian Pension Commission provides an opportunity for expatriate employees working in companies registered in Nigeria and Nigerians working in other countries to participate in and enjoy the benefits of the Nigerian Contributory Pension Scheme.

Witty Corner

A surgeon, an architect and a lawyer are having a heated bar room discussion concerning which of their professions is actually the oldest profession.

The surgeon says:

"Surgery is the oldest profession. God took a rib from Adam to create Eve and you can't go back further than that."

The architect says:

"Hold on! In fact, God was the first architect when he created the world out of chaos in 7 days, and you can't go back any further than THAT!"

The lawyer puffs his cigar and says:

"Gentlemen, Gentlemen...who do you think created the CHAOS?!!!"



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