GUIDELINES FOR THE ADMINISTRATION OF STATE FUNDS DEDUCTED AT SOURCE UNDER THE CONTRIBUTORY PENSION SCHEME

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National Pension Commission
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1.0 Introduction

1.1 The Commission's Regulation on the Investment of Pension Fund Assets allows only States that have fully implemented the Contributory Pension Scheme (CPS) to access pension funds for the purpose of infrastructural development. This is intended to incentivize the States towards full compliance with regards to adoption of the CPS. Against this backdrop, the Commission had issued a Circular on minimum requirements for the inclusion of State bonds as investible instruments in the pension industry. The implementation of the circular has however thrown up some pertinent issues which compel the Commission to review the circular to guarantee the sustained implementation of the CPS by States after raising the much needed financing from the pension industry.

1.2 To this end, States that desire to raise funds from the pension industry would be required to execute an Irrevocable Standing Payment Order (ISPO), which must be approved by the Honourable Minister of Finance mandating the Office of the Accountant General of the Federation (OAGF) to, on a monthly basis, deduct and remit pension contributions and funds for the redemption of the accrued pension liabilities of the State employees to a designated Lead Pension Fund Administrator.

1.3 Consequently, the following steps are intended to guide both the operators and States in the execution and administration of the ISPO.

2.0 Execution of ISPO

2.1 Every State that is desirous of raising funds from the pension industry would be required to execute an ISPO with the OAGF.

2.2 Such an ISPO must be approved by the Honourable Minister of Finance.

2.3 The ISPO should be in three copies with a copy each to the OAGF, National Pension Commission and the State.

2.4 A specimen copy of the ISPO drafted with input from OAGF and Legal Department is attached herewith as Appendix 1.

3.0 Appointment of a Lead Pension Fund Administrator (Lead PFA)

3.1 The State Pension Bureau of any State desirous of raising funds in the pension industry shall appoint a Lead PFA to coordinate the administration of the funds that would be deducted and remitted to it by the OAGF.

3.2 Upon the appointment of a Lead PFA, the State must execute Custodial and Service Level Agreements with the Lead PFA.

3.3 The Custodial and Service Level Agreements referred to in 3.2 above must take into cognizance the terms and conditions specified in the revised Circular on the Minimum Requirements for the Inclusion of State Bonds as Investible Instruments in the Pension Industry, amongst other requirements.

3.4 Unless there is a compelling reason acceptable to the Commission, the PFA with the largest number of registered RSAs from the State, should be appointed as the Lead PFA.

3.5 Once appointed, a Lead PFA shall continue to serve in that capacity throughout the lifespan of the bond(s) issued by the State, irrespective of...
the number of registered RSAs it ultimately maintains afterwards.

3.6 The State must present to the Commission, a duly executed Custodial and Service Level Agreement with the Lead PFA, prior to execution of the ISPO specified in the revised Circular on the Minimum Requirements for the Inclusion of State Bonds as Investible Instruments in the Pension Industry.

4.0 Execution of the Irrevocable Standing Payment Order (ISPO)

4.1 A State that fulfils all the preconditions listed in the Circular on minimum requirements for the inclusion of State bonds as investible instruments in the pension industry and has been granted approval by the Commission, shall have its monthly employer and employee pension contributions as well as all other financial commitments related thereto deducted at source by the OAGF from the State’s share of monthly allocation from the Federation Account.

4.2 The quantum of funds to be deducted by the OAGF as monthly pension contribution would be dependent upon the most recent valid Nominal roll of the State and Local Governments.

4.3 The quantum of funds to be deducted by the OAGF as monthly installments of funding for accrued rights of the employees would be dependent upon the rate specified in the State Pension Law. Where such funding is already in arrears, the monthly installment to be deducted would be based on the pre-determined payment schedule agreed upon between the State and the Commission. Such amounts however, shall not be less than 5% of the State and Local Governments’ monthly wage bill.

4.4 Pursuant to 4.2 & 4.3 above, prior to the execution of the ISPO, the State shall forward to the Commission, the most recent Nominal Roll of the State and its Local Governments to enable the Commission determine the total monthly contributions as well as funds required to be set aside for the payment of the accrued pension rights.

4.5 The Commission, upon receipt of the Nominal Roll, shall carry out computations to determine the monthly employer and employee contributions in respect of all employees of the State and Local Governments. Also, the Commission shall compute the amount to be set aside on a monthly basis towards the defrayment of the State’s accrued pension liabilities.

4.6 The amounts so determined in 4.5 above shall be communicated in writing, along with the details of the computation, to the State/Local Government Pension Bureaux as the case may be.

4.7 The State shall execute the ISPO, which shall be signed by the Executive Governor, the Honourable Commissioner of Finance and the Accountant General of the State. The ISPO shall indicate the amounts to be deducted at source and the accounts to which such deductions should be remitted to, as advised by the Commission and the Lead PFA, respectively.
4.8 Upon approval of the ISPO by the Honourable Minister of Finance, the relevant Department in the Ministry of Finance shall communicate such approval to the State and shall also copy the Commission.

4.9 In addition to the ISPO, the State shall issue a written undertaking to the Commission stating that it shall remit any shortfall of contributions that might arise due to new recruitments and salary increments to the Lead PFA within one (1) month of the realisation of such shortfalls.

4.10 Pursuant to the above provisions, the State shall also forward to the Commission, its updated Nominal Roll after every six (6) months.

4.11 The Commission, if satisfied that the State has met all the requirements regarding the execution of the ISPO and commitment of the State to make good any shortfall that may arise during the life of the State Bond, shall issue a written statement of no objection to the inclusion of the State bond as an investible instrument in the Pension Industry.

4.12 The State shall forward to its Lead PFA, the letter of no objection from the Commission and a copy of the executed ISPO along with written approval from the Federal Ministry of Finance.

5.0 Administration of the Irrevocable Standing Payment Order (ISPO)

5.1 The Accountant General of the Federation shall deduct the amounts specified in the ISPO executed by the State and shall transfer same to the account(s) specified therein.

5.2 The PFAs appointed by the State and Local Governments to administer the RSAs of its employees shall, in liaison with the State/Local Government Pension Bureaux, prepare an authentic list of registered RSA holders clearly showing details of employee and employer pension contributions to be remitted into their respective RSAs on a monthly basis. The computation must be presented in the format prescribed in Appendix 3 of this guideline and the PFAs shall forward their request thereon to the Lead PFA, not later than 15 days after the end of each month.

5.3 Upon receipt of the requests from the PFAs, the Lead PFA shall instruct its PFC to remit the contributions to the various PFAs not later than 24 hours from the receipt of such requests.

5.4 The Lead PFA shall also instruct its PFC to remit the monthly installments of accrued rights to the State/Local Governments Bureaux Retirement Benefits Bond Redemption Fund Accounts either with the Central Bank of Nigeria or the PFA.

5.5 Where the total monthly contributions in respect of the employees as requested by the PFAs is higher than the amount executed in the ISPO, the Lead PFA shall place a demand on the State/Local Governments through their Bureaux to make good such shortfalls. The letter of such demand should also be copied to the Commission.

5.6 The State/Local Government Bureaux shall in response remit an amount equivalent to the shortfall advised by the Lead PFA to the
designated account within two (2) weeks of its receipts of the demand.

5.7 The PFAs, in preparing the monthly contributions schedule, should exclude all employees that retired within that particular month. They shall also forward to the Lead PFA, a list of such retirees indicating their respective monthly employer and employee contributions.

5.8 The Lead PFA shall collate the list of retirees of the State and Local Governments within the particular month to determine the reduction in monthly contributions as well as funding for the accrued rights.

5.9 The Lead PFA should off-set any shortfall in contributions as may be determined in line with the provisions of 5.5 above. Where such shortfalls are fully off-set, the Lead PFA shall not make any demand on the State.

5.10 Upon the application of the excess funding determined in 5.8 above towards off-setting any shortfalls in contributions, the Lead PFA shall direct its PFC to refund any unutilised excess to the State after obtaining the written approval of the Commission.

6.0 Sanctions

6.1 Any Lead PFA that fails to disburse the funds received through the execution of an ISPO by any State within the stipulated timeframe shall be liable to pay interest on the undisbursed funds based on the prevailing 30-day Nigeria Interbank Offer Rate (NIBOR).

6.2 Any Lead PFA that fails to render the required returns as specified in these guidelines shall be fined in accordance with provisions of the PRA 2004.

National Pension Commission
December, 2012